Western Cape

FINANCIAL GOVERNANCE REVIEW AND OUTLOOK 2005

Provincial Departments, Public and Trading Entities

Provincial Treasury

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Foreword

The Financial Governance Review and Outlook 2005 is built on the Financial Management Review 2004 Working Paper with the expansion of the scope to include policy issues related to the MTBPS as well as the monitoring and evaluation of performance on deliverables.

The Financial Governance Review and Outlook 2005 is an effort in assessing the effective, efficient and economical use of financial resources of the Province as a whole as well as within individual departments and entities.

The review should encourage CFOs of departments and PEs to view the assessments objectively and to takes proactive steps to remedy deviations or variances from planned performance through their strategic planning process.

The assessments are done from a financial governance perspective by the various disciplines within the Provincial Treasury, viz:

- Budget Management
- Revenue Management
- Expenditure Management
- Asset Management
- Normative Financial Management
- Internal Audit and Risk Management, and
- Accounting

The Review contains a consolidated executive summary of the various disciplines within Provincial Treasury followed by detailed analysis, assessment and the way forward.

The Financial Governance Review and Outlook 2005 is a team effort that drew on the knowledge and expertise of those in the afore-mentioned disciplines within Provincial Treasury.

DR JC STEGMANN
HEAD OF DEPARTMENT

DATE: 1 NOVEMBER 2006

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Abbreviations

ACB	Automated Clearing Bureau
ACFS	Annual Consolidated Financial Statements as at 31 March 2005
AFS	Annual Financial Statements
A-G	Auditor-General
AMG	Asset Management Guide
AO	Accounting Officer
ASB	Accounting Standards Board
BAS	Basic Accounting System
BEE	Black Economic Empowerment
CASIDRA	Cape Agency for Sustainable Development in Rural Areas
CASP	Comprehensive Agriculture Support Programme
CD	Compact Disc
CeI	Centre for E-Innovation
CFO	Chief Financial Officer
CMD	Cape Medical Depot
CORE	Code of Remuneration
CPD	Corporation for Public Deposits
CPIX	Consumer Price Index excluding Mortgage Bonds
DIST	Districts
DMO	Destination Marketing Organisation
DORA	Division of Revenue Act
DTI	Department of Trade and Industry
EBT	Electronic Bank Transfer
ECP	Eastern Cape Province
EDI	Electronic Data Interchange
EDT	Electronic Data Transmissions
EDV	Electronic Data Verification
EEA	Employment of Educators Act, 1998
EFT	Electronic Fund Transfer
E-MAIL	Electronic Mail
ENG	Engineering Department
EPS	Electronic Purchasing System
EXP	Expenditure
FASSET	Seta for Finance, Accounting, Management Consulting and Other Finance Services
Fitch IBCA	Fitch International Bank Credit Rating Agency
FMIP	Financial Management Improvement Programme
FMS	Financial Management System
GAAP	Generally Accepted Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice

GFS	Government Finance Statistics
GMT	Government Motor Transport
GRAP	Generally Recognised Accounting Practice
HCDS	Human Capital Development Strategy
HDI	Historical Disadvantaged Individual
HIS	Hospital Information System
HOR	House of Representatives
HQ	Headquarters
ICN	Item Control Number
ID	Identification Number
IDIP	Infrastructure Delivery Improvement Programme
IFAC	International Federation of Accounting
IFMS	Integrated Financial Management System
IGCC	Intergovernmental Cash Coordination
IMF	International Monetary Fund
IPFA	Institute of Public Finance and Auditing
IT	Information Technology
IYM	In-Year Monitoring
KEEG	Knowledge Economy/E-Government
KPI	Key Performance Indicator
LOGIC	Logistical Information Centre
LOGIS	Logistical Information System
LSL	LOGIS Simulation Learning
LSM	Learner Support Materials
M&E	Monitoring and Evaluation
MEC	Member of the Executive Council
MEDS	Micro Economic Development Strategy
MEDSAS	Medical Depot Store Administration System
MFMA	Municipal Finance Management Act
MINICAT	Mini Catalogue (digital)
MMS	Maintenance Management System
MTBPS	Medium Term Budget Policy Statement
MTEC	Medium Term Expenditure Committee
MTEF	Medium Term Expenditure Framework
MVAI	Motor Vehicle Accident Intervention
NERF	New Economic Reporting Format
NQF	National Qualification Framework
NRF	National Revenue Fund
NT	National Treasury
ODA	Official Donor Assistance
PAS	Provisioning Administration System
PAWC	Provincial Administration Western Cape
PDC	Provincial Development Council

PE	Public Entities
PERSAL	Personnel and Salary Administration System
PES	Provincial Equitable Share
PFMA	Public Finance Management Act, 1999
PGWC	Provincial Government Western Cape
PIG	Provincial Infrastructure Grant
PMG	Paymaster General Account
POPS	People Orientated Problem-solving
PPE	Property, Plant and Equipment
PPP	Public Private Partnership
PPPFA	Preferential Procurement Policy Framework Act
PRF	Provincial Revenue Fund
PSA	Public Service Act, 1994
PSAA	Public Service Amendment Act, 1996
PSAIP	Provincial Strategic Accommodation and Infrastructure Plan
PSDF	Provincial Spatial Development Framework
PSR	Public Service Regulations
PT	Provincial Treasury
PTI	PT Instructions
PWMES	Province-Wide monitoring and evaluation system
QPRS	Quarterly Performance Reporting System
RAF	Road Accident Fund
REAL	Revenue, Expenditure, Assets and Liabilities
RED	Real Enterprise Development
REV	Revenue
RFP	Request for Proposal
SAMDI	South African Management Development Institute
SAPS	South African Police Service
SAQA	South African Qualification Authority
SARB	South African Reserve Bank
SASSA	South African Social Security Agency
SCC	Sector Co-ordination Committee
SCC	System Change Control
SCFS	Social Capital Formation Strategy
SCM	Supply Chain Management
SCoA	Standard Chart of Accounts
SCOPA	Standing Committee on Public Accounts
SIP	Strategic Infrastructure Plan
SITA	State Information Technology Agency
SLA	Service Level Agreement
SMME	Small, Medium and Micro Enterprise
SMS	Senior Management System
SOC SERVICES	Social Services
SOCPEN	Social Pensions System

ST	Subsistence and Transport
TA	Treasury Approval
TCO	Total Cost of Ownership
The Constitution	The Constitution of the Republic of South Africa, 1996
TR	Treasury Regulations, 2005
UPFS	Uniformed Patient Fee Schedules
WC	Western Cape
WCED	Western Cape Education Department
WCHDF	Western Cape Housing Development Fund
WCNCB	Western Cape Nature Conservation Board
WCPG	Western Cape Provincial Government
WCPT	Western Cape Provincial Treasury
WCSD	Western Cape Supplier Database
WESGRO	Western Cape Investment and Trade Promotion Agency

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Executive Summary

1. Introduction

The Financial Governance Review and Outlook 2005 primarily focuses on "*Improving Financial Governance* " which is one of the eight strategic priorities towards promoting iKapa Elihlumayo, a growing Cape. The eight strategic priorities encompass the following:

- Building human capital;
- Micro-economic strategy;
- Building social capital;
- Strategic infrastructure plan;
- Spatial development framework;
- Co-ordination and communication;
- Improving financial governance,
- Provincial local government interface.

"*Improving Financial Governance*": This relates to the acknowledgement that without proper financial planning, financial resource allocation, financial management and monitoring and evaluation of deliverables, the ideals articulated in iKapa Elihlumayo would not be fully attained. Given the reality that in real terms the fiscal allocation to the Western Cape Provincial Government declines year on year whilst the demand for service delivery increases, it is imperative that the Provincial Government ensures that scarce public finance resources are utilised more efficiently, effectively and economically.

The Financial Governance Review and Outlook 2005 aims to fully address the above issues and is built on the Financial Management Review 2004 Working Paper, which focused mainly on:

- Improvement on efficiency and performance: i.e. issues related to reporting and analyses, risk management, information management and capacity building; and
- Improvement of efficiency and socio-economic results: i.e. issues addressing delivery of asset management (physical assets) and infrastructure.

Apart from the aforementioned, the scope of the Financial Governance Review and Outlook 2005 also includes, from a financial governance perspective, policy issues as articulated in The Medium Term Budget Policy Statement and the monitoring and evaluation of performance on deliverables.

2. Budget Management

The role of the Budget Office in promoting sound financial governance in the Province flows from the mandate and priorities set forth in provincial policy priorities, including the iKapa Elihlumayo strategies, and national legislation.

Proper financial governance depends upon the efficient, effective and economical utilisation of public financial resources. These principles—effectiveness, efficiency and economy—are drawn directly from the Public Finance Management Act (PFMA) of 1999 which sets out the objectives, conditions, roles and responsibilities of role players in national and provincial government with regard to proper financial governance. The PFMA places responsibility for the 3 E's with the accounting officers of provincial departments, while the role of Provincial Treasury is one of monitoring, support and oversight.

The Budget Office plays a key role as the guardian or promoter of efficacy, efficiency and economical use of financial resources. The policy role of the Budget Office is focused on determining and promoting effective policies to further the priorities of the provincial and national government. The Budget Office is concerned with recommending financial resource allocation (within departments and between departments) which activates/enables implementation of national, provincial and departmental policy priorities and the achievement of desired socio-economic outcomes.

Good governance requires a feedback loop which connects policy-making, implementation and service delivery, with information gained from effective monitoring and evaluation systems which can tie back into revised policies. With the MTBPS as the fiscal policy document setting forth policy and spending priorities for the 3-year medium term period, it is then crucial for good financial governance to develop effective systems to monitor spending against strategic objectives and performance indicators for the funded progammes. In recent budget cycles and with the launch of the iKapa Elihlumayo strategies, the Province is taking key steps to establish the institutional structures, theoretical framework and efficient systems which would make up such an M&E system. These initiatives include: the Sector Co-ordination Committees; Key Deliverables identified by departments; the Quarterly Performance Reporting System (QPRS); PWMES-Internal Learning Network led by the Department of the Premier, and the Service Delivery Review produced by the PT Budget Office.

3. Revenue Management

The Revenue Review highlights the sources of provincial revenue, which include national transfers, provincial own receipts and financing. It further considers collections in 2004/05 and compares them with the provisional outcome for 2005/06; analyse estimated receipts over the medium term; observes the challenges with collections and draws attention to initiatives undertaken to optimise and expand on provincial revenue collection. This chapter also considers debtors management and revenue management initiatives within the Province.

The sources of revenue available to the Western Cape Province for expenditure are transfers from National Government, Provincial own receipts and Financing from provincial reserves. These sources increased from R15 127 million to R17 106 million or by 13,1 per cent between 2004/05 and 2005/06 and are projected to increase at an annual average rate of 8,5 per cent over the medium term to R21 839 million in 2008/09. Transfers from National Government, which dominate the provincial budget, contribute between 86,1 and 91,6 per cent to the total provincial receipts over the 2004/05 medium term framework, while provincial own receipts only contribute between 7,0 and 9,7 per cent and financing contributes even less.

National transfers take two forms, namely: the provincial equitable share (without conditions) and conditional grant to ensure that national priorities are adequately provided for in provincial budgets.

Provincial own receipts are mainly derived from the following sources: casino taxes, motor vehicle license fees, health patient fees and interest, dividends and rent on land. Total provincial own receipts increased from R1 461 million to R1 663 million or 13,9 per cent from 2004/05 to 2005/06 and are projected to decrease by 2,6 per cent over the MTEF to reach R1 535 million in 2008/09. This projected annual average decrease over the MTEF is not in line with the year-on-year growth rate figure between 2004/05 and 2005/06, which remains a challenge for provincial departments.

Another challenge for the Province is to reduce provincial debtors, which mainly consist of: Hospital patient fees; Education debt; Housing loans and sales debt; Motor vehicle license and registration fees; Government Motor Transport; and Other debt (boarding and rental fees, staff debt, state guarantees, social grants etc.).

A possibility for the Province to expand its revenue base is to explore the expansion of the aggregate volumes of resources made available to developing countries in the form of donations.

4. Expenditure Management

This chapter on expenditure management is an attempt to assess the spending performance of the Province as a whole, as well as the votes (provincial departments) individually, taking historical trends and sector specific issues into account. The Review provides an overview of actual provincial expenditure from the 2002/03 to the 2004/05 financial years, projected expenditure for 2005/06, and budgeted expenditure for the 2006/07, 2007/08 and 2008/09 financial years.

Faced with a very tight budget, the Minister of Finance and Tourism often reflects on the importance of fiscal discipline, which implies careful management and continued monitoring of expenditure to ensure effective budget implementation. The need for goal-directed spending is also emphasised as a key component of fiscal discipline.

Given the limited resources available to the Province and the myriad of challenges that have to be addressed, continued underspending simply cannot be allowed, as it translates into delays in service delivery to the public. Overspending puts pressure on future budgets and should similarly be avoided.

The improvement of expenditure management requires a phased approach. The first phase of implementation focused on the institutionalisation of in-year expenditure monitoring systems. Now that these are in place and functional, the focus is on substantive matters such as the smoothing of expenditure (avoiding the "March spike"), decreased levels of underspending, as well as the efficiency of departmental budget programmes. To this effect, numerical spending information has and will be further augmented with deepened analytical and explanatory narrative reports to promote and enforce effective management of expenditure.

Key challenges that need to be addressed relate to the achievement of tighter control over the budget for compensation of employees to limit mid-year shifts, which undermine good planning practices; monitoring that gains are indeed achieved through transfer payments; and undertaking least cost analysis of various items located under goods and services.

To enable the PT and provincial departments to gain a better understanding of efficiency parameters (least cost analysis) within the government sector and how they can be used to achieve value for money spending, various partners will be consulted and/or contracted during the course of the 2006/07 financial year.

Departments will be regularly and robustly interacted with regarding their in-year expenditure reports to ensure smoothing of expenditure and as a consequence the reduction of the "March spike" phenomenon, as well as improved expenditure management resulting in no overspending and limited underspending.

5. Asset Management

Supply Chain Management

Over the last year vigorous reform initiatives were embarked upon together with National Treasury to introduce best procurement and asset management practices so as to ensure the efficient and effective utilisation of provincial assets. Subsequently a strategically powerful concept was pursued namely Supply Chain Management that was implemented in departments from 1 January 2004.

Supply Chain Management utilises strategic sourcing initiatives to leverage the Provincial Government of the Western Cape's purchasing and provisioning power and supplier business relationships. Effective management of the Province's supplier base, cost reduction, maximising the value and potential of key strategic supplier relations, are goals within the Province's reach.

Whilst adhering to the PFMA responsibilities, the Provincial Government also has socio-economic obligations that need to be attended to. To this end, the BEE concept drives the process of providing an equal opportunity for the common good, whilst growing and developing the economy.

Whilst the SCM function now vests with the departments, the PT, in conjunction with the departments, will develop sourcing and procurement strategies which are in line with provincial departmental objectives. Accurate and valid market research methodologies aimed at reducing procurement costs and exploiting economies of scale by arranging of transversal contracts to provide for crosscutting procurement of goods and services would further be PT's responsibility.

The PT has already embarked upon a process to assist departments to capacitate their SCM functionaries with SCM training. SCM training courses will in consultation with stakeholders such as SAMDI, Branch Legal Services and Financial Systems be provided to them during the course of the financial year.

Whilst the accountability for supply chain management now vests with departments, it has become important that a co-operative working relationship exists amongst those role-players who have to oversee that this provincial government meets its socio-economic obligation in terms of contracts awarded to BEE companies. A challenge for the future will be to determine realistic preferential procurement targets to be achieved and monitored. This would entail a comprehensive survey of the current procurement spend in the respective categories, as a benchmark to establish the targets for the future.

Immovable Assets

The extensive and diversified immovable asset portfolio has significant impact on the overall macro-economic, socio-political and physical landscape of the Province. Investment in immovable assets contributes substantially to own revenue generation and therefore plays a vital role in economic growth. Immovable assets are important resources for service delivery. For the purpose of discussion and period under review (31 December 2005), we focus on property management as managed by the Department of Transport and Public Works and infrastructure delivery also provided by the latter as the implementing agent.

Both the processes and the products of provincial property services contribute to economic development and providing access for previously disadvantaged individuals to economic activities as illustrated by this quotation from the 10 overarching objectives of the Western Cape Government: *"To stimulate economic growth – both in the traditional and emerging sectors – with appropriate infrastructure development and to the benefit of all through, amongst others, procurement reform.*

The mandate of the Department of Transport and Public Works is, *inter alia,* to ensure that, in responding to the massive development challenges, provincial property contributes substantially not only by providing and maintaining the required accommodation for health, education, social and other services, but especially by creating opportunities for empowerment, capacity building and self-enhancement of living standards. Whereas the intended outcomes of the SIP are the improved opportunities for collaboration between government departments and agencies on future infrastructure planning and service delivery, better co-ordination and aligned budgets of government departments and agencies, better understanding of the government's objectives, priorities and strategies for major infrastructure development, constructive dialogue between the government and the private sector on opportunities for public-private-partnerships and lastly crowding in the Private Sector investment. The optimal utilisation of the Provincial Property Portfolio could potentially make a significant contribution to economic growth.

Public Private Partnerships

PPPs can be an efficient and cost-effective tool to achieve the goals of the WCPG. Partnerships are not an end in themselves – they are formed to achieve other goals with implicit or explicit recognition that by acting together partners can accomplish more than by acting alone.

A review of the operations of the PPP unit will also be undertaken to identify the barriers that hindered progress on prospective projects. As the unit grows it will move from organisational and management issues to policy direction and funding - geared to provide services that promote faster and more efficient services in the interaction between the public sector and the private sector. Looking forward, we envisage this unit to be fully functional and accredited by the National Treasury in 2007. It would provide departments a central source of procurements skills and would set the strategic framework within which departments would operate.

Financial Systems

Currently there are three major systems, the Basic Accounting System (BAS), Personnel and Salary Administration System (PERSAL), and Logistical Information System (LOGIS) that are maintained by the National Treasury for national and provincial departments. The various systems are managed as separate stand-alone "silos" and LOGIS is the only system to be fully integrated with BAS.

Apart from these legacy systems, certain national and provincial departments have acquired a number of software solutions that are operated and maintained as separate "sub-systems". Over time, a great number of interfaces have been developed between the legacy systems and the "sub-systems" in a mostly unco-ordinated fashion, following a process of "least resistance". (Currently, for example, there are more than 200 interfaces with BAS alone).

Some enhancements have been made to the system to accommodate the PFMA requirements. These enhancements mostly address "Commitments" and "Liabilities". The further advantages of BAS are a budget-blocking functionality that will make a significant contribution to limiting possible overspending, and a standard chart of accounts that will standardise and enhance reporting at all levels within government.

The review will cover the development and accomplishments within this sub-programme for the period in question.

Financial Asset Management

The PFMA, applicable with effect from 1 April 2000, has, as its main objective to ensure accountability and sound management of the revenue, expenditure, assets and liabilities within government, and is instrumental in permitting the decentralisation of cash flow management to the various provincial departments.

The PFMA supercedes the Western Cape Exchequer Law (WCEL) 1994 (Law 4 of 1994) which was constituted to standardize and control the various aspects of cash flow management. In adherence to the PFMA and in terms of this policy of decentralisation, the PT has since opened a separate departmental banking account (PMG Account) for each of the WC Province's 13 departments, as well as the Provincial Parliament, which has contributed largely to more effective cash flow management.

The main intention is to ensure that cash flow management in the Province is maintained at its current high levels of efficiency and to maintain the quest for perfection in all the spheres related thereto. The positive result hereof, due to these efficient practices, will be that funds accumulate on a temporary basis, permitting increased investment activities thereby increasing the interest yield.

6. Normative Financial Management

The Normative Financial Management component's, approach to monitoring compliance in terms of the PFMA is shifting from mere nominal compliance to substantive compliance. The component is in the process of updating and redefining its tools of measurement and the indicators used to ensure compliance monitoring. In this regard the Normative Financial Management component will embark on a few initiatives to attain this, *inter alia*:

- Ensure an update of the PFMA compliance questionnaire in anticipation of an alternative mechanism of monitoring to be provided by the National Treasury,
- Ensure the revision of the indicators for public entities in line with the Treasury Regulations effective as from 15 March 2005, and
- Ensure the re-drafting and implementation of revised Provincial Treasury instructions.

The internal audit plan rollout provides an additional source of reference for this component of financial governance. The departmental audits being conducted provides a more frequent and timely source of evidence and a reference tool to guide the component in identifying issues to be addressed with departments to ensure continued adherence to laws and policy as well as compliance with sound financial management practices. Concurrently, the focus of National Treasury is the formulation of an Internal Control Framework to be rolled out to National and Provincial Departments during 2006. Nationally discussions on the subject of the PFMA amendments have fizzled out, but in the Western Cape we should proactively prepare for its implementation – particularly the legislative reform for public entities.

7. Internal Audit and Risk Management

The PFMA requires that an Accounting Officer should establish an Internal Audit function resorting under an audit committee.

The Provincial Government of the Western Cape has opted to roll-out Internal Audit services to all Provincial departments in accordance with a 3 year strategic plan. The Sihluma Sonke Consortium was appointed in 2004 to deliver a co-sourced internal audit service and to build the Province's internal capacity to take over the service at the end of the contract term.

The Province has 4 established audit committees servicing the departments of Health, Education, Social Services & Poverty Alleviation and a Shared Committee for the other Provincial departments.

To ensure the independence of the Internal Audit function, the Chief Audit Executive reports functionally to the audit committee.

In addition to reports received from Internal Audit, the audit committees also receive presentations from the Auditor General and Forensic Audit. This enables the committee to review:

- The effectiveness of internal control systems
- The effectiveness of the internal audit function
- Risk areas to be covered in the scope of internal and external audits
- The adequacy, reliability and accuracy of financial information provided to management
- Accounting and auditing concerns identified by external and internal audits
- Compliance with legal and regulatory provisions
- Reports on significant investigations and the responses of management to recommendations, and report in accordance with the PFMA.

8. Accounting

The Accounting component of Financial Governance aims to ensure that financial reporting is a full and true reflection of the financial position, performance and cash flows of the Province.

One of the key challenges facing Accounting currently is the transition from the cash to the accrual basis of accounting. It is in this environment that many accounting reforms are taking place, e.g. the development of accounting standards for Generally Recognised Accounting Practice by the Accounting Standards Board (ASB), the roll-out of a Standard Chart of Accounts to Public Entities, and implementing changes to the formats of AFS.

The PT (Accounting) in partnership with NT is actively involved in the reform process, which is guided by NT's FMIP. This is an evolving process, which aims to have all departments on accrual accounting by 31 March 2015, supported by the IFMS.

Whilst Public Entities and Trading Entities are already complying with the accrual basis of accounting, Departments have progressed to a modified cash basis of accounting, which could be viewed as a transition from the cash to the accrual basis of accounting.

It is for this reason that separate ratios and interpretation methodology had to be adopted for Departments in addition to those applied to Public Entities and Trading Entities.

The financial statements of departments and entities are analysed and benchmarked against the consolidated averages and focus on Revenue, Expenditure, Assets and Liabilities (REAL). These have proved fruitful in formulating benchmark targets of departments, public entities and trading entities and the following are highlighted as concerns that will require further attention:

- In terms of the NT norm, underspending by the Province should not exceed 2 per cent of total funding. With underspending increasing marginally in 2004/05 compared to 2003/04, measures will have to be applied to curtail underspending unless it can be ascribed to specific causes. Accruals, i.e. expenditure incurred in the following financial year, thus possibly contributing to the increased pattern of underspending, had very little impact on underspending during the 2004/05 financial year.
- All the entities are financially in a position to settle short and long-term liabilities, except for the WC Nature Conservation Board.
- The overall position of all PEs reflected in the consolidated results, shows a shift from a net deficit to a net surplus, 2003/04: (3,62 per cent), 2004/05: 2,47 per cent. This shift can be attributed to the surpluses generated by the Wesgro, Gambling and Racing Board, Language Committee, Heritage, DMO and Casidra.
- At current a changing environment is experienced pertaining to accounting for public and trading entities. Some Standards of Accounting that have been issued are applicable to the entities that are currently on GAAP. These Standards are issued for GRAP reporting entities, but with the provision that they apply to accrual based accounting. In this regard GRAP should be seen as an extension of, and not a replacement, for GAAP. Incorporating the new Standards of Accounting is but one of the challenges facing entities. This will no doubt filter through to the Annual Consolidated Financial Statements. The greatest room for advancement, however, must be to further synchronize the reporting and

budgeting formats of the entities, and to implement a standard chart of accounts for this purpose. Addressing the issues of concern as identified in the report above is equally important. The roll-out of further trading entities is also under consideration, as there are a number of areas where it has become necessary to provide figures regarding the costs to the province for services currently provided by departments.

The immediate challenge for Accounting Services remains the effective roll out of Accounting Reforms if the long-term goal of accrual accounting for the Public Sector is to be achieved. This will also entail training and capacity building.

2

Budget Management

1. Context and principles

1.1 Improving financial governance in the context of iKapa Elihlumayo

The role of the Budget Office in promoting sound financial governance in the Province flows from the mandate and priorities set forth in provincial policy priorities and national legislation.

Established in 2003-2004, the concept of iKapa Elihlumayo promoted the goals of economic growth, increasing employment, reducing inequality and providing a sustainable safety net for citizens of the Western Cape. The iKapa Elihlumayo strategies were an outcome of reconceptualisation of the developmental role of the provincial government. Together the package of iKapa Elihlumayo strategies lay out how the Western Cape government aims to attain the goals of higher economic growth, higher levels of employment, lower levels of inequality, and a sustainable social safety net. The five main iKapa Elihlumayo strategies are the:

- Provincial Spatial Development Framework (PSDF), led by the Department of Environmental Affairs and Development Planning
- Micro Economic Development Strategy (MEDS), led by the Department of Economic Development and Tourism
- Human Capital Development Strategy (HCDS), led by the Department of Education
- Social Capital Formation Strategy (SCFS), led by the Department of Social Services and Poverty Alleviation
- Strategic Infrastructure Plan (SIP), led by the Department of Transport and Public Works

While these five iKapa Elihlumayo strategies are related to service delivery and development priorities, the remaining three strategies addressed the need to enhance the capacity of the state to deliver: Co-ordination and Communication, Improving Financial Governance, and Provincialisation of municipal rendered services.

The seventh strategy is improving financial governance. It was recognised that, without careful, well-targeted utilisation of our finite financial resources, the ideals and plans set forth in the iKapa Elihlumayo strategies would not get off the ground. Proper financial governance depends upon the efficient, effective and economical utilisation of public financial resources. These principles—effectiveness, efficiency and economy—are drawn directly from the Public Finance Management Act (PFMA) of 1999 which set out the objectives, conditions, roles and responsibilities of role players in national and provincial government with regard to proper financial governance.

The theme of improved state capacity has been reinforced since then and emphasised by the national government, which called for institutional reforms to boost the performance of the state in the recent 2005 National Medium Term Budget Policy Statement. The idea was underscored in the 2005 Western Cape MTBPS, which spoke of the need to improve quality, speed up implementation and monitor outcomes more effectively.

1.2 Effectiveness, efficiency, economy and the PFMA

The emphasis on sound financial governance in national and provincial policy priorities builds upon the mandate set forth in the PFMA. Section 45 (c) of the PFMA, on the responsibilities of other officials in a department, trading entity or constitutional institution reads: "An official in a department, trading entity or constitutional institution is responsible for the effective, efficient, economical and transparent use of financial and other resources within that official's area of responsibility". The PFMA thus places responsibility for the 3 E's with the accounting officers of provincial departments, while the role of Provincial Treasury is one of monitoring, support and oversight.

The Budget Office plays a key role as the guardian or promoter of effectiveness, efficiency and economical use of financial resources. In the context of budgeting, these concepts are defined as follows:

- **Effectiveness** is the appropriateness of provincial outputs to produce the desired outcomes or 'doing the right things.'
- **Efficiency** is the achievement of the maximum output from a given level of resources used to carry out an activity.[1] The relationship between the outputs, in terms of goods, services or other results, and the resources used to produce them, determines the level of efficiency. Efficiency is therefore the ratio of output to input. The higher the ratio, the greater the efficiency. This concept is also referred to as 'operational efficiency'.[2]
- The **economical** use of financial resources refers to value for money. Were the necessary inputs purchased in a sensible and least expensive manner possible, still

1 2005 Western Cape Medium Term Budget Policy Statement.

2 Provincial Treasury's Service Delivery Review, 2004 – Working Paper, pg. 17.

achieving the quality of outputs required? 'Economical' also refers to the issue of fiscal discipline: Did managers keep within budget or did they overspend?

2. Role of the Budget Office in ensuring the effective and efficient use of financial resources

The policy role of the Budget Office is focused on determining and promoting **effective** policies to further the priorities of the provincial and national government. The Budget Office is concerned with recommending financial resource allocation (within departments and between departments) which activates/enables implementation of national, provincial and departmental policy priorities and the achievement of desired socio-economic outcomes. In the most recent 2006 MTEC process, Provincial Treasury introduced new approaches and improvements which were intended to improve the prioritisation process and make fiscal policy more effective and efficient. First, provincial departments were tasked with making particular assessments. As a second tool to improve the budgeting process, clusters underwent a new process to determine priorities. The third means used by Provincial Treasury is the MTBPS document itself.

2.1 Provincial department assessments

In the first round of the 2006 MTEC process, departments were requested to take particular note of the following three items in their presentations:

a. <u>Departmental operating environment.</u> During the 2006 MTEC process, departments were asked to conduct an environmental scan (internal and external). The operational environmental analysis should take cognisance of internal challenges being experienced, (for example, shortage of suitably qualified staff) as well as the socio-economic context and challenges that the Department faces.

   By understanding the operating environment, Departments are then better able to identify needs, target particular needy groups, and determine the appropriate policy to address those needs. The environmental scan thus represents the first step towards formulating effective responses to achieve desired socio-economic goals. Specific target outcomes and indicators to assess progress are then derived from this environmental scan.

b. <u>Evidence-based delivery priorities</u>. Departments were requested to examine evidence from research and M&E efforts in order to identify the right interventions. However, policy decisions are not solely driven by research findings, but also in terms of provincial, national and municipal developmental priorities.

c. <u>Efficiency, asset and financial management improvements.</u> Having decided on the most effective responses, the next step is to ensure the most efficient use of allocated resources. Resources must by utilized to maximum effect in order to increase output levels. In this respect, the Budget Office works closely with the Public Finance and Asset Management components of Provincial Treasury.

Departments were encouraged to cooperate with other departments in service delivery and to consider sector-wide priorities in the determination of their own department's priorities. One of the practical ways to facilitate this was to invite all heads of departments within a particular cluster to the individual departmental hearings. An integral part of the formulation of appropriate responses by provincial government is the alignment of such responses between the different spheres of government.

2.2 Cluster prioritisation process

Once departments had identified the priorities for their departments (based upon their environmental scan and their evidence-based motivation for the effectiveness of the chosen policies), departments then met together in their clusters to jointly identify a shared set of criteria for identifying cluster-wide priorities. In the cluster meetings, departments also together identified transversal issues, or areas where more than one department played a significant role.

As a final step, the clusters met again to rank all departmental policy options into a single list of priorities for the cluster—utilising the identified criteria to make that assessment. The aim was for departments to work together in a transparent and cooperative manner to thrash out priorities amongst themselves.

The parameters and priorities for each cluster were subsequently approved by the relevant Cabinet Committees. Similarly, the crosscutting elements were tabled for later interrogation and incorporation into work of the relevant cluster to aid better and more coordinated use of resources.

2.3 Role of MTBPS

The overall provincial priorities are thus linked to the departmental priorities and cluster priorities identified and articulated through the MTEC process described above. Those provincial priorities, which also link to the national policy priorities, are then set forth in the MTBPS. The Western Cape MTBPS, produced in November, also reflects national policy priorities (as articulated in the National MTBPS released just prior to the provincial MTBPS) and unpacks those national priorities in the specific socio economic context of the Western Cape.

For example, the 2006-2009 Western Cape MTBPS builds on previous fiscal policies issued by the Provincial Government, the latest national policies and work done both within the Province, especially on the iKapa Elihlumayo strategies, as well as joint interactions with national government (mainly via the Budget Council and 10x10 engagements). The basic purpose of the MTBPS is to elicit comment and encourage debate on proposed medium term expenditure and revenue priorities before the annual budget and MTEF are finalised.

The purpose of the MTBPS is to provide readers with a clear message of where the Province is going—what the challenges are, and how the Province plans to deploy its *limited resources to tackle those challenges over the next three years. The MTBPS outlines the regional economic outlook and expresses the medium-term revenue and expenditure directions of the province. (2005 Western Cape MTBPS)*

3. Provincial Monitoring and Evaluation

Good governance requires a feedback loop which connects policy-making, implementation and service delivery, with information gained from effective monitoring and evaluation systems which can tie back into revised policies. With the MTBPS as the fiscal policy document setting forth policy and spending priorities for the 3-year medium term period, it is then crucial for good financial governance to develop effective systems to monitor spending against strategic objectives and performance indicators for the funded progammes. In recent budget cycles and with the launch of the iKapa Elihlumayo strategies, the Province is taking key steps to establish the institutional structures, theoretical framework and efficient systems which would make up such an M&E system.

3.1 Sector Co-ordination Committee (SCC)

The newly introduced Admin and Cabcom cluster meetings held in October 2005 facilitated important discussions in each cluster regarding: where the cluster is going as a whole; priorities for the cluster as a whole; the role of the cluster in the implementation of the relevant iKapa Elihlumayo strategies; and the identification of transversal issues. While this was a productive new endeavour, it also became clear that engagement around medium-term expenditure priorities must take place *between* clusters and not only *within* clusters.

Thus, at Cabinet Lekgotla in Langebaan in January 2006, it was agreed to establish an institutional mechanism or forum which brought both the Admin and Political cluster heads together, under the leadership of the Premier. In April 2006, Cabinet approved the new structure which includes a Sector Co-ordination Committee (SCC) consisting of chairpersons from all three Sector Cabinet Committees (Economic Sector, Social Sector, Governance and Administration), chaired by the Premier.

The SCC enables interaction regarding the complexity of the trade-offs between clusters in the planning, budgeting and executing processes. Implementation of the iKapa strategies requires fluidity between clusters in execution, budgeting and planning, as well as systematic alignment. For example, the pursuit of accelerated and shared economic growth calls for new thinking and new approaches regarding the interaction between the social and economic clusters. The new SCC will provide an important step in the institutional governance arrangements required to take forward the PGDS and iKapa Elihlumayo strategies, and thus is an important instrument for improving financial governance in the Province.

3.2 Key deliverables

Another important new development which emerged in the 2005 MTEC process was that departments identified 4-6 **key deliverables** for 2006/07. These key deliverables were approved by Cabinet in February 2006 and published in the 2006/07 Budget Review.

Taken together, the key deliverables for each cluster provide a composite picture of what the Provincial Government aims to achieve in this financial year 2006/07.[3]

Subsequently Cabinet took a decision that the new SCC would develop a quarterly reporting mechanism which addresses the critical or deal-breaking, non-financial service delivery objectives for each department for the new year. The reporting mechanism would trace progress on those key deliverables, and focus on those key facets which impact on the capacity of the Province to deliver on its objectives.

3.3 Moving towards a Comprehensive Provincial M&E System

A Provincial Monitoring and Evaluation System will need to merge and build upon different efforts being developed by different role players at provincial and national level, including the Quarterly Performance Reporting System, the Internal Learning Network, and the Service Delivery Review.

- **Quarterly Performance Reporting System (QPRS)** The non-financial information portion of the IYM was introduced by National Treasury as a pilot in 2005/06, but will become obligatory in 2006/07. By extending to non-financial information, the IYM reports thus dig below the surface and look behind expenditure figures to interrogate what was achieved for the money, and whether those outcomes link back with the measurable objectives identified in departments' strategic plans. Furthermore, the QPRS reports track provincial department progress against a set of standard indicators common to all nine provincial departments, and thus enable useful cross-provincial comparisons.
- **PWMES-Internal Learning Network** In 2005, the DOTP initiated an effort to develop a province-wide monitoring and evaluation system. As a first step, an Internal Learning Network was established which contained representatives from each department and met regularly. Their aim is to develop a set of transversal indicators for the province to measure service delivery performance.
- **Service Delivery Review** PT Budget Office is set to produce the *2005 Service Delivery Review* in July. This will be the third Service Delivery Review, beginning with the Efficacy Review which was published internally in 2003 and followed by the 2004 Service Delivery Review. The publication examines the efficiency and effectiveness of spending by provincial departments and thus serves an important role in annual monitoring and evaluation.

[3] Western Cape Budget 2006 Overview, pgs. 18-20.

The SCC can be developed as the critical body, which provides the leadership to combine the national and provincial M&E efforts into an overall framework and set up clear reporting channels to hold provincial departments accountable for service delivery.

3

Revenue Management

1. Introduction

The current declining trend in revenue collections, both from national and departmental own sources pose a concern for sustainable service delivery. This is particularly so in that provincial spending levels are determined by the amount of available revenue.

The Provincial Growth and Development Strategy: iKapa Elihlumayo sets out a vision for shared growth and integrated development in the Western Cape. However, high levels of unemployment and poverty persist, stretching the development chasm. Given present trends in the social, economic and human landscape of the Western Cape, the Province has taken an approach to simultaneously address poverty reduction and economic development.

However, a fiscally constrained envelope challenges this objective and leaves little freedom to redirect already committed funds in support of spending on economic development.

This chapter attempts to analyse and compare actual provincial revenue for 2004/05 with the provisional outcome and estimated receipts for the medium term.

2. Analysing the components making up total provincial receipts

Table 1 shows total actual provincial receipts for 2004/05, provisional outcomes for 2005/06, medium term estimates and percentage contribution of each source to total provincial receipts.

Table 1: Total Provincial Receipts

Receipts R'000	Actual 2004/05	Provisional outcome 2005/06	Medium-term estimate 2006/07	2007/08	2008/09
Transfer receipts from National	**13 666 485**	**14 724 451**	**16 407 132**	**18 177 114**	**20 004 421**
Equitable share	11 237 570	12 072 469	13 459 403	14 906 049	16 546 427
Conditional grants	2 428 915	2 651 982	2 947 729	3 271 065	3 457 994
Total provincial own receipts	1 460 774	1 663 427	1 435 680	1 501 667	1 534 683
Financing		717 637	625 936	290 294	300 000
Total provincial receipts	**15 127 259**	**17 105 515**	**18 468 748**	**19 969 075**	**21 839 104**
Percentage contribution to total provincial receipts					
% National Transfers	**90.3**	**86.1**	**88.8**	**91.0**	**91.6**
Equitable Share	74.3	70.6	72.9	74.6	75.8
Conditional Grants	16.1	15.5	16.0	16.4	15.8
Provincial own receipts	9.7	9.7	7.8	7.5	7.0
Financing	0.0	4.2	3.4	1.5	1.4

Total provincial receipts in 2004/05 amounted to R15 127 million, including R13 666 million in national transfers (equitable share of R11 238 million and conditional grants of R2 429 million) and R1 461 million in provincial own receipts. National transfers in 2004/05 accounted for 90,3 per cent (equitable share 74,3 per cent and conditional grants 16,1 per cent) and provincial own receipts accounted for 9,7 per cent of total provincial receipts.

In 2005/06 the provisional outcome of total provincial receipts of R17 106 million, include R14 724 million in national transfers (equitable share of R12 072 million and conditional grants of R2 652 million), R1 663 million in provincial own receipts and R717,6 million is sourced from financing. National transfers in 2005/06 accounts for 86,1 per cent (equitable share 70,6 per cent and conditional grants 15,5 per cent) of total provincial receipts. Compared to 2004/05 there has been a Rand value increase in transfers from National, but they form a smaller percentage of total receipts as a result of the use of financing which was not utilised in 2004/05.

Provincial own receipts in 2004/05 amounted to R1 461 million or 9,7 per cent of total provincial receipts and also contributed to 9,7 per cent of total provincial receipts in 2005/06 despite increasing in absolute terms by R203 million. Over the medium term provincial own receipts decrease to only 7,0 per cent of total provincial receipts.

Provision is made for provincial financing and in this regard R718 million is provided for financing (4,2 per cent of total provincial receipts) in 2005/06, R626 million in 2006/07 and is projected to decrease to R300 million in 2008/09 (1,4 per cent of total provincial receipts).

3. Analysing transfers received from National Government

Provincial expenditure is funded from national transfers, provincial own sourced receipts and financing. Table 2 below shows the annual growth in provincial own receipts between 2004/05 and 2005/06 and projected annual average growth over the medium term.

Total provincial receipts increased from R15 127 million to R17 106 million or by 13,1 per cent between 2004/05 and 2005/06 and is projected to increase at an annual average rate of 8,5 per cent over the medium term to R21 839 million in 2008/09.

Table 2: Year-on year and annual average growth in provincial receipts

Receipts R'000		Provisional outcome	Medium-term estimate			Growth between 2004/05 and 2005/06	Annual Average Growth over MTEF
	2004/05	2005/06	2006/07	2007/08	2008/09		
Transfer receipts from National	**13 666 485**	**14 724 451**	**16 407 132**	**18 177 114**	**20 004 421**	**7.7**	**10.8**
Equitable share	11 237 570	12 072 469	13 459 403	14 906 049	16 546 427	7.4	11.1
Conditional grants	2 428 915	2 651 982	2 947 729	3 271 065	3 457 994	9.2	9.2
Total provincial own receipts	1 460 774	1 663 427	1 435 680	1 501 667	1 534 683	13.9	(2.6)
Financing		717 637	625 936	290 294	300 000		(25.2)
Total provincial receipts	**15 127 259**	**17 105 515**	**18 468 748**	**19 969 075**	**21 839 104**	**13.1**	**8.5**

National Transfers

National transfers in 2004/05 amounted to R13 666 million, which include R11 238 million in respect of the equitable share and R2 429 million in respect of conditional grants. In 2005/06 national transfers increased by 7,7 per cent (equitable share 7,4 per cent and conditional grants 9,2 per cent) to R14 724 million and include an equitable share of R12 072 million and conditional grant transfers of R2 652 million. Growth over the medium term are expected to reach an annual average rate of 10,8 per cent (equitable share 11,1 per cent and conditional grants 9,2 per cent) over the medium term.

Equitable Share

The equitable share increased by 7,4 per cent from R11 238 million to R12 072 million from 2004/05 to 2005/06 and is anticipated to grow at an annual average rate of 11,1 per cent to R16 546 million in 2008/09.

The equitable share allocation that the Province receives is based on demographic and economic statistics that attempt to capture the demand for public services in the Province. The largest portion of funds available to the Province is aimed at meeting Constitutional mandates and to deliver a wide variety of public services.

The equitable share formula has evolved since its inception in 1998/99, a result of the social security function-shift from the equitable share to conditional grants and to address the need to ensure equity and fairness in dealing with the challenges of poverty and economic development. The result of the review of the equitable share formula in 2004/05 was a reduction in the Western Cape's share from 9,0 per cent to 8,9 per cent.

A portion of 24 per cent (as determined by Budget Council) of the provincial equitable share was top sliced in order to fund the temporary social security function shift to conditional grants. As the Western Cape allocated a portion greater than 24 per cent of equitable share transfers to social security the resultant unattached amount could be allocated as required. These additional funds were used to partly offset the reduced share.

The revised PES formula is comprised of six components including (with weights in brackets):

- An education share (51 per cent) based on the size of the school-age population (ages 5-17) and the average number of learners enrolled in public ordinary schools for the past three-years (equally weighted);
- A health share (26 per cent) based on the proportion of the population with and without medical aid insurance for the past three years;
- A basic share (14 per cent) derived from each province's share of the total population of the country for the past four years;
- An institutional component (5 per cent) divided equally between the provinces, providing for the administration of the Province;
- A poverty component (3 per cent) that facilitates a measure of redistribution in the formula, taking account of the indirect effects of poverty on provincial expenditure; and
- An economic activity component (1 per cent) based on GDP by region data.

Table 3 below shows the revised structure of the provincial equitable share formula and the Western Cape's percentage share in the revised formula. This is compared with the 2004/05 structure. The revised weights allocated to the education and health components are calculated as an average percentage of non conditional grant expenditure by these votes over the three preceding years and does not imply that these votes should receive a larger portion of the provincial budget.

Table 3: Revisions to the PES formula

Component	Revised		2004/05	
	Weight %	Share %	Weight %	Share %
Education	51	8.21	41	8.24
Health	26	9.36	19	8.91
Welfare	-	-	18	8.81
Basic	14	10.16	7	10.09
Economic Activity	1	14.24	3	14.24
Backlogs	-	-	7	3.63
Institutional	5	11.11	5	11.11
Poverty	3	3.82	-	-
Overall Share	**100**	**8.86**	**100**	**9.03**

The six components are updated annually with the release of official data, which include the National Census, the annual General Household Survey (GHS) and the education snap surveys.

Data updates in 2005/06 have further reduced the Western Cape's Provincial Equitable Share. In 2005/06 the Province's share decreased from 8,86 per cent in 2004/05 to 8,81 per cent. This reduction is effected by data updates to the basic component, decreasing it from 10,16 per cent to 10,06 per cent, health's share decreases from 9,36 per cent to 9,24 per cent and education's share decreases from 8,22 per cent to 8,21 per cent.

One of the main concerns with the equitable share is the increased conditionality attached to funds. In a notional sense, the equitable share is an unconditional transfer to provinces, but in practice provincial core social functions – health and education – exhibit little provincial discretion given their personnel intensity and the centrality of bargaining council agreements. Health and education spending in 2004/05 amounted to 74,2 per cent of total provincial spending. This percentage decreased to 72,4 per cent in 2005/06. This very high percentage allocation to social spending, although necessary, limits the Provinces economic development potential.

The equitable share formula is updated from available data sources. Some of these data sources include the Census, conducted every ten years, with a replacement survey done every five years; and annual publications such as the General Household Survey and the learner enrolment (snap) survey. Of concern is the use of historical data when determining provincial allocations, exacerbated by the fact that the formula informs the forward-looking medium term expenditure framework.

A review of the equitable share formula is underway and aims to influence the allocation decisions ensuring that they are in line with the National Spatial Development Framework and the Provincial Spatial Development Framework.

Conditional Grants

Conditional Grants in 2004/05 amounted to R2 429 million; which increased by 9,2 per cent to R2 652 million in 2005/06. Conditional grants increase by an annual average of 9,2 per cent to R3 458 million in 2008/09.

When introduced in 1998/99, their objective was to promote national priorities and to compensate provinces for the provision of specialised services across provincial boundaries. In health, for example, those objectives had been to fund central hospitals, training and research, redistribution of health services and hospital revitalisation.

Subsequent to this phase, a number of departments introduced conditional grants with the purpose, conditions and outcomes of the grants varying.

A number of changes were made to the Conditional Grant framework for the 2005/06 financial year. These include the introduction of the Social Assistance and Social Assistance Administration Grants, the direct transfer of the Local Government Support Grant and the Capacity Building Grant to municipalities and the merging of the Human Settlement and Redevelopment Grant with the Housing Subsidy Grant to form the Integrated Housing and Human Settlement Development Grant.

Subsequent to these changes, the total number of Conditional Grants transferred to the Province amounted to 19 (including those received through the adjustments estimate). Conditional Grants' contribution to total provincial revenue decreased slightly from 16,1 per cent in 2004/05 to 16,0 per cent in 2005/06, remaining unchanged over the MTEF.

The Western Cape has experienced a number of challenges in complying with conditions of grants, which relate to under spending in some cases due to the withholding of transfers on a number of grants. The withholding or delaying of funds has serious implications for the Province. It has a negative impact on effective and efficient cash flow management, planning and the ability to provide services.

Measures taken to resolve the delay and withholding of conditional grant transfers include:

- Enquiring with the persons responsible for transferring funds at National Treasury and the national departments;
- Establishing the reasons for the withholding of funds; and
- Relaying the message to the provincial departments so that the required corrective action can be taken.

One of the main reasons for the withholding of grants was failure of Provincial and National Departments to finalise and approve Business Plans and to sign Service Level Agreements. It was therefore proposed that a more formalised process for the development of business plans be developed. This process would ensure that all role players (National Treasury, national departments, provincial treasuries and provincial departments) are informed of their functions, the process requirements for the successful completion of business plans and are provided with clear time lines for the various stages in the completion and submission of business plans. This will be instrumental in ensuring adherence with the requirements of the Division of Revenue Act and will limit the need for departments to withhold funds.

The use of historical data in determining provincial share of total national allocations also presents an area of concern for the Province. This in particular relates to grants which make use of population data and Provincial Equitable Shares in their allocation mechanisms as these sources underestimate the Western Cape's share of the National population as they fail to take inward migration into the Province into consideration. Affected conditional grants include, the Provincial Infrastructure Grant, the Integrated Housing and Human Settlement Development Grant, HIV and Aids (Life Skills Education Grant), the Mass Sport and Recreation Participation Programme Grant, and the Comprehensive Agricultural Support Programme Grant.

Table 4 below shows conditional grant allocations by department and growth for 2004/05 to 2005/06 and between 2005/06 and 2008/09. The Department of Health received the greatest portion of grant allocations in 2004/05 (69,3 per cent) and 2005/06 (70,2 per cent). The Department of Local Government and Housing follows, receiving 22,7 per cent and 18,5 per cent in each respective year. The remaining 7,9 per cent in 2004/05 and 11,3 per cent in 2005/06 is allocated between the Departments of Education, Social Development, Transport and Public Works and Agriculture.

Although the Departments of Health and Local Government and Housing receive the largest portion of grant allocations, their growth in allocations between 2004/05 and 2005/06 is small relative to that of the remaining four departments. Allocations to Health increase by 7,8 per cent and Local Government and Housing decreased by 11,1 per cent. The growth of allocations to the remaining four departments is between 42,4 per cent and 274 per cent over the same period.

Table 4: Summary of Conditional Grants 2004/05 - 2008/09

	Actual 2004/05 R'000	Provisional transfers 2005/06 R'000	Medium Term Estimate 2006/07 R'000	2007/08 R'000	2008/09 R'000	Growth 04/05 - 05/06 %	Growth ave annual MTEF %
Vote 5: Education	**84 714**	**128 322**	**192 012**	**223 456**	**229 709**	**51.5**	**21.4**
Provincial infrastructure	38 709	**68 229**	61 829	80 263	85 881	76.3	8.0
HIV and Aids (Lifeskills education)	9 814	**11 198**	11 870	12 464	13 303	14.1	5.9
Further education and training college sector recapitalisation			70 000	80 000	77 305		
National school nutrition programme	36 191	**48 895**	48 313	50 729	53 220	35.1	2.9
Vote 6: Health	**1 684 382**	**1 861 159**	**1 991 725**	**2 051 224**	**2 139 039**	**10.5**	**4.7**
Provincial infrastructure	38 693	**55 229**	61 829	80 262	85 880	42.7	15.9
Hospital revitalisation	124 115	**148 038**	149 703	107 897	124 244	19.3	(5.7)
Hospital management and quality improvement	15 179	**17 608**				16.0	
National tertiary services	1 104 087	**1 214 684**	1 272 640	1 322 744	1 388 881	10.0	4.6
Health professions training and development	327 210	**323 278**	323 278	339 442	356 414	(1.2)	3.3
Integrated nutrition programme	4 704	**5 288**				12.4	
Comprehensive HIV and Aids	70 394	**82 451**	115 670	121 454	128 085	17.1	15.8
Forensic pathology services		**14 583**	68 605	79 425	55 535		
Vote 7: Social Development	**6 984**	**26 123**				**274.0**	
HIV and Aids (community-based care)	3 088	**6 089**				97.2	
Food emergency relief	3 896						
Integrated social development services		**20 034**					
Vote 8: Local Government and Housing	**551 698**	**490 613**	**598 800**	**748 548**	**822 426**	**(11.1)**	**18.8**
Housing subsidy	510 951						
Human resettlement and redevelopment	16 179	**9 373**				(42.1)	
Integrated housing and human settlement development		**456 740**	598 800	748 548	822 426		21.7
Disaster relief		**24 500**					
Local government capacity building fund	21 141						
Provincial project management capacity for Municipal infrastructure (MIG) [previously CMIP]	3 427						
Vote 10: Transport and Public Works	**64 645**	**92 557**	**126 329**	**190 891**	**203 511**	**43.2**	**30.0**
Provincial infrastructure	64 645	**92 557**	126 329	190 891	203 511	43.2	30.0
Vote 11: Agriculture	**35 492**	**50 538**	**26 763**	**41 936**	**43 934**	**42.4**	**(4.6)**
Land care programme: Poverty relief and infrastructure development	3 166	**2 500**	3 115	3 270	3 428	(21.0)	11.1
Drought refief/Agriculture disaster management grant	366	**18 000**				4 818.0	
Comprehensive agriculture support programme	11 705	**17 206**	20 648	33 426	35 030	47.0	26.7
Provincial Infrastructure	20 255	**12 832**	3 000	5 240	5 476	(36.6)	(24.7)
Vote 13: Cultural Affairs and Sport	**1 000**	**2 670**	**12 100**	**15 010**	**19 375**	**167.0**	**93.6**
Mass sport and recreation participation programme	1 000	**2 670**	12 100	15 010	19 375	167.0	93.6
Total Conditional grants	**2 428 915**	**2 651 982**	**2 947 729**	**3 271 065**	**3 457 994**	**9.2**	**9.2**

4. Analysing provincial own receipts

Provincial own receipts are mainly derived from the following sources: casino taxes, motor vehicle license fees, health patient fees and interest, dividends and rent on land.

Table 5 below shows annual growth in own receipts, by economic classification, between 2004/05 and 2005/06 and annual average growth over the medium term. It further highlights the proportional contribution that the category of receipts makes to the total provincial own receipts. Provincial own receipts increased from R1 461 million to R1 663 million or 13,9 per cent between 2004/05 and 2005/06 and are expected to decrease at an annual average of 2,6 per cent over the medium term to R1 535 million in 2008/09.

Table 5: Provincial own sourced revenue by economic classification

Provincial own receipts	Outcome	Provisional outcome	Medium-term estimate			Year-on -Year 2004/05 and 2005/06	Annual Average over MTEF
	2004/05	2005/06	2006/07	2007/08	2008/09		
	R'000	R'000	R'000	R'000	R'000	%	%
Tax receipts	871 686	979 374	1 003 091	1 055 852	1 104 742	12.35	4.10
Sale of goods and services other than capital assets	238 570	274 607	255 919	263 244	265 774	15.11	(1.08)
Transfers received	43 768	69 152	93 424	106 055	111 721	58.00	17.34
Fines, penalties and forfeits	1 120	1 380	350	350	350	23.21	(36.70)
Interest, dividends and rent on land	221 192	236 973	59 108	52 200	28 130	7.13	(50.85)
Sale of capital assets	14 385	30 477	49	49	49	111.87	(88.29)
Financial transactions in assets and liabilities	70 053	71 464	23 739	23 917	23 917	2.01	(30.57)
Total receipts	**1 460 774**	**1 663 427**	**1 435 680**	**1 501 667**	**1 534 683**	**13.9**	**(2.6)**
Percentage contribution to Provincial own revenue							
Tax receipts	60	59	70	70	72		
Sale of goods and services other than	16	17	18	18	17		
Transfers received	3	4	7	7	7		
Fines, penalties and forfeits	0	0	0	0	0		
Interest, dividends and rent on land	15	14	4	3	2		
Sale of capital assets	1	2	0	0	0		
Financial transactions in assets and liabilities	5	4	2	2	2		
Total receipts	**100**	**100**	**100**	**100**	**100**		

Tax receipts

Tax receipts consist of casino taxes, motor vehicle license fees, horseracing, liquor license fees and other taxes and provisionally reached R979,4 million in 2005/06. This is 12,4 per cent more than the R871,7 million collected in 2004/05. Tax receipts increase at an annual average of 4,1 per cent and are projected to reach R1 105 million in 2008/09.

Tax receipts as a percentage of total provincial own sourced receipts decreased from 59,7 per cent in 2004/05 to 58,9 per cent in 2005/06 and are further projected to stabilise at 72,0 per cent of provincial own sourced receipts over the medium term. The estimated increase over the MTEF is mainly due to the increase in liquor license fees pending the approval of the Western Cape Liquor Bill, 2006 and gaming revenues from casino and limited gambling machines across the Province.

Sales of goods and services other than capital assets

Sales of goods and services other than capital assets mainly consists of health patient fees, other and sales by market establishments and provisionally reached R274,6 million in 2005/06. This increase is 15,1 per cent more than the R238,6 million collected in 2004/05. Sales of goods and services decrease by an annual average of 1,1 per cent over the medium term and are projected to reach R265,8 million in 2008/09. Sales of goods and services, as a percentage of total provincial own sourced receipts, increased from 16,3 per cent in 2004/05 to 16,5 per cent in 2005/06 and are further projected to stabilise at 17,3 per cent of provincial own sourced receipts over the medium term.

Transfers received

Transfers received include transfers received from universities and technikons, international organisations, public corporations and private enterprises, non-profit organisations and households and provisionally reached R69,2 million in 2005/06 and are expected to be 58,0 per cent more than the R43,8 million that was collected in 2004/05. Transfers received are projected to increase by an annual average of 17,3 per cent, over the medium term, to R111,7 million in 2008/09. Transfers received as a percentage of total provincial own sourced receipts increased from 3,0 per cent in 2004/05 to 4,2 per cent in 2005/06 and are further projected to stabilise at 7,3 per cent of provincial own sourced receipts over the medium term. The increase from 2004/05 to 2005/06 and over the medium term is mainly due to a transfer received from the Global Fund for fighting HIV/AIDS, Tuberculosis and Malaria.

Fines, penalties and forfeits

Fines, penalties and forfeits provisionally reached R1,4 million in 2005/06 which is 23,2 per cent more than the R1,1 million outcome for 2004/05. Fines, penalties and forfeits are projected to decrease by an annual average of 36,7 per cent, over the medium term, to R350 000 in 2008/09. This is due to conservative medium term budget estimates as this item is not predictable.

Interest, dividends and rent on land

Interest, dividends and rent on land provisionally reached R237,0 million in 2005/06, which is 7,1 per cent more than the R221,2 million outcome of 2004/05. Interest, dividends and rent on land are projected to decrease by an annual average of 50,9 per cent, over the medium term, to R28,1 million in 2008/09. Interest, dividends and rent on land as a percentage of total provincial own sourced receipts decreased from 15,1 per cent in 2004/05 to 14,2 per cent in 2005/06 and are further projected to decrease to 1,8 per cent over the medium term. The significant decrease is due to the implementation of an Asset Finance Reserve (AFR), established to fund strategic infrastructure within the province. Interest earned from surplus funds were previously reflected as revenue in the Provincial Revenue Fund. This relates directly to the way in which the Province would be accounting for investment purposes. The introduction and implementation of an Asset Finance Reserve (AFR) for the 2006/07 Budget underscores Government's commitment to the objective of investment into strategic infrastructure.

Sales of capital assets

Sales of capital assets provisionally reached R30,5 million in 2005/06, which is 111,9 per cent more than the R14,4 million outcome in 2004/05. Sales of capital assets are projected to decrease by an annual average of 88,3 per cent, over the medium term, to R49 000 in 2008/09. Sales of capital assets as a percentage of total provincial sourced revenue increased from 1,0 to 1,8 per cent from 2004/05 to 2005/06. Experience has shown that the latter source is influenced by many factors such as alternative usage of properties, market prices, political decision-making, dependency on buyers to make payments timeously, dependency on other organs of state to timeously process the relevant documents, etc. The named factors therefore increase the risk of not collecting the revenue timeously and therefore also influence the predictability of expenditure levels of the Department of Transport and Public Works. In consultation with the Provincial Treasury it was decided not to estimate receipts from the sales of capital assets over the medium term and to decrease expenditure levels with equal amounts.

Financial transactions in assets and liabilities

Financial transactions in assets and liabilities provisionally reached R71,5 million in 2005/06. This is 2,0 per cent more than the R70,0 million outcome in 2004/05 and this line item is projected to decrease at an annual average of 30,6 per cent, over the medium term, to reach R23,9 million in 2008/09.

Provincial own sourced receipts by source

Table 6 sets out actual own receipts for 2004/05, provisional outcome for 2005/06 and estimates for the medium term of the main sources of own receipts.

Table 6: Main sources of provincial own sourced receipts by source

	Actual	Provisional outcome	Medium-term estimate			Year on Year between 2004/05 and 2005/06	Annual average growth over MTEF
	2004/05	2005/06	2006/07	2007/08	2008/09		
	R'000	R'000	R'000	R'000	R'000	%	%
Casino taxes	157 611	205 318	219 660	245 816	270 408	30.3	9.6
Motor vehicle licences	695 160	753 104	753 501	776 106	799 389	8.3	2.0
Health patient fees	158 868	175 602	178 491	183 769	183 769	10.5	1.5
Interest, dividends and rent on land	221 192	236 973	59 108	52 200	28 130	7.1	(50.9)
Other	227 943	292 430	224 920	243 776	252 987	28.3	(4.7)
Total own revenue	1 460 774	1 663 427	1 435 680	1 501 667	1 534 683	13.9	(2.6)
Percentage share of Provincial sourced revenue							
Casino taxes	10.8	12.3	15.3	16.4	17.6	14.4	12.6
Motor vehicle licences	47.6	45.3	52.5	51.7	52.1	(4.9)	4.8
Health patient fees	10.9	10.6	12.4	12.2	12.0	(2.9)	4.3
Interest, dividends and rent on land	15.1	14.2	4.1	3.5	1.8	(5.9)	(49.5)
Other	15.6	17.6	15.7	16.2	16.5	12.7	(2.1)

Casino taxes

Revenue generated from casino taxes (at Grand West, Caledon, Club Mykonos and Pinnacle Point) increased by 30,3 per cent from R157,6 million in 2004/05 to a provisional outcome of R205,3 million in 2005/06. It is further projected that tax from casino revenue will increase by 9,6 per cent to R270,4 million in 2008/09.

Casino taxes also include tax revenue from LGMs. At present the Province has 263 licensed premises with a total number of 889 machines.
The current tax regime imposed on casinos proves to be optimal since it is designed to leverage the maximum benefit from the gambling industry, while business and economic realities are acknowledged.

The present structure has the possibility of increasing receipts from this source by simply tightening the tax band/levels. This method is also very effective in dealing with fiscal drag, as tax bands could be lowered just as easily as they can be raised.
Revenue generated from gambling is unpredictable and it is therefore acknowledged that casino taxes depend to a large extent on the unexpected increases or decreases in people’s disposable income.

Motor vehicle license fees (MVL)

Revenue generated from MVL fees increased by 8,3 per cent from R695,2 million in 2004/05 to a provisional outcome of R753,1 million in 2005/06 and is expected to increase at an annual average of 2,0 per cent to R799,4 million in 2008/09. These increases are directly linked to the net growth of the motor vehicle population over the same period. An increase in the purchase of motor vehicles contribute to the motor vehicle license revenue due to either new registrations or registration and licensing of cars, as more people purchase cars (emerging black middle class) and businesses expand their economic activities.

The growth in projected receipts is also attributed to the initiative of the Department of Transport and Public Works to improve service delivery at the 76 registering authorities for the registration and licensing of motor vehicles.

The current initiative to address arrear license fees will continue, with the aim to maintain the arrears to less than 2,0 per cent of the total motor vehicle population. A large number of transactions that were previously assigned to the registering authorities are now centralised at provincial level to ensure uniform recording of transactions where a discretionary measure is involved. To facilitate this, a computerised system has been purchased to capture all the documentation and to return the results to the 76 registering authorities.

Activities at some of the 55 driver-license testing centres in the Province have been streamlined through the deployment of new computer software. New equipment is also used for eye testing and electronic fingerprint taking as part of the process to apply for learners and driving licenses.

Health patient fees

Health patient fees increased by 10,5 per cent from R158,9 million in 2004/05 to a provisional outcome of R175,6 million in 2005/06 and is projected to increase at an annual average of 1,5 per cent to R 183,8 million in 2008/09.

This growth is largely attributed to the efficiency of the UPFS and the HIS implemented by the Department of Health. The introduction of the Government Employees Medical Aid Scheme in 2006/07 and the phasing in thereof over the medium-term should also contribute to increased revenue due to an increase in the number of paying clients.

The largest proportion of revenue generated by the health sector is from user fees, which include payments from Medical Aid Schemes, the Workmen's Compensation Fund, the Road Accident Fund, boarding and lodging, parking fees and fees charged to doctors for using state facilities for private practice. Income from health training activities makes up the remainder of the "other " revenue component.

The Department of Health is paying special attention to patient billing and revenue collection. "Private" wards or "differentiated amenities" have been established at several hospitals to attract private patients and those on medical aid. The Department has entered into preferred provider agreements with medical aids and other government departments. The objective is to make health care more cost effective so that quality of service can be improved for the benefit of all patients – both "private" and public patients.

Interest, dividends and rent on land

Income from interest, dividends and rent on land increased by 7,1 per cent from R221,1 million in 2004/05 to a provisional outcome of R237,0 million in 2005/06 and declines at an annual average rate of 50,9 per cent to R28,1 million in 2008/09.

This sharp decline in interest revenue is attributed to: changes in institutional arrangements with regard to the payment of social security grants; changes with regard to investments of provincial equitable share; and the establishment of a provincial asset financing reserve.

Since 2005/06 there had been a change in institutional arrangements with regard to the payments of Social Assistance Grants. The Department of Social Services and Poverty Alleviation over the years generated own receipts from interest accumulated through the ALLPAY advances. These advances were generated through the effective management of social security grant payments to beneficiaries. With the institutional shift of social security grants from an equitable allocation to a conditional grant administered by the national department of Social Development, funds overpaid, paid in advance as well as the interest earned on surpluses revert back to the national department and not to the Provincial Revenue Fund as was the case before 2005/06.

Liquor license fees (included in Other)

Revenue generated from liquor license fees reached R4,3 million in 2005/06 and is anticipated to grow at an average rate of 63,3 per cent over the medium term to R18,7 million in 2008/09. These increases are subject to the approval of the new Western Cape Liquor Bill in 2006.

The Western Cape Liquor Bill aims to bring unlicensed traders from historically disadvantaged communities into the tax net enabling them to do business in a free and conducive environment without barriers to entry.

The proposed Western Cape Liquor Bill provides for the determination of application fees, annual license renewals and penalties by the Minister of Economic Development. These fees were last reviewed in 1992. The income generated through the licensing system will accrue to the Provincial Revenue Fund.

In terms of the new legislation, the Western Cape Liquor Board and the responsible departments and municipalities, chosen as agents, would administer licensing of premises, collect liquor license revenue and ensure the reconciliation of revenue collected in terms of the Liquor Act.

5. Debtors management

Debtors are classified as current assets and as such are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity. A debtor is also an entity, organisation or person who owes money to the Provincial Government of the Western Cape. This includes damages, fees, fines, penalties, forfeits, loans, overpayments, tuition, interest and other costs authorised by law. For the purpose of this exercise normal claims between departments are excluded, unless the claims have been outstanding for long periods.

The aggregated provincial debt comprises, amongst others, the following: hospital patient fees; education debt; housing loans and sales debt; motor vehicle license and registration fees; government motor transport; and other debt (boarding and rental fees, staff debt, state guarantees, social grants etc.)

Table 7 provides a snapshot as at 31 March 2006 of provincial debt by vote. It shows that aggregated provincial debtors as at 31 March 2006 amounted to R1,4 billion. For purpose of this exercise normal claims between departments are excluded, unless the claims have been outstanding for long periods.

Table 7: Total debtors of Province per vote as at 31 March 2006

Department	Amount R'000	Percentage
Premier	437	0.03
Parliament	456	0.03
Provincial Treasury	91	0.01
Community Safety	44	0.00
Education	49 523	3.56
Health	563 392	40.52
Social Services and Poverty Alleviation	17 564	1.26
Local Government and Housing	543 625	39.10
Environmental Affairs and Development Planning	739	0.05
Transport and Public Works	212 391	15.28
Agriculture	1 928	0.14
Economic Development and Tourism	16	0.00
Cultural affairs and Sport	183	0.01
Total	1 390 389	100.00

Source: Quarterly reports submitted by provincial departments

Debtor analysis

Four departments have large debtors and are discussed below:

- The Department of Health with outstanding hospital fees of 40,52 per cent of total debtors or R563,4 million;
- The Department of Local Government and Housing with housing loans and sales debt of approximately 39,1 per cent of total debtors or R543,6 million;
- The Department of Transport and Public Works, responsible for Motor vehicle license and registration fees and Government Motor Transport with 15,28 per cent of total debtors or R212,4 million; and
- The Department of Education with outstanding debt of 3,56 per cent or R49,5 million.

Other debt (boarding and rental fees, staff debt, state guarantees, social grants etc.) collectively responsible by all departments amounts to R60 million.

Most departments are making concerted efforts to reduce their debtors. A number of challenges exist in this regard and include, amongst others, debtors with regards to bursary obligations and housing debt owed for longer than 20 years.

The section that follows considers some of the debtor reduction strategies that departments have implemented or are busy implementing.

Debtors reduction strategies

Health

The Department of Health has initiated a process to collect outstanding debt. This includes: Ensuring that contractual agreements with debt collectors are in place; Information systems are geared to ensure that electronic handovers to the debt collector can be done and software on the Delta 9 billing system is functional.

An ongoing follow-up with the state departments regarding their unpaid accounts is also taking place. A case in point is the Road Accident Fund (RAF) debtors, which amounts to 33 per cent of the outstanding debtors in respect of the Hospital Information System (HIS).

Medical Aid debtors are also pursued as a global claim submission as opposed to individual invoices. The Department has implemented Electronic Data Interchange (EDI) at some hospitals, which will contribute to timeous submission and settlement of claims. The rollout of EDI is ongoing with positive prospects.

Housing loan and sales debt

The recovery rate (in respect of housing rental and in instances where houses were purchased through the Department of Housing) is poor mainly due to the socio-economic circumstances of most of the beneficiaries, which reduces their ability to repay the loans that they owe, or even for the purchase of houses. Currently the Department is clearing old debt i.e. writing-off debtors that date back to 1989. In some instances, these also include problematic cases of ex-tenants who cannot be traced.

Motor vehicle license fees

Motor vehicle licenses are classified as arrear license fees and penalties in terms of the National Road Traffic Act (Act No. 93 of 1996). These debts arise from motorists who fail to pay the legislated fees or monies prescribed by law. These include failure to pay registration fees or to renew annual motor vehicle licenses.

The Department of Transport and Public Works has an inspectorate to collect outstanding motor vehicle license fees, particularly those that exceed R5 000 and proves very successful with the collection of arrear motor vehicle licenses.

The ability of the Department to draw quarterly reports on outstanding motor vehicle license fees from a database kept by the National Department of Transport has improved (NaTIS) the accuracy of statistics needed.

Currently irrecoverable debt is written off and license reminders, apart from the first license renewal notices, are printed and posted on a three monthly and six monthly basis.

Provincial departments are considering various measures to address debt management and it should be acknowledged that the current accounting system (BAS) is not geared to provide monthly debt reports. In cases where departments have an interface of financial systems, debt management reports are routinely produced.

6. Revenue management initiatives

The Provincial revenue incentive policy encourages revenue collecting departments to put concerted effort into the collecting of revenue due, exploring new sources of revenue, following up on long outstanding debtors and promptly revising tariffs. However, this equally creates the problem of under budgeting as collecting revenue above target entitles a department to request up to the full amount collected above target. The policy therefore did not entirely succeed in enhancing the credibility of own receipts budget estimates. However, a provincial revenue estimation model that will enhance the accuracy and robustness of provincial own revenue estimates is being developed to ensure credible estimates.

Challenges to own receipts collection are: the absence of dedicated receipts components in departments; little or no development of clear policy guidelines; lack of service level agreements between municipalities and other government departments; lack of senior management support in efforts to increase own collection; ineffective maintenance of financial management systems used by departments; lack of capacity in departments to forecast receipts; and the inability to overcome the risk-averse approach by some departments.

Revenue estimation model

National Treasury initiated a consolidated project between provincial treasuries and other stakeholders regarding the development of a revenue estimation model to improve the credibility of own receipts estimates, improve receipts efficiency and hence lead to better-informed policy decisions.

The Provincial Treasury in the Western Cape started with the terms of reference for the model, engaging with the relevant stakeholders to market the idea and to start with the initial requirements for the project such as a detailed analysis of the existing sources of own receipts, data collection and drawing technical expertise from external sources.

A provincial own receipts workgroup was established by the representatives from each provincial treasury and National Treasury, other departments such as Health for a better understanding of hospital patient fees and transport departments for the NaTIS reports that indicate the collection of motor vehicle license fees and outstanding transport related fees.

Provincial Treasury also engaged with a consultant to build capacity within the Treasury and in Departments relating to Econometric principles and modeling to assist Provincial Treasury in the development of the revenue estimation model.

New taxes

The Provincial Tax Regulation Process Act (Act No. 53 of 2001) does not define the new taxes that provinces may impose, but regulates the process by which they are imposed. It is envisioned that by testing and researching the feasibility of various provincial taxes, an evolving list of legitimate provincial taxes will emerge.

The Western Cape has identified a number of new taxes for consideration, which include amongst others a Fuel Levy, Tourism Levy, Developer Tax and Business Tax. The implementation of a Fuel Levy for the Province has already been researched and has been considered and approved by the national Minister of Finance. Research into the feasibility of a Tourism Levy and a Developer Tax has commenced, while research into other possible provincial taxes is also suggested.

Asset Finance Reserve

The Provincial Treasury established a financing mechanism, the Asset Financing Reserve (AFR), for the financing of strategic infrastructure within the Province. The AFR is currently held within the Provincial Revenue Fund and funding has been ring-fenced for specific purposes such as the Strategic Infrastructure Plan. The establishment of such a reserve had been necessitated as a result of the crowding out of economic services spending by social services.

The AFR is capitalised from: accumulated reserves; surplus funds; compulsory savings less approved roll-overs; revenue collected above budget less retention requests; and interest earned on investment and current account less the budget estimate for interest.

The AFR is operated as a separate accounting identity within the Provincial Revenue Fund and functions along similar lines as a revolving credit fund facility.

Donor funding

To achieve its aim of optimum service delivery the Province needs to continuously strive to expand its revenue base. One of the initiatives is the expansion of aggregate volumes of resources made available to developing countries in the form of donations.

Donations in the form of grants or technical assistance are regarded as donations to the state. As such, approval for its acceptance needs to be dealt with in accordance with section 76 (1) (l) of the PFMA (Act 1 of 1999) and Treasury Regulation 21. The accounting officer of the relevant implementing agency is authorised to approve the donation. Such support is extra-budgetary (not part of National Revenue). In terms of the Reconstruction and Development Programme (RDP) Fund Amendment Act, all cash donations have to be paid into the RDP Fund Account at the South African Reserve Bank, from where transfers will be made to the relevant implementing agency's Paymaster-General Account.

Donations received during the course of the financial year must be stipulated as a separate note to the annual financial statements. All donations must be declared in writing to the relevant Chief Financial Officer and provisioning administration. The Chief Financial Officer keeps a register of all donations. All such donations received during the course of a financial year must be stipulated as notes on the annual financial statements of the RDP Fund of the relevant spending agency and be reported on, in its annual report.

Provincial departments are currently receiving donor funding from national and international organisations. Funding arrangements relate, in the main to financial, technical and in-kind support. These types of financial assistance are most often separately developed and negotiated between the donor and the implementing provincial departments. In many instances, only the recipients and the donor know the provisions of these arrangements. This issue was highlighted when the Auditor General in its Annual Report, for the 2004/05 financial year indicated that only a few departments disclosed information about donor funding in their annual reports.

It is noted that although provincial departments receive donor funding for specific projects, the process is uncoordinated and may lead to the fragmentation and duplication of projects, especially if many donors are involved, each focusing on specific geographical or programme areas. As a result, the Western Cape Government will incur risks when handling donor funds, inter alia with regard to the sustainable level of service delivery, commitment given to donors and the interpretation of applicable legislation.

Table 8 sets out the donations received by the provincial departments during the 2002/03, 2003/04 and 2004/05 financial years.

Table 8: Donations received by departments

Department	Donations Received		
	2002/03 R'000	2003/04 R'000	2004/05 R'000
Provincial Parliament	941	103	56
Community Safety	-	59	-
Education	793	177	-
Health	2 201	13 853	29 424
Transport and Public Works	51	150	1 809
Agriculture	285	29	-
	4 271	**14 371**	**31 289**

During the three financial years under review (2002/03, 2003/04 and 2004/05) only one of the thirteen provincial departments, namely the Department of Health received significant donor funding.

The Provincial Treasury together with the Department of the Premier has initiated working towards a Provincial Donor Fund Policy Framework, guidelines and a practice note as well as an aggregated database, which will:

- Determine the aggregate donor funds allocated to the Province;
- Achieve coordination of various donor-supported programmes and projects;
- Take maximum advantage of international development experience and the comparative advantages;
- Use donor funds to avoid difficult resource allocation decisions within a department;
- Monitor and evaluate this source of revenue to the Province; and
- Investigate exploiting this revenue source to the advantage of the Province.

The coordination of Donor Funding is of critical importance to the Provincial Government. This is further extended to the knowledge of donations at a technical level and the extent to which political principals are aware of donations. This is important particularly with regard to bilateral relations and political protocol. It strengthens reporting, whilst at a political level relates to sound intergovernmental relations between the Department of the Premier and the various Provincial Departments.

Furthermore, in its efforts to improve financial governance, Provincial Departments should be mindful of the risks involved when dealing with donor funds, especially with regard to:

- Counterpart contributions for donor-supported projects, either in cash or kind;
- Recurrent cost implications as a result of the implementation of donor projects;
- Funding flow regulations and procedures such as direct payments by donor, financial management by a third party;
- Perception by provincial departments that their domain might be invaded through the establishment of a Central Office;
- The lack of capacity at a central and sector implementing level;
- Fluctuation in currencies, and
- Diverse donors requiring different forms of reporting.

In pursuance of the harmonising of provincial practices relating to donor funding and to outline a directive which would offer a common legal framework for Official Donor Assistance, a common set of implementation procedures should be considered. This may include: ensuring that development assistance is delivered in accordance to provincial priorities, including poverty reduction strategies, reviewing and identifying ways to improve policies, procedures and practices, implementing progressively the good practice standards or principals in development assistance delivery and management as well as developing incentives that foster management and departmental recognition.

7. Way forward

Challenges to own receipts collection are: the absence of dedicated receipts components in departments; little or no development of clear policy guidelines; lack of service level agreements between municipalities and other government departments; lack of senior management support in efforts to increase own collection; ineffective maintenance of financial management systems used by departments; lack of capacity in departments to forecast receipts; and the inability to overcome the risk-averse approach by some departments.

Another challenge for the Province is to reduce provincial debtors, which is mainly comprised of: Hospital patient fees; Education debt; Housing loans and sales debt; Motor vehicle license and registration fees; Government Motor Transport; and Other debt (boarding and rental fees, staff debt, state guarantees, social grants etc.).

The National Minister of Finance has approved the implementation of a Fuel Levy for the Province and research into the feasibility of a Tourism Levy has also commenced.

Another possibility for the Province to expand its revenue base is to explore the expansion of the aggregate volumes of resources made available to developing countries in the form of donations.

A way forward for the Provincial Treasury of the Western Cape is to address the challenges as mentioned above.

4

Expenditure Management

1. Introduction

All households are faced with financial constraints. To manage these constraints, budgets are drawn up to try and influence spending behaviour. Over time disciplined expenditure management results in an increased ability to achieve the household's medium to long-term goals. Similar results can be achieved through improved spending efficiency, i.e. doing more with the same or less money. Continued overspending of the budget increases risks and uncertainty with regard to the achievement of the household's goals and even decreases its ability to maintain its current lifestyle.

The situation of the Provincial Government of the Western Cape is no different to that of the average household. Faced with a very tight budget, the Minister of Finance and Tourism often reflects on the importance of fiscal discipline, which implies careful management and continued monitoring of expenditure to ensure effective budget implementation. The need for goal-directed spending is also emphasised as a key component of fiscal discipline.

This chapter attempts to analyse and compare actual expenditure of the Province from the 2002/03 to the 2004/05 financial years and also attempts to analyse budgeted expenditure for the 2005/06, 2006/07, 2007/08 and 2008/09 financial years. This analysis will be broken down into the following sections, which are covered in detail in the rest of this chapter:

Section 1: Analysis of total actual versus total budgeted expenditure per department for the 2004/05 financial year.

Section 2: Third quarter spending estimates for the 2005/06 financial year.

Section 3: Expenditure and budget trends per department for the period 2002/03 to 2008/09, based on total departmental expenditure.

Section 4: Expenditure and budget trends per department for the period 2002/03 to 2008/09, based on individual expenditure items making up total departmental expenditure.

Section 5: Conclusion on the way forward.

2. Analysis of total actual versus total budgeted expenditure, per department, for the 2004/05 financial year

Table 1: 2004/05 Outcome (R'000)

Vote	Adjusted Budget	Actual Expenditure	Under Expenditure
Department of the Premier	290,550	288,662	1,888
Provincial Parliament	46,861	43,599	3,262
Provincial Treasury	108,980	102,333	6,647
Community Safety	168,318	164,256	4,062
Education	5,762,926	5,690,709	72,217
Health	5,173,517	5,169,199	4,318
Social Development	4,326,504	4,261,612	64,892
Local Government and Housing	801,903	665,872	136,031
Environmental Affairs and Development Planning	137,417	135,468	1,949
Transport and Public Works	1,340,600	1,258,628	81,972
Agriculture	230,644	196,893	33,751
Economic Development and Tourism	126,536	126,439	97
Cultural Affairs and Sport	156,239	148,932	7,307
Total for the Province	**18,670,995**	**18,252,602**	**418,393**

The Table above indicates the expenditure outcome per department as well as the Province for the 2004/05 fiscal year. From a Provincial perspective, the underspending amounted to R418 million or 2,2 per cent of the R18,671 billion adjusted budget, of which R61,905 million consisted of compulsory savings. The compulsory savings were re-allocated for spending in the 2005 Budget (R26,905 million in 2005/06 and R35 million in 2006/07). If the underspending is adjusted for compulsory savings, the percentage underspent drops to 1,9 per cent, which is below the 2 per cent norm and well below the 2003/04 underspending of 2,3 per cent.

Rollover from 2004/05 to 2005/06 amounted to R268,640 million, of which conditional grants amounted to R178,7 million (67 per cent) and other rollovers, including the finalisation of 2004/05 infrastructure projects, amounted to R89,9 million. In nominal terms, the Department of Local Government and Housing underspent the most at R136 million. This included underspending on the Integrated Housing and Human Settlement Development Grant (R76,5 million) and Human Settlement Redevelopment Programme (R20,4 million).

3. Third quarter spending estimates for the 2005/06 financial year

Table 2: 2005/06 Projected Outcome (R'000)

Vote	Main Budget	Adjust-ments	Adjusted Budget	Actual Expendi-ture as at 31 Dec	Projected Expendi-ture as at 31 March	Over/ Under Expendi-ture
Department of the Premier	298,112	(44)	298,068	214,022	298,068	0
Provincial Parliament	55,598	400	55,998	38,513	51,093	4,905
Provincial Treasury	125,914	(10,505)	115,409	80,743	114,840	569
Community Safety	173,724	5,072	178,796	135,400	178,796	0
Education	6,259,846	244,813	6,504,659	4,777,031	6,504,659	0
Health	5,742,503	34,319	5,776,822	4,092,920	5,738,765	38,057
Social Development	4,917,483	15,948	4,933,431	3,530,145	4,875,022	58,409
Local Government and Housing	632,805	179,003	811,808	492,254	802,628	9,180
Environmental Affairs and Development Planning	158,720	300	159,020	114,141	159,020	0
Transport and Public Works	1,712,012	85,353	1,797,365	1,199,426	1,796,382	983
Agriculture	238,185	31,041	269,226	163,502	274,108	(4,882)
Economic Development and Tourism	145,148	(2,743)	142,405	91,985	142,405	0
Cultural Affairs and Sport	167,799	513	168,312	108,499	168,312	0
Total	**20,627,849**	**583,470**	**21,211,319**	**15,038,581**	**21,104,098**	**107,221**

The Adjustments Budget provided R583,470 million additional to the original 2005 Budget. The key theme for the Adjustments Budget was investment in infrastructure in the form of acceleration of delivery of school related infrastructure (R200,5 million), additional provincial contribution towards the N2 Gateway project (R40 million), drought and flood relief (R42,5 million), and the rollover for the finalisation of 2004/05 infrastructure projects (R145 million).

After three quarters of the financial year, as at 31 December 2005, the Province has spent 71 per cent or R15,038 billion of its adjusted budget. Spending to date is slightly higher in percentage terms than spending over the same nine-month period during the 2004/05 financial year.

Provincial departments are collectively projecting to underspend by 0,5 per cent of the adjusted budget or R107,2 million. The departments which have spent the least of their adjusted budgets by 31 December 2005 are Local Government and Housing at 60,6 per cent and Agriculture at 60,7 per cent, mainly due to once-off additional funding received from their national counterparts in the adjustments budget in November 2005 for flood disasters (R24,5 million - Local Government and Housing) and drought relief to farmers (R18 million – Agriculture).

The Department of Health is projecting to underspend by R38,057 million mainly on the Hospital Revitalisation grant. This constitutes 0,7 per cent of its adjusted budget.

The hospitals affected by this underspending are Paarl, Vredenburg, Worcester and Khayelitsha. Reasons for the delays range from slow performance by contractors to late approval of business cases. Social Services and Poverty Alleviation is projecting an under spending of R58,409 million or 1,18 per cent of its adjustments budget largely due to the late approval of a post establishment for the South African Social Security Agency (SASSA) by the National Department of Social Development. Local Government and Housing is projecting to underspend by 1,13 per cent or R9,180 million, mainly on the Human Settlement and Redevelopment grant. The approval process of tenders amounting to R5,670 million for Human Settlement and Redevelopment took longer than expected. Agriculture projects an overspending of R4,882 million which is mainly due to efforts to eradicate the Blue ear and Classic swine fever outbreaks. The Department intends to claim the expenses incurred from the national Department of Agriculture.

Early indications are that the Departments of Local Government and Housing as well as Transport and Public Works have improved their spending performance considerably when comparing 2005/06 to 2004/05. As at 31 December 2005, Local Government and Housing has spent 61 per cent of its adjusted budget compared to 51 per cent in 2004/05 and Transport and Public Works spent 67 per cent compared to 57 per cent in 2004/05.

Avoiding the "March spike" (where expenditure in the month of March is substantially higher than the monthly norm or cash flow projection) is one of the challenges in achieving improved expenditure management. In 2004/05 the month of March's spending amounted to 13 per cent of the adjusted budget, however, as at 31 December 2004 the expenditure projected for March was 10 per cent. Nominally this amounted to R512,8 million more being spent in March than projected. Comparing month on month, expenditure for March 2004 was R854,932 million more than expenditure for February 2004. For 2005/06, as at 31 December 2005, the expenditure projection for the month of March is 9,8 per cent of adjusted budget, similar to 2004/05. A spike for March 2006 in 2005/06 is again expected, however, since expenditure is slightly higher as at 31 December 2005 compared to the same period in 2004/05 and all things remaining equal, the spike should be less in 2005/06.

Underspending on compensation of employees is another challenge facing improved expenditure management, as this underspending affects the capacity of the state to deliver services. In 2004/05 the Province underspent its adjusted compensation of employees budget by R177 million, this after the original budget was decreased by R147 million. A similar trend is being shown in the 2005/06 financial year. As at 31 December 2005 and after decreasing compensation of employees by R50 million in the adjustments budget, the Province is projecting to underspend on this item by R150,6 million. For both financial years underspending on compensation of employees was shifted to the items goods and services and transfers and subsidies. In order to achieve improved fiscal discipline and allocative efficiency, an analysis will commence in the 2006/07 financial year so as to influence the compensation of employees budgets in the future.

4. Expenditure and budget trends per department for the period 2002/03 to 2008/09, based on total departmental expenditure

Table 3: Expenditure and budget trends for the period 2002/03 to 2008/09

No.	Vote	Audited			Projected Expenditure	Budget	Real Growth %	MTEF	
		2002/03	2003/04	2004/05	2005/06	2006/07	2005/06-2006/07	2007/08	2008/09
Social cluster		**9,445,933**	**10,646,739**	**11,776,099**	**13,285,058**	**14,407,715**		**15,628,047**	**16,996,923**
4	Community Safety	118,751	141,187	164,256	178,796	181,257	(3.54)%	189,548	199,292
5	Education	4,802,240	5,304,807	5,690,709	6,504,659	6,988,131	2.22%	7,592,595	8,211,663
6	Health	3,951,022	4,547,304	5,169,199	5,738,765	6,323,493	4.84%	6,774,319	7,332,905
7	Social Development	465,442	518,964	603,003	694,526	727,143	(0.38)%	867,121	1,034,957
13	Cultural Affairs and Sport	108,478	134,477	148,932	168,312	187,691	6.10%	204,464	218,106
Governance & Administration cluster		**902,698**	**833,889**	**1,087,574**	**1,251,712**	**1,270,026**		**1,456,827**	**1,567,749**
1	Department of the Premier	335,724	312,936	288,662	298,068	310,927	(0.75)%	326,905	343,093
2	Provincial Parliament	23,887	28,840	30,707	36,176	47,891	25.96%	49,072	52,207
3	Provincial Treasury	60,533	65,421	102,333	114,840	134,246	11.23%	145,340	152,448
8	Local Government and Housing	482,554	426,692	665,872	802,628	776,962	(7.90)%	935,510	1,020,001
Economic Cluster		**1,475,997**	**1,620,176**	**1,717,428**	**2,371,915**	**2,682,318**		**2,753,627**	**3,040,179**
9	Environmental Affairs and Development Planning	120,470	120,622	135,468	159,020	175,525	5.02%	165,865	173,991
10	Transport and Public Works	1,081,737	1,216,208	1,258,628	1,796,382	2,064,326	9.34%	2,093,836	2,346,450
11	Agriculture	131,168	160,591	196,893	274,108	254,034	(11.82)%	287,217	304,989
12	Economic Development and Tourism	142,622	122,755	126,439	142,405	188,433	25.90%	206,709	214,749
Total		**11,824,628**	**13,100,804**	**14,581,101**	**16,908,685**	**18,360,059**	**3.31%**	**19,838,501**	**21,604,851**
Difference			1,276,176	1,480,297	2,327,584	1,451,374		1,478,442	1,766,350
Nominal Growth %			10.79%	11.30%	15.96%	8.58%		8.05%	8.90%
Real Growth %			5.02%	6.92%	10.76%	3.31%		3.10%	4.21%
Average annual nominal growth % (2002/03 - 2005/06)					12.66%				
Average annual nominal growth % (2005/06 - 2008/09)									8.51%
Average annual real growth % (2002/03 - 2005/06)					7.54%				
Average annual real growth % (2005/06 - 2008/09)									3.54%

The above table depicts spending trends and growth rates per cluster (to ensure synergy and integration of the iKapa Elihlumayo strategies) and departments within each cluster over a seven-year period from the 2002/03 to 2008/09 financial years.

Provincial spending for the period 2002/03 to 2008/09 has increased from R11,825 billion to R21,605 billion constituting average annual real growth of 7,54 per cent and 3,54 per cent from 2002/03 to 2005/06 and 2005/06 to 2008/09 respectively. The decrease in the average annual real growth from 2005/06 to 2008/09 is mainly due to the education and health spending stabilising. Since the payments of social services security grants have become a national competency from 1 April 2006 it is excluded from provincial spending therefore affecting the growth patterns going forward to 2008/09.

When comparing spending in terms of the three different clusters, namely Social, Governance and Administration and Economic, there seems to be a definite shift in spending towards the economic cluster especially Transport and Public Works and Economic Development and Tourism from 2005/06 onwards. This translates in the attempt for the Province to become more growth orientated even though the real growth from 2005/06 onwards decreases.

5. Expenditure and budget trends, per department, for the period 2002/03 to 2008/09 based on individual expenditure items making up total departmental expenditure

Table 4: Vote 1: Department of the Premier

Programmes	Audited			Projected Expenditure	Budget	Real Growth	MTEF	
	2002/03	2003/04	2004/05	2005/06	2006/07	2005/06-2006/07	2007/08	2008/09
	R'000	R'000	R'000	R'000	R'000	%	R'000	R'000
1. Administration	26,626	28,876	45,913	40,072	35,694	(15.25)%	39,660	43,982
% Share	*7.93%*	*9.23%*	*15.91%*	*13.44%*	*11.48%*		*12.13%*	*12.82%*
2. Corporate support	292,176	273,478	230,593	238,803	234,650	(6.51)%	242,574	250,920
% Share	*87.03%*	*87.39%*	*79.88%*	*80.12%*	*75.47%*		*74.20%*	*73.13%*
3. Policy and governance	16,922	10,582	12,156	19,193	40,583	101.19%	44,671	48,191
% Share	*5.04%*	*3.38%*	*4.21%*	*6.44%*	*13.05%*		*13.66%*	*14.04%*
Total	335,724	312,936	288,662	298,068	310,927	(0.75)%	326,905	343,093
Difference		(22,788)	(24,274)	9,406	12,859		15,978	16,248
Nominal Growth %		(6.79)%	(7.76)%	3.26%	4.31%		5.14%	4.97%
Real Growth %		(11.65)%	(11.39)%	(1.38)%	(0.75)%		0.32%	0.45%
Average annual nominal growth % (2002/03 - 2005/06)				(3.89)%				
Average annual nominal growth % (2005/06 - 2008/09)								4.80%
Average annual real growth % (2002/03 - 2005/06)				(8.26)%				
Average annual real growth % (2005/06 - 2008/09)								0.00%
Current Payments	**197,812**	**255,131**	**242,619**	**269,398**	**296,326**	**4.66%**	**311,155**	**326,818**
Compensation of employees	81,549	88,028	89,562	123,793	139,632	7.32%	153,929	161,178
Goods and services	116,257	167,022	152,989	145,605	156,694	2.39%	157,226	165,640
Financial transactions in assets and liabilities								
Transfers and subsidies to	**8,017**	**7,700**	**4,835**	**7,039**	**7,101**	**(4.01)%**	**7,700**	**7,700**
Provinces and municipalities	198	212	428	646	432	(36.37)%	876	408
Departmental agencies and accounts	3,092	3,262	3,428	5,000	6,419	22.15%	6,574	7,042
Universities and technikons								
Non-profit institutions	4,001	842	679	1,275	250	(81.34)%	250	250
Households	726	3,384	300	118		(100.00)%		
Payments for capital assets	**129,895**	**50,105**	**41,208**	**21,631**	**7,500**	**(67.01)%**	**8,050**	**8,575**
Buildings and other fixed structures								
Machinery and equipment	129,895	50,105	41,208	21,631	7,500	(67.01)%	8,050	8,575
Software and other intangible assets								
Total	**335,724**	**312,936**	**288,662**	**298,068**	**310,927**	**(0.75)%**	**326,905**	**343,093**

The average annual real growth from 2002/03 to 2005/06 shows a 8,26 per cent decrease. Over the MTEF the average annual real growth from 2005/06 to 2008/09 is zero. The slow growth is due to the function shifts of Internal audit to Provincial Treasury amounting to R5,680 million in 2004/05, R6,045 million in 2005/06 and R6,353 million in 2006/07; the shift of the State Information Technology Agency (SITA) payments to Provincial Treasury (R20,693 million in 2004/05 and R21,650 million in the 2005/06 and 2006/07 years respectively); the decentralisation of bursaries which meant amounts of R1,056 million for each of the 2004/05, 2005/06 and 2006/07 years were shifted to other votes and the shift from Vote 13: Economic Development for Knowledge Economy/E-Government (KEEG) which amounts to R12,297 million in 2004/05 and R12,931 million in 2005/06 and 2006/07.

The under spending for 2002/03 was 16,23 per cent, decreasing to 4,33 per cent in 2003/04, 0,65 per cent in 2004/05 and to a projected break-even expenditure in 2005/06. The Department has a trend of under spending mainly due to moratoriums placed on the filling of posts resulting in the reflected under spending on compensation of employees.

In the recent past, the Department's expenditure for the last quarter has been high. In 2004/05, the Department spent 90 per cent of its capital budget in March and this caused the peak in expenditure in the fourth quarter. A new IT hardware contract was concluded in the second half of the year, which caused a delay in the procurement of equipment resulting in the delivery taking place in the last quarter of the financial year. The projected expenditure in 2005/06 shows a similar peak in expenditure due to the payment of software licenses that can only take place in March and the increased cost for the Communications component under goods and services.

The 2006/07 budget sees the number of programmes decreasing from eight to three as a result of the introduction of a generic budget and programme structure. A budget decision has been made to centralise compensation of employees, communication, and machinery and equipment under the sub-programme Financial management so as to exercise control of funds in the implementation phase of the Department's re-engineering process. The high real growth of 101,19 per cent from 2005/06 to 2006/07 under programme 3: Policy and governance is mainly due to the expansion and establishment of new programmes such as Provincial policy management, Policy development and Policy implementation and support. Sub-programme: Special programmes reflect an increase due to the introduction of a transfer payment to the Youth Commission in 2006/07.

Table 5: Vote 2: Provincial Parliament

Programmes	Audited			Projected Expenditure	Budget	Real Growth	MTEF	
	2002/03	2003/04	2004/05	2005/06	2006/07	2005/06-2006/07	2007/08	2008/09
	R'000	R'000	R'000	R'000	R'000	%	R'000	R'000
1. Administration of the Provincial Parliament	8,517	10,962	12,261	14,369	20,058	32.82%	19,906	22,289
% Share	*35.66%*	*38.01%*	*39.93%*	*38.01%*	*41.88%*		*40.56%*	*42.69%*
2. Facilities for Members and Political Parties	9,071	9,819	10,081	10,221	15,523	44.50%	16,657	17,369
% Share	*37.97%*	*34.05%*	*32.83%*	*27.04%*	*32.41%*		*33.94%*	*33.27%*
3. Parliamentary Services	6,299	8,059	8,365	13,211	12,310	(11.34)%	12,509	12,549
% Share	*26.37%*	*27.94%*	*27.24%*	*34.95%*	*25.70%*		*25.49%*	*24.04%*
Total	**23,887**	**28,840**	**30,707**	**37,801**	**47,891**	**20.54%**	**49,072**	**52,207**
Difference		4,953	1,867	7,094	10,090		1,181	3,135
Nominal Growth %		20.74%	6.47%	23.10%	26.69%		2.47%	6.39%
Real Growth %		14.44%	2.28%	17.58%	20.54%		(2.23)%	1.81%
Average annual nominal growth % (2002/03 - 2005/06)				16.53%				
Average annual nominal growth % (2005/06 - 2008/09)								11.36%
Average annual real growth % (2002/03 - 2005/06)				11.23%				
Average annual real growth % (2005/06 - 2008/09)								6.26%
Current Payments	**17,395**	**21,379**	**21,851**	**27,107**	**35,599**	**24.95%**	**37,246**	**39,654**
Compensation of employees	11,107	13,505	13,831	14,155	23,032	54.82%	24,780	27,290
Goods and services	6,287	7,872	7,978	12,895	12,567	(7.27)%	12,466	12,364
Financial transactions in assets and liabilities	1	2	42	57		(100.00)%		
Transfers and subsidies to	**5,828**	**6,770**	**8,502**	**10,288**	**10,692**	**(1.12)%**	**11,401**	**12,128**
Provinces and municipalities	49	56	57	60	30	(52.43)%		
Public corporations and private enterprises	233	241	292	269	301	6.47%	326	341
Foreign governments and international organisations	93	67	70	88	110	18.93%	115	115
Non-profit institutions	4,722	5,046	5,249	7,566	9,270	16.58%	9,932	10,643
Households	731	1,360	2,834	2,305	981	(59.51)%	1,028	1,029
Payments for capital assets	**664**	**691**	**354**	**406**	**1,600**	**274.97%**	**425**	**425**
Buildings and other fixed structures		5	27					
Machinery and equipment	664	673	327	396	1,600	284.43%	425	425
Software and other intangible assets		13		10		(100.00)%		
Total	**23,887**	**28,840**	**30,707**	**37,801**	**47,891**	**20.54%**	**49,072**	**52,207**

The table above outlines increased spending trends with growth rates firstly per programme and then per economic classification over a seven-year period from the 2002/03 to 2008/09 financial years. The Provincial Parliament spent at a range of approximately R23,887 million in 2002/03, R28,840 million in 2003/04, R30,707 million in 2004/05 and an envisaged adjusted spending of R37,801 million in 2005/06. In 2006/07 the budgeted expenditure increased significantly in real terms by 20,54 per cent or R10,090 million to R47,891 million, and further increases to R49,072 million in 2007/08 and R52,207 million in 2008/09.

The increase in the 2006/07 allocations can be attributed to the anticipated emphasis on public participation events and the creation of an enabling environment for Members to be more effective in committees, plenaries and, through constituency allowances, in their respective constituencies. In addition, Provincial Parliament will focus on supporting the Members to perform their oversight responsibilities and facilitate training to capacitate the Members to optimally perform their constitutional responsibilities.

The expenditure for Programme 1: Administration increased from R8,517 million in 2002/03 to R10,962 million in 2003/04, R12,261 million in 2004/05 and an anticipated R14,369 million in 2005/06, i.e. a real growth of 32,82 per cent between 2005/06 and 2006/07. The increase is due to envisaged filling of posts and improvement of conditions of services.

Programme 2: Facilities for Members and Political Parties' expenditure has increased from R9,071 million in 2002/03 to R10,081 million in 2004/05. The enormous 44,50 per cent real growth between 2005/06 and 2006/07 and over the MTEF is due to the increase in constitutional and secretarial allowances to political parties for the maintenance of infrastructure to serve the interest of the constituents and to enable Parliament to promote public participation.

The expenditure for Programme 3: Parliamentary Services increased slightly from R6,299 million in 2002/03, to R8,059 million in 2003/04, and R8,365 million in 2004/05. In 2005/06 a projected 36,68 per cent increase to R13,211 million is due to once-off payments for the branding and the new corporate logo of the Provincial Parliament. The increases over the outer years of the MTEF of R12,509 million in 2007/08 and R12,549 million in 2008/09 are due to the anticipated filling of additional posts and the provision of quality procedural support and the facilitation of public participation and awareness.

In the 2004/05 financial year the Provincial Parliament underspent its R46,861 million adjusted budget by R3,262 million or 6,96 per cent and it is anticipating to underspend its 2005/06 budget by R4,769 million or 8,52 per cent of the R55,998 million adjusted budget. The underspending is mainly due to the non-filling of vacancies.

Table 6: Vote 3: Provincial Treasury

Programmes	Audited			Projected Expenditure	Budget	Real Growth	MTEF	
	2002/03	2003/04	2004/05	2005/06	2006/07	2005/06-2006/07	2007/08	2008/09
	R'000	R'000	R'000	R'000	R'000	%	R'000	R'000
1. Administration	20,806	20,187	21,318	24,531	27,605	7.07%	29,424	30,904
% Share	*34.37%*	*30.86%*	*20.83%*	*21.36%*	*20.56%*		*20.24%*	*20.27%*
2. Sustainable resource management	12,507	14,437	11,067	17,554	24,130	30.79%	29,147	30,635
% Share	*20.66%*	*22.07%*	*10.81%*	*15.29%*	*17.97%*		*20.05%*	*20.10%*
3. Asset and liabilities management	18,948	21,934	43,108	45,794	49,677	3.22%	51,241	53,597
% Share	*31.30%*	*33.53%*	*42.13%*	*39.88%*	*37.00%*		*35.26%*	*35.16%*
4. Financial governance	8,272	8,863	26,840	26,961	32,834	15.87%	35,528	37,312
% Share	*13.67%*	*13.55%*	*26.23%*	*23.48%*	*24.46%*		*24.44%*	*24.48%*
Total	60,533	65,421	102,333	114,840	134,246	11.23%	145,340	152,448
Difference		4,888	36,912	12,507	19,406		11,094	7,108
Nominal Growth %		8.07%	56.42%	12.22%	16.90%		8.26%	4.89%
Real Growth %		2.44%	50.26%	7.18%	11.23%		3.31%	0.37%
Average annual nominal growth % (2002/03 - 2005/06)					23.79%			
Average annual nominal growth % (2005/06 - 2008/09)								9.90%
Average annual real growth % (2002/03 - 2005/06)					18.16%			
Average annual real growth % (2005/06 - 2008/09)								4.87%
Current Payments	**51,139**	**50,354**	**99,614**	**113,248**	**133,064**	**11.80%**	**144,030**	**151,074**
Compensation of employees	30,231	29,974	33,590	44,384	60,814	30.37%	67,272	70,738
Goods and services	20,700	20,380	65,930	68,864	72,250	(0.17)%	76,758	80,336
Financial transactions in assets and liabilities	208		94	208				
Transfers and subsidies to	**4,122**	**4,915**	**723**	**321**	**184**	**(45.46)%**	**94**	**99**
Provinces and municipalities	70	67	81	121	94	(26.08)%		
Departmental agencies and accounts	4,000	4,700	27	39	37	(9.73)%	39	41
Foreign governments and international organisations			50	50	53	0.86%	55	58
Non-profit institutions								
Households	52	148	565	111		(100.00)%		
Payments for capital assets	**5,272**	**10,152**	**1,996**	**1,271**	**998**	**(25.29)%**	**1,216**	**1,275**
Buildings and other fixed structures								
Machinery and equipment	5,272	10,152	1,391	1,271	982	(26.49)%	1,199	1,258
Software and other intangible assets								
Total	**60,533**	**65,421**	**102,333**	**114,840**	**134,246**	**11.23%**	**145,340**	**152,448**

The average annual real growth of 18,16 per cent for the period 2002/03 to 2005/06 is due to the shift of the SITA payments for the transversal systems from the Department of the Premier (R20,693 in 2004/05 and R21,650 in both the 2005/06 and 2006/07 financial years); the implementation of the Municipal Finance Management Act (R1 million in 2004/05, R2,102 million in 2005/06 and R2,209 million in 2006/07) and the strengthening of the Financial governance component for Internal audit (R5 million in 2004/05, R5,255 million in 2005/06 and R5,523 million in 2006/07).

The Department has a trend of under spending of 11,51 per cent on the 2002/03 Adjustments Budget, 37,03 per cent on the 2003/04 Adjustments Budget, decreasing to 6,10 per cent on the 2004/05 Adjustments Budget. The under spending resulted largely from the slow filling of posts. However, a process has been implemented to reduce the time between advertising a post and appointment.

The IYM as at the end of February 2006 reflected that the Department would under spend by R784 000 or 0,68 per cent of the Adjustments Budget in 2005/06. The under spending is mainly due to the non filling of vacant posts and due to the lower than expected costs on consultants incurred under Programme 2: Sustainable resource management and under Programme 3: Assets and liabilities management. The under spending will be utilised to defray over expenditure under Programme 1: Administration caused by higher than expected spending on advertising, printing (Government Printers), overseas travel and office equipment (capital) and under Programme 4: Financial governance due to higher than expected spending on consultants. The remainder of the under spending will be surrendered to the Provincial Revenue Fund.

Table 7: Vote 4: Community Safety

Programmes	Audited			Projected Expenditure	Budget	Real Growth	MTEF	
	2002/03	2003/04	2004/05	2005/06	2006/07	2005/06-2006/07	2007/08	2008/09
	R'000	R'000	R'000	R'000	R'000	%	R'000	R'000
1. Administration	12,822	17,175	19,261	23,316	23,361	(4.67)%	24,440	25,685
% Share	*10.80%*	*12.16%*	*11.73%*	*13.04%*	*12.89%*		*12.89%*	*12.89%*
2. Provincial secretariat for safety and security	35,435	34,311	41,362	41,015	47,359	9.86%	49,538	52,063
% Share	*29.84%*	*24.30%*	*25.18%*	*22.94%*	*26.13%*		*26.13%*	*26.12%*
3. Security risk management			13,978	40,662	17,000	(60.22)%	17,782	18,689
% Share			*8.51%*	*22.74%*	*9.38%*		*9.38%*	*9.38%*
4. Traffic safety promotion	70,494	89,701	89,655	73,803	93,537	20.59%	97,788	102,855
% Share	*59.36%*	*63.53%*	*54.58%*	*41.28%*	*51.60%*		*51.59%*	*51.61%*
Total	118,751	141,187	164,256	178,796	181,257	(3.54)%	189,548	199,292
Difference		22,436	23,069	14,540	2,461		8,291	9,744
Nominal Growth %		18.89%	16.34%	8.85%	1.38%		4.57%	5.14%
Real Growth %		12.70%	11.76%	3.97%	(3.54)%		(0.22)%	0.61%
Average annual nominal growth % (2002/03 - 2005/06)					14.61%			
Average annual nominal growth % (2005/06 - 2008/09)								3.68%
Average annual real growth % (2002/03 – 2005/06)					9.40%			
Average annual real growth % (2005/06 – 2008/09)								(1.06)%
Current payments	**83,844**	**104,511**	**130,199**	**143,394**	**147,882**	**(1.87)%**	**154,365**	**162,280**
Compensation of employees	52,896	68,380	85,980	98,292	111,076	7.52%	115,712	121,099
Goods and services	30,645	35,694	44,063	44,552	36,806	(21.40)%	38,653	41,181
Financial transactions in assets and liabilities	303	437	156	550		(100.00)%		
Transfers and subsidies to	**31,329**	**28,849**	**31,775**	**32,974**	**32,736**	**(5.54)%**	**34,476**	**36,162**
Provinces and municipalities	135	164	247	300	64	(79.70)%		
Departmental agencies and accounts				100		(100.00)%		
Universities and technikons				112		(100.00)%		
Non-profit institutions			15					
Households	31,194	28,685	31,513	32,462	32,672	(4.24)%	34,476	36,162
Payments for capital assets	**3,578**	**7,827**	**2,282**	**2,428**	**639**	**(74.96)%**	**707**	**850**
Machinery and equipment	3,578	7,827	2,282	2,428	639	(74.96)%	707	850
Total	**118,751**	**141,187**	**164,256**	**178,796**	**181,257**	**(3.54)%**	**189,548**	**199,292**

The share of Programme 1: Administration increased from 2003/04 and in subsequent financial years due to the department's implementation of its new macro-organisational structure in 2003/04 and 2004/05. The underspending on compensation of employees reflect the augmentation of the establishment in order to achieve the goal of restructuring the department. In 2006/07 the percentage share decreases due to the decentralisation of the support service structure allowing each programme to be responsible for its own support function.

The Department has a history of staying within budget with an annual under-expenditure of less than 2 per cent of the budget. Improved spending until 2005/06 is due to the increased investment in the Chrysalis project and the Bambanani project. The latter is specifically evident under Programme 2: Provincial Secretariat for Safety and Security as Bambanani volunteers were employed for the safer festive season and in 2006/07 the local community will be involved to ensure safety at schools. An amount of R20,323 million was allocated over the 2006/07 MTEF to implement the People Orientated Problem-Solving (POPS) approach whereby the Department will partner the Western Cape Education Department and deploy Bambanani volunteers to schools most at risk.

There is a trend over the last few years, which reflects an expenditure spike in March due to the purchase of vehicles for the Community Safety training academy. Over the MTEF, fewer motor vehicles will be purchased for the training academy.

Programme 3: Security risk management accounts mostly for security staff performing security services functions at provincial government buildings and the increase in 2005/06 reflects the augmentation of the establishment to meet the growing need for security services. During 2005/06, R1 million and over the 2006/07 MTEF an additional R3,306 million were allocated for the strengthening of the security risk management function. The 60,22 per cent drop in the programme's budget between 2005/06 and 2006/07 is due to the shifting and restatement of the safety training and risk management function to Programme 4: Traffic safety promotion.

Programme 4: Traffic safety promotion increases from 2002/03 due to annual increases for kilometre and daily tariffs set by Government Motor Transport that caters for the high number of traffic officers. During 2004/05 more administrative staff were appointed at traffic centres that led to an increase under compensation of employees and a decrease under subsistence and travelling allowances and other associated costs previously claimed by head office staff that performed such functions at traffic centres. The low expenditure level in 2005/06 compared to 2006/07 is due to the function shift explained under Programme 3 above. The motor vehicle accident intervention (MVAI) strategy was implemented with an aim of alleviating budgetary pressure on the Department of Health. There are challenges to overcome with the implementation of the MVAI strategy such as employing additional staff and creating additional structures. Funds were not fully spent in 2004/05 and in 2005/06 unspent funds were allocated for continuing the MVAI strategy. The increase in investment aims to ensure that the MVAI strategy functions efficiently when implemented.

Table 8: Vote 5: Education

Programmes	Audited			Projected Expenditure	Budget	Real Growth	MTEF	
	2002/03	2003/04	2004/05	2005/06	2006/07	2005/06-2006/07	2007/08	2008/09
	R'000	R'000	R'000	R'000	R'000	%	R'000	R'000
1. Administration	161,379	194,497	215,094	245,769	264,738	2.49%	269,846	298,509
% Share	*3.36%*	*3.67%*	*3.78%*	*3.78%*	*3.79%*		*3.55%*	*3.64%*
2. Public Ordinary School Education	4,012,412	4,417,220	4,772,661	5,403,235	5,708,797	0.53%	6,175,707	6,656,751
% Share	*83.55%*	*83.27%*	*83.87%*	*83.07%*	*81.69%*		*81.34%*	*81.06%*
3. Independent School Subsidies	23,745	26,243	29,761	32,471	34,127	(0.00)%	35,765	37,375
% Share	*0.49%*	*0.49%*	*0.52%*	*0.50%*	*0.49%*		*0.47%*	*0.46%*
4. Public Special School Education	300,928	325,294	345,224	364,286	382,440	(0.11)%	405,649	430,482
% Share	*6.27%*	*6.13%*	*6.07%*	*5.60%*	*5.47%*		*5.34%*	*5.24%*
5. Further Education and Training	132,707	145,255	152,383	165,339	259,859	49.54%	280,934	289,127
% Share	*2.76%*	*2.74%*	*2.68%*	*2.54%*	*3.72%*		*3.70%*	*3.52%*
6. Adult Basic Education and Training	17,961	18,473	21,151	22,891	23,571	(2.03)%	24,758	25,943
% Share	*0.37%*	*0.35%*	*0.37%*	*0.35%*	*0.34%*		*0.33%*	*0.32%*
7. Early Childhood Development	52,838	56,310	60,135	71,923	107,397	42.08%	181,930	244,923
% Share	*1.10%*	*1.06%*	*1.06%*	*1.11%*	*1.54%*		*2.40%*	*2.98%*
8. Auxiliary and Associated Services	100,270	121,515	94,300	198,745	207,202	(0.80)%	218,006	228,553
% Share	*2.09%*	*2.29%*	*1.66%*	*3.06%*	*2.97%*		*2.87%*	*2.78%*
Total	**4,802,240**	**5,304,807**	**5,690,709**	**6,504,659**	**6,988,131**	**2.22%**	**7,592,595**	**8,211,663**
Difference		502,567	385,902	813,950	483,472		604,464	619,068
Nominal Growth %		10.47%	7.27%	14.30%	7.43%		8.65%	8.15%
Real Growth %		4.71%	3.05%	9.17%	2.22%		3.67%	3.50%
Average annual nominal growth % (2002/03 - 2005/06)					10.64%			
Average annual nominal growth % (2005/06 - 2008/09)								8.08%
Average annual real growth % (2002/03 - 2005/06)					5.61%			
Average annual real growth % (2005/06 - 2008/09)								3.13%
Current payments	**4,391,262**	**4,762,274**	**5,072,967**	**5,612,877**	**6,149,525**	**4.24%**	**6,717,620**	**7,332,217**
Compensation of employees	3,959,554	4,316,446	4,567,683	5,077,357	5,385,473	0.92%	5,792,981	6,120,328
Goods and services	427,680	443,595	503,190	528,333	759,297	36.74%	919,655	1,206,681
Interest and rent on land	1,913	2,231		2,588		(100.00)%		
Financial transactions in assets and liabilities	2,115	2	2,094	4,599	4,755	(1.63)%	4,984	5,208
Transfers and subsidies to	**306,973**	**404,443**	**466,209**	**556,079**	**619,661**	**6.03%**	**701,476**	**763,940**
Provinces and municipalities	10,028	10,621	11,663	11,735	2,979	(75.85)%		
Departmental agencies and accounts	3,485	3,485	3,722	4,471	4,847	3.15%	5,215	5,508
Non-profit institutions	272,315	357,298	431,280	514,319	588,628	8.89%	671,939	733,017
Households	21,145	33,039	19,544	25,554	23,207	(13.59)%	24,322	25,415
Payments for capital assets	**104,005**	**138,090**	**151,533**	**335,703**	**218,945**	**(37.94)%**	**173,499**	**115,506**
Buildings and other fixed structures	90,544	92,691	125,785	294,808	192,496	(37.87)%	145,817	86,578
Machinery and equipment	13,461	45,395	25,652	40,895	26,449	(38.46)%	27,682	28,928
Software and other intangible assets		4	96					
Total	**4,802,240**	**5,304,807**	**5,690,709**	**6,504,659**	**6,988,131**	**2.22%**	**7,592,595**	**8,211,663**

Education actual expenditure increased in average annual nominal terms by 10,6 per cent from 2002/03 to 2005/06 mostly due to earmarked allocations for human resource development, as part of the iKapa Elihlumayo strategy for investing in the future of the youth as well as the national school nutrition programme conditional grant.

Education received 30,67 per cent of the 2005/06 provincial budget. The department's 2006/07 budget grows to R6,988 billion in 2006/07 and over the MTEF, the budget increases in average annual nominal terms by 8,1 per cent from the 2005/06 revised estimate to 2008/09. The increases mainly provide for: salary improvements; the carry-through costs of pay progressions for educators; and the implementation of national and provincial priorities.

The department has a history of under spending though the extent of under spending has decreased annually. During 2004/05 and 2005/06 delays in agreements at national level led to underspendings on 'compensation of employees'. Pay progression backlogs and incentive schemes commitments to educators thus had to be carried forward for payment in subsequent financial years by means of roll-over funds.

During 2005/06 Programme 1: Administration's share increased due to the allocation for the learner tracking system to improve the accuracy and verification of learner numbers.

Public Ordinary School Education accounts for 83,1 per cent of the Department's 2005/06 budget. The budget increases in 2006/07 and over the MTEF mostly due to the provision for national initiatives such as the National Curriculum Statement and norms and standards provision for no-fee schools.

The trend over the last few years is that expenditure reaches a spike in March reflecting payments for 'goods and services' for non-section 21 schools. 'Transfer payments' are also made to section 21 schools as part of the norms and standards allocations. High transfer payments are made during the latter part of the financial years as it overlaps with the school year. Improved spending under transfer payments is due to more schools attaining section 21 status on an annual basis.

On an annual basis, the Department shifts funds at year-end to 'transfer payments' and 'goods and services' in order to cover an increase in learner support materials (LSM) expenditure and thereby ensure that the norms and standards provision is adequate. Total LSM provision amounts to R258 million in 2006/07 increasing by 4,9 per cent from the R246 million projected expenditure in 2005/06.

All funds transferred to public ordinary schools are made through their respective school governing bodies in respect of goods purchased and services rendered by the schools themselves. The expenditure projections as at 31 December 2005 indicate that the budgeted amount will be exceeded and the total projected transfer payments to public ordinary schools via the school governing bodies amounts to R226,121 million. The allocation decreases to R205,282 million in 2006/07, where after it increases to R215,163 million in 2007/08 and R224,919 million in 2008/09. From these trends it would appear that transfer payments are under budgeted and needs to be corrected in the 2006/07 adjustments budget.

During 2005/06 payments for capital assets doubled due to the investment in accelerated school building delivery where the construction of new schools were fasttracked and specific focus was placed on classroom backlogs and making more schools accessible to the growing number of learners.

Public Special School Education's share decreases in 2005/06 and increases over the MTEF. The decrease is not significant, as this programme has always been well funded to meet its objectives. In 2006/07 funds are earmarked to ensure the further improvement of existing special schools to make them more accessible.

During 2006/07 the share of Programme 5: Further Education and Training increases due to the recapitalisation of further education and training (FET) colleges that will be implemented from 2006/07 with redesigned college programmes.

During 2005/06 and over the 2006/07 MTEF the share of Programme 7: Early Childhood Development (ECD) increases due to the greater investment in the expansion of Grade R in terms of the ECD White Paper in order to increase the number of Grade R learners. During 2006/07 the focus is to achieve quality Grade R learning programmes with the launch of the provincial Human Capital Development Strategy (HCDS) as a long term strategy that promotes the concept of lifelong learning from early childhood development through to adult education. This also explains the increased share of Programme 6: Adult Basic Education and Training over the 2006/07 MTEF.

Programme 8: Auxiliary and Associated Services focuses on loan schemes as part of the iKapa Elihlumayo strategy. Funds are channelled to qualifying students in order to promote human resource development at educational institutions.

The high projection for 2005/06 under machinery and equipment accounts for the provision of computers for the E-com and the Khanya projects. Over the years the trend has been to purchase the bulk of computers during the final quarter of the financial year with computers being delivered before year-end.

The Department manages three national education conditional grants, namely the National School Nutrition Programme (NSNP), HIV and Aids (life skills) and the Provincial Infrastructure grant (PIG). The Department has spent conditional grants conservatively during the first part of the financial year due to the late approval of business plans.

Table 9: Vote 6: Health

Programmes	Audited			Projected Expenditure	Budget	Real Growth	MTEF	
	2002/03	2003/04	2004/05	2005/06	2006/07	2005/06-2006/07	2007/08	2008/09
	R'000	R'000	R'000	R'000	R'000	%	R'000	R'000
1. Administration	121,273	215,644	213,316	174,967	199,354	8.41%	219,353	235,248
% Share	*3.07%*	*4.74%*	*4.13%*	*3.05%*	*3.15%*		*3.24%*	*3.21%*
2. District health services	993,592	1,144,699	1,330,397	1,649,685	1,914,072	10.40%	2,041,229	2,279,172
% Share	*25.15%*	*25.17%*	*25.74%*	*28.75%*	*30.27%*		*30.13%*	*31.08%*
3. Emergency medical services	152,910	185,695	198,170	253,360	278,999	4.78%	301,473	338,603
% Share	*3.87%*	*4.08%*	*3.83%*	*4.41%*	*4.41%*		*4.45%*	*4.62%*
4. Provincial hospital services	974,273	1,053,048	1,176,641	1,288,031	1,336,078	(1.30)%	1,427,844	1,527,516
% Share	*24.66%*	*23.16%*	*22.76%*	*22.44%*	*21.13%*		*21.08%*	*20.83%*
5. Central hospital services	1,476,202	1,607,089	1,805,918	1,963,483	2,086,517	1.11%	2,245,303	2,363,400
% Share	*37.36%*	*35.34%*	*34.94%*	*34.21%*	*33.00%*		*33.14%*	*32.23%*
6. Health sciences and training	65,381	71,116	73,541	81,659	106,047	23.56%	142,015	178,477
% Share	*1.65%*	*1.56%*	*1.42%*	*1.42%*	*1.68%*		*2.10%*	*2.43%*
7. Health care support services	66,597	73,837	82,752	92,052	77,480	(19.91)%	81,885	86,769
% Share	*1.69%*	*1.62%*	*1.60%*	*1.60%*	*1.23%*		*1.21%*	*1.18%*
8. Health facilities management	100,794	196,176	288,464	235,528	324,946	31.27%	315,217	323,720
% Share	*2.55%*	*4.31%*	*5.58%*	*4.10%*	*5.14%*		*4.65%*	*4.41%*
Total	3,951,022	4,547,304	5,169,199	5,738,765	6,323,493	4.84%	6,774,319	7,332,905
Difference		596,282	621,895	569,566	584,728		450,826	558,586
Nominal Growth %		15.09%	13.68%	11.02%	10.19%		7.13%	8.25%
Real Growth %		9.09%	9.20%	6.03%	4.84%		2.22%	3.58%
Average annual nominal growth % (2002/03 - 2005/06)					13.25%			
Average annual nominal growth % (2005/06 - 2008/09)								8.51%
Average annual real growth % (2002/03 - 2005/06)					8.10%			
Average annual real growth % (2005/06 - 2008/09)								3.54%
Current Payments	**3,423,070**	**3,856,085**	**4,374,197**	**4,915,130**	**5,553,258**	**7.50%**	**5,967,498**	**6,509,362**
Compensation of employees	2,370,274	2,444,792	2,799,467	2,999,600	3,598,358	14.14%	3,842,181	4,182,536
Goods and services	1,050,991	1,409,391	1,574,247	1,914,261	1,954,900	(2.83)%	2,125,317	2,326,826
Financial transactions in assets and liabilities	1,805	1,902	483	1,269		(100.00)%		
Transfers and subsidies to	**408,605**	**474,209**	**467,149**	**506,461**	**390,555**	**(26.63)%**	**396,776**	**417,373**
Provinces and municipalities	180,627	208,671	228,132	219,162	138,856	(39.72)%	132,225	138,954
Departmental agencies and accounts	62,231	70,062	5,976	7,132	4,605	(38.57)%	4,867	5,158
Universities and technikons	40,900	42,245	56,979	57,836	1,407	(97.69)%	1,487	1,575
Non-profit institutions	111,987	124,159	140,533	159,603	175,455	4.60%	183,975	193,035
Households	12,860	29,072	35,529	62,728	70,232	6.53%	74,222	78,651
Payments for capital assets	**119,347**	**217,010**	**327,853**	**317,174**	**379,680**	**13.90%**	**410,045**	**406,170**
Buildings and other fixed structures	70,584	126,555	222,267	166,802	206,585	17.84%	211,351	213,763
Machinery and equipment	48,763	90,455	105,436	150,296	172,915	9.47%	198,694	192,407
Software and other intangible assets			150	76	180	125.35%		
Total	**3,951,022**	**4,547,304**	**5,169,199**	**5,738,765**	**6,323,493**	**4.84%**	**6,774,319**	**7,332,905**

Outcome of 2004/05

Even though Table 1 is indicating that the Department underspent by R4,318 million it actually overspent by R2,392 million or 0,05 per cent. The 2004/05 Annual Report indicates that the Department was under severe pressure at the beginning of the financial year where an over-expenditure of R100 million was projected. The Adjustments Estimate provided funds to stabilise the expenditure for the financial year which resulted in the Department being able to manage the over-expenditure down to R2,392 million. The reason for the difference in numbers is because Table 1 includes the comparative figures of the shift of the works function from Vote 10: Transport and Public Works that increased the available budget to R5,174 billion.

The "March spike" of 13,10 per cent or R677,005 million is due to the Department having a surplus of funds to spend in March 2005 because of the projected over-expenditure of R100 million that caused the Department to spend slowly in the first half of the financial year. However, better control measures should have been put in place to at least ensure a breakeven scenario.

Projected outcome for 2005/06

The Department spent 70,85 per cent or R4,093 billion in the first nine months compared to 70,78 per cent or R3,662 billion in 2004/05. The Department is projecting to underspend by 0,66 per cent or R38,057 million, which includes an overexpenditure of R10 million on the HIV/Aids Grant and an underexpenditure of R38,148 million on the Hospital Revitalisation Grant.

The department will cover the overexpenditure on the Comprehensive HIV and Aids Grant. It is due to the Department doing well in getting patients on anti-retroviral treatment (ART) at an average of 723 patients a month compared to the anticipated average of 505 patients a month. This programme cannot be slowed down as it tackles the reduction in one of the disease burdens and the department is doing this activity at an efficient rate.

The underexpenditure on the Hospital Revitalisation Grant is due to the following:

- Slow performance by contractors on the building of the Vredenburg and Worcester hospital projects.
- The Paarl hospital project was delayed due to delays with the approval of the business case between the department and the national Department of Health. It was eventually approved and put out on tender with the tender closing on 15 February 2006.
- The late approval of the business case for the Khayelitsha hospital by the national Department of Health resulting in the late appointment of consultants.

The Department is projecting a "March spike" of 12,34 per cent or R705,973 million. This is mainly due to the following:

- Increased spending on Equipment. (Equipment is currently acquired on an annual cycle but this situation will be addressed as from 2006/07. Current indications are that 57,17 per cent or R119,288 million of the total equipment expenditure will be spent in March 2006 with a projected overexpenditure of R56,263 million.)

- Increased spending on Goods and services (once off projects) and much needed equipment due to a reallocation of the projected under-expenditure of 4,40 per cent or R136,747 million on Compensation of employees. In the Adjustments Estimate, R26,669 million was shifted away from Compensation of employees. The reasons for the under-expenditure on Compensation of employees are:
    - The implementation of the policy options identified in Budget 2005 took longer than expected for example the appointment of financial staff and specialists in all the institutions, the filling of critical posts in Regional Hospitals and the delay in the establishment of the 120 level 1 beds at Tygerberg and Karl Bremer Hospital.
    - The high attrition rate, particularly for nursing staff.
    - Funds will be shifted to Goods and services where agency staff was appointed to cover the shortage of staff.

Although the "March spike" in percentage terms is lower than in 2004/05, much work needs to be done by the Department to manage its monthly spending. However, cognisance is taken that the financial staff of the department has been increased in the latter part of this financial year to deal with this, which should yield better results in the future. Furthermore, there appears to be room for improved budgeting for Compensation of employees.

Trend analysis

The average annual real growth percentage for the period 2002/03 to 2005/06 is 8,10 per cent and is due to the increased investment in healthcare and the infrastructure that would strengthen the health sector to give effect to Healthcare 2010, the Department's strategic planning framework to improve health care in the Western Cape.

The decrease of 17,98 per cent and the drop in the percentage share of 1,08 per cent in Programme 1: Administration in 2005/06 is due to the Equipment budget being decentralised and allocated at programme level.

The increase of 24 per cent as well as the increase in the percentage share of 3,01 per cent in Programme 2: District Health Services in 2005/06 is due to the increase in funding to strengthen primary health care (PHC) and also for the provincialisation of PHC from municipalities in the non-metro areas. In 2008/09 an amount of ± R110 million has been allocated for the provincialisation of PHC from the City of Cape Town.

The increase of 27,85 per cent in Programme 3: Emergency Medical Services in 2005/06 is due to the additional funds allocated for additional personnel, vehicles and equipment in order to improve response times and service delivery.

The decrease of 97,69 per cent in real terms of the Transfers to universities and technikons in 2006/07 in Programme 5: Central Hospital Services is due to the take over of the joint establishments from the universities, which was allocated to Compensation of employees.

The increases in Programme 6: Health Sciences and Training over the MTEF are due to the critical shortage and investment in training and mentorship in order to address the issue of recruitment, training and retention of health professionals. This should alleviate the problem that the department is facing with the appointment of staff.

The decrease of 19,91 per cent in Programme 7: Health Care Support Services in 2006/07 is due to the reallocation of the funding for the Forensic Pathology Services to Sub-programme 2.8: Coroner Services.

The increase of 31,27 per cent in Programme 8: Health Facilities Management in 2006/07 is due to the policy option of investing in infrastructure so that there are adequate facilities for Healthcare 2010. The decrease of 2,99 per cent in 2007/08 is due to the decrease in the allocation of the Hospital Revitalisation grant.

Conclusion

The Department is moving forward by allocating funds to policy options that will take them forward in becoming more efficient. However, as 2004/05 and 2005/06 shows this is not easy as the spending trends show new policy options take time to get off the ground, which delays the efficiency gains that can be gained from such policies.

Table 10: Vote 7: Social Development

Programmes	Audited			Projected Expenditure	Budget	Real Growth	MTEF	
	2002/03	2003/04	2004/05	2005/06	2006/07	2005/06-2006/07	2007/08	2008/09
	R'000	R'000	R'000	R'000	R'000	%	R'000	R'000
Administration	135,394	141,275	188,416	176,680	198,300	6.79%	229,473	257,699
% Share	*29.09%*	*27.22%*	*31.25%*	*25.44%*	*27.27%*		*26.46%*	*24.90%*
Social welfare services	318,410	329,371	380,443	436,794	467,115	1.75%	579,192	717,518
% Share	*68.41%*	*63.47%*	*63.09%*	*62.89%*	*64.24%*		*66.79%*	*69.33%*
Development and research	11,638	48,318	34,144	81,052	61,728	(27.54)%	58,456	59,740
% Share	*2.50%*	*9.31%*	*5.66%*	*11.67%*	*8.49%*		*6.74%*	*5.77%*
Total	465,442	518,964	603,003	694,526	727,143	(0.38)%	867,121	1,034,957
Difference		53,522	84,039	91,523	32,617		139,978	167,836
Nominal Growth %		11.50%	16.19%	15.18%	4.70%		19.25%	19.36%
Real Growth %		5.69%	11.62%	10.01%	(0.38)%		13.79%	14.22%
Average annual nominal growth % (2002/03 - 2005/06)				14.27%				
Average annual nominal growth % (2005/06 - 2008/09)								14.22%
Average annual real growth % (2002/03 - 2005/06)				9.07%				
Average annual real growth % (2005/06 - 2008/09)								8.99%
Current Payments	**202,734**	**212,649**	**260,799**	**289,070**	**307,180**	**1.11%**	**348,803**	**391,379**
Compensation of employees	143,825	136,987	162,823	183,391	207,504	7.66%	242,730	272,544
Goods and services	58,662	66,340	89,417	105,679	99,676	(10.26)%	106,073	118,835
Financial transactions in assets and liabilities	247	9,322	8,559					
Transfers and subsidies to	**253,312**	**264,537**	**327,935**	**399,525**	**416,582**	**(0.79)%**	**513,702**	**639,167**
Provinces and municipalities	1,634	7,374	10,790	10,531	10,597	(4.26)%	10,683	10,735
Departmental agencies and accounts								
Universities and technikons								
Non-profit institutions	251,672	257,157	296,784	388,969	395,977	(3.14)%	493,011	618,424
Households	8,009	37,937	20,423	25	10,008	37,989.44%	10,008	10,008
Payments for capital assets	**1,393**	**3,847**	**14,269**	**5,931**	**3,381**	**(45.76)%**	**4,616**	**4,411**
Buildings and other fixed structures								
Machinery and equipment	1,393	3,847	14,145	5,931	3,381	(45.76)%	4,616	4,411
Software and other intangible assets			124					
Total	**465,442**	**518,964**	**603,003**	**694,526**	**727,143**	**(0.38)%**	**867,121**	**1,034,957**

The average annual real growth from 2002/03 to 2005/06 is 9,07 per cent and slows to 8,99 per cent over the period 2006/07 to 2008/09. A major policy shift is the centralisation of social assistance payments in the South African Social Security Agency (SASSA), which has been planned for 1 April 2006. As a result, all social assistance grants have been removed from the provincial budgets and centralised at national level. The comparative historic data has also been shifted. The Department can now concentrate on its core business as the lead department on the further development and implementation of the social capital formation strategy. In line with this funding shift, the number of programmes have been reduced from five to three from the 2006/07 financial year.

In the 2005/06 Adjustments budget, the Department's budget was augmented by R15,948 million, which consisted largely of roll-over funds for the Food Emergency Relief National Conditional Grant to be utilised for the appointment of service providers and the distribution of food hampers. A further R794 000 was rolled over as a conditional grant to finalise the building of the One Stop Child Justice Centre for children in conflict with the law.

The increase in compensation of employees from 2005/06 to 2006/07 is due to the new staff establishment, phased in over three years, increasing the number of posts by 50 at the head office and an additional 297 posts at district offices for the implementation of the new district cost center model at municipal level. The sharp increase in transfers to households is due to earmarked funds for Expanded Public Works Projects for the expansion of social welfare services.

Although in the tabulated trend analysis above the Social Security grants were excluded, in the current year, it still forms part of the Department's budget and has therefore been included in the analysis for this financial year.

At the end of the first quarter, 30 June 2005, the Department projected that expenditure would exceed the budget due to the higher than projected registration of applications in respect of the Child Support Grant (7-14 years) and Foster Care grants after an agreement was reached in June 2005 between the Department of Social Services and Poverty Alleviation and the National Department of Social Development to adjust the initial assumption of beneficiary numbers for the extension of the Child Support Grant (7-14 years) from 164 830 to 201 450. For the second quarter, ending 30 September 2005, the Department projected an under spending of R9,363 million, mainly due to an under spending on Programme 1: Administration.

At the end of the third quarter, ending 31 December 2005, the Department projected an under spending of R58,409 million or 1,18 per cent on the Adjustments budget largely due to the delay in the appointment of staff for the SASSA establishment. The under spending of R28,153 million under transfers resulted from the Review Project applying a stricter application of the Means Test; the appointment of additional doctors has resulted in a reduction in backlogs and consequently smaller amounts of arrear payments for the Disability grant have been paid out. The Memorandum of Agreement with social workers at the sixteen District offices reduced the backlog and payout for the Foster parent grant and lastly, due to the ceiling for the Child Support grant being 14 years, the 15 year olds have left the system. The IYM as at 28 February 2006 indicated that the Department projected to under spend by R112,979 million, largely as a result of the delay in the implementation of the SASSA establishment. These unspent funds will be surrendered with interest to the national Department of Social Development in terms of section 36 of the Division of Revenue Act, 2005.

It is anticipated that the Department's spending performance will improve as from 2006/07 as most of their previous years' under spending was concentrated in the social grants programme which has subsequently been removed.

R4,783 million has been allocated in 2006/07 as earmarked funding for training on the Children's, Child Justice and Older Persons Bills. The bulk of the funds will be utilised for the Children's Bill and in 2006/07 training will be provided on the three Bills. The implementation will take place over the MTEF period and the provisions in this regard are R34,575 million in 2007/08 and R71,962 million in 2008/09, which partly explains the increased budget allocation for Social welfare services in 2008/09. Another reason for this increase is related to the expansion of the Expanded Public Works Programme (EPWP) social projects. Overall, the funding caters for the expansion of existing programmes on community health workers, community based care and early childhood development and provides for training, stipends and the provision of materials, food and basic care. The Department will drive programmes such as home-based care and youth learnerships for which amounts of R16,963 million, R40,150 million and R60,603 million have been budgeted for 2006/07, 2007/08 and 2008/09, respectively.

The decrease in Development and research between 2005/06 and 2006/07 is due to a once-off allocation of R16,222 million for the Food Emergency Relief grant in the 2005/06 Adjustment Budget.

Table 11: Vote 8: Local Government and Housing

Programmes	Audited			Projected Expenditure	Budget	Real Growth	MTEF	
	2002/03	2003/04	2004/05	2005/06	2006/07	2005/06-2006/07	2007/08	2008/09
	R'000	R'000	R'000	R'000	R'000	%	R'000	R'000
1. Administration	21,628	26,719	37,251	48,022	50,240	(0.46)%	55,795	56,763
% Share	*4.48%*	*6.26%*	*5.59%*	*5.98%*	*6.47%*		*5.96%*	*5.56%*
2. Housing	416,885	353,417	580,707	657,198	663,486	(3.94)%	814,094	894,074
% Share	*86.39%*	*82.83%*	*87.21%*	*81.88%*	*85.39%*		*87.02%*	*87.65%*
3. Local Government	37,385	42,392	40,105	76,792	31,751	(60.66)%	32,532	34,805
% Share	*7.75%*	*9.94%*	*6.02%*	*9.57%*	*4.09%*		*3.48%*	*3.41%*
4. Development and planning	6,656	4,164	7,809	20,616	31,485	45.31%	33,089	34,359
% Share	*1.38%*	*0.98%*	*1.17%*	*2.57%*	*4.05%*		*3.54%*	*3.37%*
Total	482,554	426,692	665,872	802,628	776,962	(7.90)%	935,510	1,020,001
Difference		(55,862)	239,180	136,756	(25,666)		158,548	84,491
Nominal Growth %		(11.58)%	56.05%	20.54%	(3.20)%		20.41%	9.03%
Real Growth %		(16.19)%	49.91%	15.13%	(7.90)%		14.89%	4.34%
Average annual nominal growth % (2002/03 - 2005/06)					18.48%			
Average annual nominal growth % (2005/06 - 2008/09)								8.32%
Average annual real growth % (2002/03 - 2005/06)					13.09%			
Average annual real growth % (2005/06 - 2008/09)								3.36%
Current Payments	**72,444**	**108,692**	**101,385**	**135,172**	**170,745**	**20.19%**	**184,418**	**194,704**
Compensation of employees	47,837	53,519	63,147	79,210	105,440	26.66%	109,663	115,108
Goods and services	24,607	55,173	38,238	55,962	65,305	11.03%	74,755	79,596
Transfers and subsidies to	**408,605**	**474,209**	**467,149**	**506,461**	**390,555**	**(26.63)%**	**396,776**	**417,373**
Provinces and municipalities	23,319	23,473	32,968	67,566	17,160	(75.84)%	15,000	16,700
Foreign governments and international organisations	7							
Non-profit institutions	100	700	200	400	450	7.04%	500	500
Households	384,969	292,344	528,300	589,898	587,024	(5.32)%	733,787	806,197
Payments for capital assets	**1,715**	**1,483**	**3,019**	**9,592**	**1,583**	**(84.30)%**	**1,805**	**1,900**
Machinery and equipment	1,715	1,483	2,414	9,592	1,583	(84.30)%	1,805	1,900
Software and other intangible assets			141					
Land and subsoil assets			464					
Total	482,554	426,692	665,872	802,628	776,962	(7.90)%	935,510	1,020,001

Outcome of 2004/05

The Department underspent by 16,96 per cent or R136,031 million of which R76,509 million was a planned underspending of the Integrated Housing and Human Settlement Development Grant that was due to the reprioritisation of housing projects in favour of the N2 Gateway Project, as no additional funding was received for the project in 2005/06 and 2006/07. The other main contributors to the underspending, which was requested for roll over to 2005/06 and subsequently approved, are the following:

- 2,54 per cent or R20,365 million on the Human Settlement Redevelopment Grant where the business plans for the projects were approved very late in the financial year. These are capital projects that run over more than one financial year.
- 1,32 per cent or R10,560 million on the Local Government Capacity Building Fund Grant where the late approval of business plans by the National Department of Provincial and Local Government for a specific year has a knock-on effect on performance in the next financial year.

The "March spike" of 26,20 per cent or R174,434 million is due to most claims for the financial year coming through in January 2005 while payment only happened in late February 2005 and in March 2005. The reason for claims not being submitted timeously is a lack of municipal capacity as developer in project management, which leads to insufficient planning.

Projected outcome for 2005/06

The Department spent 60,64 per cent or R492,254 million in the first nine months compared to 50,96 per cent or R408,615 million in 2004/05. Although there is a 9,68 percentage point increase in expenditure in 2005/06 it is still way off the notional benchmark of 75 per cent. Also the projected underspending was 1,13 per cent or R9,180 million, which was mostly due to the Human Settlement and Redevelopment Grant. The tenders for this Grant's projects were advertised in the latter part of 2004/05 for which the approval process took longer than expected.

However, according to the IYM Report as at 28 February 2006, the Department is projecting to underspend by R14,675 million. This is mainly due to the maintenance of rental stock where the contracts run over more than one financial year i.e. ± R4 million and the Disaster Management Grant that won't be fully spent in this financial year because the projects won't be completed for all the funds to be claimed i.e. ± R4 million.

The Department is projecting a "March spike" of 21,77 per cent or R173,550 million. This is mainly due to ± R20 million of the Disaster Management Grant that will be spent and the slow spending of the Integrated Housing and Human Settlement Development Grant as well as the R40 million provincial contribution towards the N2 Gateway project, which are due to the following:

- New project applications were withheld till 1 April 2005 and existing applications were held back until conversion to the Upgrade of Informal Settlements Programme projects.
- Social housing units were built for the N2 Gateway project but the policy only takes effect on 1 April 2006.
- There is a lack of municipal capacity as developer in project management.

In percentage terms the "March spike" is not as high as in previous years where it was 32,42 per cent in 2003/04 and 26,20 per cent in 2004/05. This trend shows that the department is managing to bring the "March spike" down. However, further work still needs to be done to get a more even spread of expenditure during the financial year taking into account that during the winter months not much work can be done.

Trend analysis

The average annual real growth percentage for the period 2002/03 to 2005/06 is 13,09 per cent. The growth is due to the increase in the amount allocated for the Integrated Housing and Human Settlement Development Grant in order to reduce the housing backlog and to provide for increases in the value of the housing subsidies.

The increase of 22,70 per cent in Programme 2: Housing in 2007/08 is due to the increase in the allocation of the Integrated Housing and Human Settlement Development Grant, which will largely fund the N2 Gateway project.

The decrease of 60,66 per cent in real terms on Programme 3: Local Government in 2006/07 is due to Local Government Capacity Building Fund Grant monies flowing directly from the national government to the municipalities as from 2005/06 onwards and the once-off allocation of the Disaster Management Grant of R24,5 million in 2005/06.

The increase of 45,31 per cent in real terms on Programme 4: Development and Planning in 2006/07 is due to the increase in the funding of the Community Development Worker programme by R10 million.

Conclusion

Given the projected spending for 2005/06, the Department appears to have turned around the pattern of underspending on the Integrated Housing and Human Settlement Development Grant that has been evident in the last 3 financial years. The department looks well on it's way to be able to spend their funds but the test will be to reduce the "March spike" in future years.

Table 12: Vote 9: Environmental Affairs and Development Planning

Programmes	Audited			Projected Expenditure	Budget	Real Growth	MTEF	
	2002/03	2003/04	2004/05	2005/06	2006/07	2005/06-2006/07	2007/08	2008/09
	R'000	R'000	R'000	R'000	R'000	%	R'000	R'000
1. Administration	16,541	15,612	17,824	19,572	19,755	(3.96)%	20,008	21,765
% Share	*13.73%*	*12.94%*	*13.16%*	*12.31%*	*11.25%*		*12.06%*	*12.51%*
2. Environmental and Land Management	10,418	10,501	21,783	24,970	25,727	(1.97)%	27,233	28,859
% Share	*8.65%*	*8.71%*	*16.08%*	*15.70%*	*14.66%*		*16.42%*	*16.59%*
3. Environmental and Land Planning	93,511	94,509	95,861	114,478	130,043	8.08%	118,624	123,367
% Share	*77.62%*	*78.35%*	*70.76%*	*71.99%*	*74.09%*		*71.52%*	*70.90%*
Total	**120,470**	**120,622**	**135,468**	**159,020**	**175,525**	**5.02%**	**165,865**	**173,991**
Difference		152	14,846	23,552	16,505		(9,660)	8,126
Nominal Growth %		0.13%	12.31%	17.39%	10.38%		(5.50)%	4.90%
Real Growth %		(5.09)%	7.88%	12.12%	5.02%		(9.83)%	0.38%
Average annual nominal growth % (2002/03 - 2005/06)					9.70%			
Average annual nominal growth % (2005/06 - 2008/09)								3.04%
Average annual real growth % (2002/03 - 2005/06)					4.71%			
Average annual real growth % (2005/06 - 2008/09)								(1.67)%
Current Payments	**42,835**	**44,805**	**61,105**	**78,122**	**89,319**	**8.78%**	**90,612**	**95,479**
Compensation of employees	31,053	30,252	37,401	48,564	62,213	21.89%	65,399	68,773
Goods and services	11,772	14,455	23,685	29,546	27,106	(12.71)%	25,213	26,706
Financial transactions in assets and liabilities								
Transfers and subsidies to	**74,515**	**70,511**	**70,860**	**80,034**	**85,391**	**1.52%**	**74,426**	**77,647**
Provinces and municipalities	10,560	9,073	9,042	8,025	3,526	(58.19)%	3,675	3,858
Departmental agencies and accounts	61,861	61,365	61,767	71,683	81,565	8.26%	70,186	73,208
Non-profit institutions	1,625			325	300	(12.17)%	565	581
Households	469	73	51	1		(100.00)%		
Payments for capital assets	**3,120**	**5,306**	**3,503**	**864**	**815**	**(10.25)%**	**827**	**865**
Buildings and other fixed structures				864	704	(22.47)%		
Machinery and equipment	3,120	5,306	3,503				739	773
Cultivated assets								
Software and other tangible assets					111			
Total	**120,470**	**120,622**	**135,468**	**159,020**	**175,525**	**5.02%**	**165,865**	**173,991**

The table above outlines increasing spending trends with growth rates firstly per programme and then per economic classification over a seven-year period from 2002/03 to 2008/09. The Department spent at a range of R120,470 million in 2002/03, R120,622 million in 2003/04, R135,468 million in 2004/05 and an envisaged adjusted spending of R159,020 million in 2005/06. In 2006/07 the budgeted expenditure increased by 5,02 per cent or R15,505 million to R175,525 million, whereafter it decreased to R165,865 million and R173,991 million respectively over the MTEF period.

The increase in the 2006/07 allocation can be attributed to both the shifts from provincial departments amounting to R7,331 million and earmarked allocations amounting to R20,331 million to fund various explicit national or provincial priorities.

Expenditure for Programme 1: Administration increased from R16,541 million in 2002/03 to R17,824 million in 2004/05. The increase over the historic years is due to the amended portfolio of the Office of the Minister with the shifting of the economic development ministerial portfolio to the Department. The increases over the MTEF are mainly due to anticipated increases in inflation.

The comparative figures for Programme 2: Environmental and Land Management depicts an increase in expenditure from R10,418 million to R21,783 million between 2002/03 and 2004/05. The increase can be attributed to the implementation of a new organisational structure. There is also an anticipated increase to R25,727 million in 2006/07 which is due to new projects being initiated, such as the investigation into the development of golf courses and polo fields, law reforms, guidelines on urban edges and environment impact assessments. For the 2006/07 MTEF, the expenditure increases from R25,727 million in 2006/07 to R28,859 million in 2008/09, mainly for the completion of the aforementioned projects and the implementation of guidelines and legislative reforms.

Programme 3: Environmental and Land Planning's percentage share increases from 71,99 per cent in 2005/06 to 74,09 per cent in 2006/07. This increase can be attributed to the 2006/07 earmarked allocations for the implementation of the spatial development framework (R2 million), waste disposal facilities and recycling economy (R3,152 million in 2006/07, R3,284 million in 2007/08 and R3,479 in 2008/09), climate change research and water strategy (R3 million) and increased allocations to the Western Cape Nature Conservation Board (R7,500 million for upgrading of facilities and R3,879 million for fire fighting and a comprehensive integrated preventative provincial strategy). The historical actual expenditure trends for the programme depicts a slight increase from R93,511 million in 2002/03 to R95,861 million in 2004/05. Over the 2006/07 MTEF period the allocation decreases from R130,043 million in 2006/07 to R123,367 million in 2008/09. The 8,08 per cent real growth between 2005/06 and 2006/07 and the decrease over the outer years can be attributed to the aforementioned once off earmarked allocations.

In the past two financial years the Department only slightly underspent on its adjusted budgets. During 2003/04 the underspending was R3,039 million or 2,5 per cent on its R123,661 million adjusted budget and in 2004/05 R1,949 million or 1,42 per cent of the R137,417 million adjusted budget. The 2003/04 saving was an enforced compulsory saving through the non-filling of vacancies to finance the restructuring process implemented in the 2004/05 financial year, while the 2004/05 saving was mainly due to a saving of R1,695 million in respect of the non-establishment of the office of the Environment Commissioner. The Department projects to break even in the 2005/06 financial year.

Table 13: Vote 10: Department of Transport and Public Works

Programmes	Audited			Projected Expen-diture	Budget	Real Growth %	MTEF	
	2002/03	2003/04	2004/05	2005/06	2006/07	05/06-06/07	2007/08	2008/09
	R'000	R'000	R'000	R'000	R'000	%	R'000	R'000
1. Programme 1: Administration	21,742	27,817	34,645	56,830	67,459	12.94%	78,793	85,603
% Share	*2.01%*	*2.29%*	*2.75%*	*3.16%*	*3.27%*		*3.76%*	*3.65%*
2. Programme 2: Public works	268,998	349,859	274,336	352,036	330,496	(10.67)%	336,445	405,301
% Share	*24.87%*	*28.77%*	*21.80%*	*19.60%*	*16.01%*		*16.07%*	*17.27%*
3. Programme 3: Roads infrastructure	597,890	526,758	652,699	933,454	1,187,053	21.00%	1,196,863	1,323,082
% Share	*55.27%*	*43.31%*	*51.86%*	*51.96%*	*57.50%*		*57.16%*	*56.39%*
4. Programme 4: Public transport	45,999	115,328	60,377	194,318	208,088	1.89%	223,652	256,892
% Share	*4.25%*	*9.48%*	*4.80%*	*10.82%*	*10.08%*		*10.68%*	*10.95%*
5. Programme 5: Traffic management	136,240	158,034	191,098	196,103	202,944	(1.53)%	197,480	210,383
% Share	*12.59%*	*12.99%*	*15.18%*	*10.92%*	*9.83%*		*9.43%*	*8.97%*
6. Programme 6: Community based programme	10,868	38,412	45,473	63,641	68,286	2.09%	60,603	65,189
% Share	*1.00%*	*3.16%*	*3.61%*	*3.54%*	*3.31%*		*2.89%*	*2.78%*
Total	**1,081,737**	**1,216,208**	**1,258,628**	**1,796,382**	**2,064,326**	**9.34%**	**2,093,836**	**2,346,450**
Difference		134,471	42,420	537,754	267,944		29,510	252,614
Nominal Growth %		12.43%	3.49%	42.73%	14.92%		1.43%	12.06%
Real Growth %		6.57%	(0.59)%	36.32%	9.34%		(3.22)%	7.24%
Average annual nominal growth % (2002/03 - 2005/06)				18.42%				
Average annual nominal growth % (2005/06 - 2008/09)								9.31%
Average annual real growth % (2002/03 - 2005/06)				13.03%				
Average annual real growth % (2005/06 - 2008/09)								4.31%
Current payments	**573,404**	**621,272**	**719,707**	**844,410**	**991,103**	**11.68%**	**985,881**	**1,071,066**
Compensation of employees	112,707	128,633	139,451	176,934	225,913	21.49%	245,616	262,903
Goods and services	460,688	491,549	579,373	667,420	765,190	9.09%	740,265	808,163
Interest and rent on land	9	12						
Financial transactions in assets and liabilities		1,078	883	56		(100.00)%		
Unauthorised expenditure								
Transfers and subsidies to	**63,028**	**106,747**	**54,135**	**198,412**	**118,484**	**(43.18)%**	**175,708**	**187,734**
Provinces and municipalities	61,106	87,782	52,768	170,296	113,593	(36.53)%	166,737	177,786
Departmental agencies and accounts		480		9,260		(100.00)%		
Universities and technikons								
Public corporations and private enterprises		14,502		12,000	1,000	(92.07)%		
Foreign governments and international organisations								
Non-profit institutions				50		(100.00)%		
Households	1,922	3,983	1,367	6,806	3,891	(45.60)%	8,971	9,948
Payments for capital assets	**445,305**	**488,189**	**484,786**	**753,560**	**954,739**	**20.55%**	**932,247**	**1,087,650**
Buildings and other fixed structures	422,610	474,254	457,860	683,536	897,862	24.98%	878,735	1,030,405
Machinery and equipment	20,840	5,806	16,059	8,602	39,436	336.21%	35,914	35,189
Cultivated assets								
Software and other intangible assets		5,896	7,446	8,022	6,941	(17.67)%	6,398	5,556
Land and subsoil assets	1,855	2,233	3,421	53,400	10,500	(81.29)%	11,200	16,500
Total	**1,081,737**	**1,216,208**	**1,258,628**	**1,796,382**	**2,064,326**	**9.34%**	**2,093,836**	**2,346,450**

Transport and Public Works is a concurrent function shared between national government and provinces. The National Department of Transport and Public Works is responsible for formulating national policy and the regulatory framework for the sector. More specifically, the Provincial Department of Transport and Public Works focuses on the provision of a people centered infrastructure and transport system through a transformed department.

Above table shows that in 2002/03 the vote registered total aggregate expenditure of R1,081 billion versus R1,796 billion in 2005/06 and R2,346 billion planned for 2008/09.

Total expenditure rose moderately by an annual average nominal rate of 18,42 per cent (increased by R714,645 million in absolute and 13,03 per cent in real terms) from 2002/03 to 2005/06 and by an annual average nominal increase of 9,31 per cent (anticipated increase of R550,068 million or 4,31 per cent in real terms) from 2005/06 to 2008/09.

During 2005/06, Programme 3: Roads Infrastructure accounted for the largest share of total expenditure, at R933,454 million, followed by Programme 2: Public Works at R352,036 million and Programme 5: Traffic Management at R196,103 million. Programme 1: Administration reported the lowest share of expenditure at R56,83 million of the total expenditure amounting to R1,796 billion for the provision of management and administrative support to the Department.

Aggregate expenditure over the review period varied considerably between a high of R1,796 million in 2005/06 to a low of R1,081 million in 2002/03. By 2005/06, total expenditure reached R1,796 billion, which signify a 42,73 per cent nominal increase (36,32 per cent real increase) on the 2004/05 expenditure level of R1,258 billion due to, among other things, increases in National Provincial Infrastructure Grant funding and rolled over unspent funds from 2004/05.

Programme Expenditure (80/20)

During 2002/03, Programme 2: Public Works incurred total expenditure of R268,998 million (24,87 per cent) of the total expenditure of R1,081 billion versus R352,036 million (19,6 per cent) in 2005/06 and R405,301 million (17,28 per cent) expected of the total budget of R2,346 billion in 2008/09 by using proportionately less than in the past to manage the growing provincial property portfolio.

Public Works' expenditure sloped reasonably by an annual average nominal rate of 9,39 per cent (4,41 per cent in real terms) from 2002/03 to 2005/06 and again by an annual average nominal increase of 4,81 per cent (0,01 per cent in real terms) from 2005/06 to 2008/09 as more funds were allocated to sustain the provincial Strategic Infrastructure Plan (SIP) in the past than provided for over the MTEF, reflecting the leveling off of initial investments.

By 2005/06, Programme 2: Public Works' expenditure is at R352,036 million, which signify a 28,33 per cent nominal increase (22,57 per cent real increase) on the 2004/05 expenditure level of R274,336 million mainly due to augmented allocations for land acquisition for new school buildings. A total amount of R1,072 billion has been allocated to Programme 2: Public Works over the MTEF to primarily effect the SIP.

During 2002/03, Programme 3: Roads Infrastructure expended R597,89 million (55,27 per cent) of total expenditure of R1,081 billion versus R933,454 million (51,96 per cent) in 2005/06 and R1,323 billion (56,39 per cent) anticipated of the total budget of R2,346 billion in 2008/09.

Programme expenditure rose moderately by an annual average nominal rate of 16,01 per cent (10,74 per cent in real terms) from 2002/03 to 2005/06 and by an annual average nominal increase of 12,34 per cent (7,19 per cent in real terms) from 2005/06 to 2008/09 to maintain the current level of proclaimed provincial road maintenance and rehabilitation.

By 2005/06, Programme 3: Roads Infrastructure realised expenditure of R933,454 million, which signify a 43,02 per cent nominal increase (36,6 per cent real increase) on the 2004/05 expenditure level of R652,699 million due to inter alia, an increased allocation and budget augmentation to the National Conditional Grant: Provincial Infrastructure during the 2005/06 adjustments budget.

Economic Classification of expenditure

It is clear that the most voted expenditure relates to road or sector maintenance (current expenditure: goods and services) ergo, in 2002/03, the Department recorded current expenditure of R573,404 million (53,01 per cent) of the total expenditure of R1,081 billion compared to R844,41 million (47,01 per cent) in 2005/06 and R1,071 billion (45,65 per cent) anticipated of the total budget of R2,346 billion in 2008/09 as current payments were proportionally re-prioritised to capital payments.

Current expenditure rose moderately by an annual average nominal rate of 13,78 per cent (8,6 per cent in real terms) from 2002/03 to 2005/06 and by an annual average nominal increase of 8,25 per cent (3,3 per cent in real terms) from 2005/06 to 2008/09 to address roads and building maintenance backlogs. This reflects a steady seven-year annual average nominal increase of 10,98 per cent (annual average real increase of 5,92 per cent) over the 2002/03 to 2008/09 period.

By 2005/06, current expenditure has reached R844,41 million, which signifies a 17,33 per cent nominal increase (12,07 per cent real increase) on the 2004/05 expenditure level of R719,707 million due to increased goods and services payments relating to mainly maintenance projects. The 29,48 per cent or R41,108 million increase in compensation of employees from 2004/05 actual expenditure to 2005/06 adjusted budget, is exorbitant as the Department is 32 short of reaching its budgeted head count target of 1 367 of which all vacancies is projected to be filled by March 2006.

By nature, the Vote is capital intensive, ergo in 2002/03, it incurred payments for capital assets expenditure of R445,305 million (41,17 per cent) of the total expenditure of R1,081 billion compared to R753,56 million (41,95 per cent) in 2005/06 and R1,087 billion (46,36 per cent) anticipated of the total budget of R2,346 billion in 2008/09, availing more funds for provincial infrastructure investment as informed by the SIP.

Payments for capital assets expenditure rose moderately by an annual average nominal rate of 19,17 per cent (13,75 per cent in real terms) from 2002/03 to 2005/06 and an annual average nominal increase of 13,02 per cent (7,84 per cent in real terms) from 2005/06 to 2008/09 to make iKapa Elihlumayo a reality. This reflects an effective seven-year annual average nominal increase of 16,05 per cent (annual average real increase of 10,76 per cent) over the 2002/03 to 2008/09 period.

By 2005/06, payments for capital assets realised expenditure of R753,560 million, which signify a 55,45 per cent nominal increase (48,47 per cent real increase) on the 2004/05 expenditure level of R484,786 million, which is mainly ascribable to the acquisition of new land for school buildings and capital transfers to district municipalities for proclaimed roads and public transport facilities.

The budget of the Department has in aggregate experienced an increase from R1,796 billion to R2,064 billion, which reflects a nominal increase of 14,9 per cent or R267,944 million when comparing the period of 2005/06 to 2006/07. The Department had budgeted for an amount of R1,798 billion during 2005/06 of which an amount of R1 796 billion or 99,9 per cent is projected to be spent. This indicates an increase in spending of 40,97 per cent compared with spending over the same period in 2004/05 when actual expenditure reached R1,258 billion.

Transport and Public Works is improving its spending capacity going forward, especially when considering that for 2004/05, it announced aggregate expenditure of R1,258 billion or 93,89 per cent against the adjusted budget of R1,340 billion following a total nett increase of R7 495 million (0,57 per cent) on the main budget of R1,333 billion. This indicates an increase of 3,49 per cent compared with spending over the same period in 2003/04.

When considering 2005/06 in-year expenditure, the Department anticipates spending 32,40 per cent of its adjusted budget of R1,798 billion during the fourth quarter of 2005/06, compared to 26,58 per cent spent during the third quarter, 26,05 per cent during the second quarter and 14,97 per cent during the first quarter of the financial year. Looking at 2004/05 in-year expenditure, the Department is making strides in addressing “hockey stick spending” when bearing in mind that during the last quarter of 2004/05 it had spent 40,08 per cent of its adjusted budget versus 23,11 per cent during the third quarter, 24,39 per cent during the second quarter and 12,42 per cent during the first quarter. Clearly the Department is improving on its internal project planning processes to moderate in-year expenditure.

Table 14: Vote 11: Department of Agriculture

Programmes	Audited			Projected Expenditure	Budget	Real Growth	MTEF	
	2002/03	2003/04	2004/05	2005/06	2006/07	2005/06-2006/07	2007/08	2008/09
	R'000	R'000	R'000	R'000	R'000	%	R'000	R'000
1. Administration	17,134	30,744	29,328	35,755	37,059	(1.38)%	38,538	40,133
% Share	*13.06%*	*19.14%*	*14.90%*	*13.04%*	*14.59%*		*13.42%*	*13.16%*
2. Sustainable Resource Management	22,152	18,761	26,266	58,817	35,368	(42.79)%	37,253	37,450
% Share	*16.89%*	*11.68%*	*13.34%*	*21.46%*	*13.92%*		*12.97%*	*12.28%*
3. Farmer Support and Development	24,651	32,970	50,830	69,194	78,865	8.45%	96,271	100,635
% Share	*18.79%*	*20.53%*	*25.82%*	*25.24%*	*31.05%*		*33.52%*	*33.00%*
4. Veterinary Services	14,843	18,759	23,054	30,474	25,673	(19.84)%	28,271	29,866
% Share	*11.32%*	*11.68%*	*11.71%*	*11.12%*	*10.11%*		*9.84%*	*9.79%*
5. Technology Research and Development	34,260	40,862	42,206	52,408	45,924	(16.62)%	49,674	53,969
% Share	*26.12%*	*25.44%*	*21.44%*	*19.12%*	*18.08%*		*17.29%*	*17.70%*
6. Agricultural Economics	3,725	4,074	7,046	7,124	8,494	13.45%	8,979	9,347
% Share	*2.84%*	*2.54%*	*3.58%*	*2.60%*	*3.34%*		*3.13%*	*3.06%*
7. Structured Agricultural Training	14,403	14,421	18,163	20,336	22,651	5.98%	28,231	33,589
% Share	*10.98%*	*8.98%*	*9.22%*	*7.42%*	*8.92%*		*9.83%*	*11.01%*
Total	**131,168**	**160,591**	**196,893**	**274,108**	**254,034**	**(11.82)%**	**287,217**	**304,989**
Difference		29,423	36,302	77,215	(20,074)		33,183	17,772
Nominal Growth %		22.43%	22.61%	39.22%	(7.32)%		13.06%	6.19%
Real Growth %		16.05%	17.78%	32.97%	(11.82)%		7.88%	1.61%
Average annual nominal growth % (2002/03 - 2005/06)				27.85%				
Average annual nominal growth % (2005/06 - 2008/09)								3.62%
Average annual real growth % (2002/03 - 2005/06)				22.03%				
Average annual real growth % (2005/06 - 2008/09)								(1.12)%
Current payments	**111,838**	**136,035**	**145,342**	**188,546**	**188,390**	**(4.93)%**	**205,351**	**220,087**
Compensation of employees	74,492	85,401	92,585	115,393	139,232	14.80%	146,430	152,940
Goods and services	37,154	50,542	52,748	73,153	49,158	(36.06)%	58,921	67,147
Interest and rent on land								
Financial transactions in assets and liabilities	192	92	9					
Unauthorised expenditure								
Transfers and subsidies to	**11,896**	**13,528**	**31,424**	**42,769**	**20,455**	**(54.49)%**	**24,661**	**25,861**
Provinces and municipalities	513	570	269	271	150	(47.34)%	35	35
Departmental agencies and accounts	4,954	5,686	2,796	418	255	(41.96)%	271	271
Universities and technikons	175	478	270	170	777	334.88%	527	727
Public corporations and private enterprises	2,928	4,800	20,302	11,407	5,440	(54.62)%	5,314	5,314
Foreign governments and international organisations								
Non-profit institutions	589	1,020	1,444	2,359	3,050	23.02%	3,000	3,000
Households	2,737	974	6,343	28,144	10,783	(63.55)%	15,514	16,514
Payments for capital assets	**7,434**	**11,028**	**20,127**	**42,793**	**45,189**	**0.47%**	**57,205**	**59,041**
Buildings and other fixed structures	3,910		7,106	6,043	17,083	168.97%	20,241	20,400
Machinery and equipment	3,524	11,028	12,590	35,529	27,755	(25.67)%	36,404	38,171
Cultivated assets			112	660	36	(94.81)%	110	110
Software and other intangible assets			319	561	315	(46.57)%	450	360
Land and subsoil assets								
Total	**131,168**	**160,591**	**196,893**	**274,108**	**254,034**	**(11.82)%**	**287,217**	**304,989**

Above table shows that in 2002/03, Agriculture realised total expenditure of R131,168 million versus R274,108 million in 2005/06 and R304,989 million budgeted in 2008/09.

Total expenditure sloped moderately by an annual average nominal rate of 27,85 per cent (increased by R142,94 million in absolute and 22,03 per cent in real terms) from 2002/03 to 2005/06 and by an annual average nominal increase of 3,62 per cent (anticipated decrease of R30,881 million or 1,12 per cent in real terms) from 2005/06 to 2008/09, as initial robust growth weakens over the MTEF.

During 2005/06, Programme 3: Farmer Support and Development accounted for the largest share of total expenditure, at R69,194 million, followed by Programme 2: Sustainable Resource Management at R58,817 million and Programme 5: Technology Research and Development at R52,408 million. Programme 6: Agricultural Economics reported the lowest share of expenditure at R7,124 million of the total expenditure amounting to R274,108 million as the programme establishes itself.

Past expenditure on total expenditure fluctuates significantly between a high of R274,108 million in 2005/06 to a low of R131,168 million in 2002/03. By 2005/06, total expenditure reached R274,108 million, which signify a 39,22 per cent nominal increase (32,97 per cent real increase) on the 2004/05 expenditure level of R196,893 million, of which the skewness is mainly due to new national funding for drought relief.

Programme Expenditure (80/20)

Reviewing 2002/03, Programme 3: Farmer Support and Development, which is the main driver of the Vote reported expenditure of R24,651 million (18,8 per cent) of the total expenditure of R131,168 million versus R69,194 million (25,25 per cent) in 2005/06 and R100,635 million (33 per cent) anticipated of the total budget of R304,989 million in 2008/09 as the programme is hiked up to support and develop the emerging farming sector in the province.

Programme expenditure grew steadily by an annual average nominal rate of 41,07 per cent (R44,543 million in absolute and 34,65 per cent in real terms) from 2002/03 to 2005/06 and by an annual average nominal increase of 13,3 per cent (R31,441 million or 8,12 per cent in real terms) from 2005/06 to 2008/09. This reflects a firm seven-year annual average nominal increase of 26,43 per cent (annual average real increase of 20,66 per cent) over the 2002/03 to 2008/09 period mainly also as a result of increases in the Comprehensive Agriculture Support Programme (CASP) funding from national.

Past expenditure on the programme ranged significantly between a high of R69,194 million in 2005/06 to a low of R24,651 million in 2002/03 as the programme gained momentum from a relative slow start. Notwithstanding, by 2005/06, the programme had realised expenditure of R69,194 million, which signifies a 36,13 per cent nominal increase (30,02 per cent real increase) on the 2004/05 expenditure level of R50,83 million mainly due to a 39,95 per cent increase on the 2004/05 CASP allocation of R13,765 million. Over the MTEF, the programme is bolstered to reach a budget in excess of R100,635 million by 2008/09.

Programme 2: Sustainable Resource Management is the next big spender reporting expenditure of R22,152 million (16,89 per cent) of the total expenditure of

R131,168 million in 2002/03 compared to R58,817 million (21,46 per cent) in 2005/06 and R37,45 million (12,28 per cent) anticipated of the total budget of R304,989 million in 2008/09. This skewness is mainly due to the national drought relief funding of R18 million allocated to the programme in 2005/06 and R9 million in 2004/05 to provide much needed drought relief (waterhole drilling and livestock feed) to drought stricken farmers in remote regions of the Province.

Programme expenditure sloped sharply by an annual average nominal rate of 38,48 per cent (R36,665 million in absolute and 32,18 per cent in real terms) from 2002/03 to 2005/06 and an annual average nominal decrease of 13,98 per cent (anticipated decrease of R21,367 million or 17,92 per cent in real terms) from 2005/06 to 2008/09 mainly due to the drought funding.

Past expenditure on Sustainable Resource Management varied significantly between a high of R58,817 million in 2005/06 to a low of R18,761 million in 2003/04. By 2005/06, however, the programme reflected expenditure of R58,817 million, which signify a 123,93 per cent nominal increase (113,88 per cent real increase) on the 2004/05 expenditure level of R26,266 million due to the cumulative drought funding augmentation of R26,634 million (inclusive of 2004/05 rolled over unspent funds).

Economic Classification of expenditure

From the above table it is clear that current payments account for biggest expenditure portion of this Vote. In 2002/03, Agriculture realised current expenditure of R111,838 million (85,27 per cent) of the total expenditure of R131,168 million compared to R188,546 million (68,79 per cent) in 2005/06 and R220,087 million (72,17 per cent) anticipated of the total budget of R304,989 million in 2008/09.

Current expenditure grew moderately by an annual average nominal rate of 19,02 per cent (increased by R76,708 million in absolute and 13,61 per cent in real terms) from 2002/03 to 2005/06 and by an annual average nominal increase of only 5,3 per cent (anticipated increase of R31,541 million or 0,47 per cent in real terms) from 2005/06 to 2008/09 due to inter alia, once off drought funding in 2004/05 and 2005/06.

Past expenditure on current payments varied significantly between a high of R188,546 million in 2005/06 to a low of R111,838 million in 2002/03. However, by 2005/06, current payments amount to R188,546 million, which signify a 29,73 per cent nominal increase (23,91 per cent real increase) on the 2004/05 expenditure level of R145,342 million as a result of mainly drought funding. Over the MTEF, current payments expenditure is budgeted to reach R220,087 million by 2008/09 to inter alia, provide for the effective operation of the Department's experimental farms.

By its very nature, the sector is capital intensive to support emerging farmers with on-farm capital investment (fencing, irrigation pipelining, etc.) In 2002/03, Agriculture realised payments for capital assets expenditure of R7,434 million (only 5,67 per cent) of the total voted expenditure of R131,168 million compared to R42,793 million (15,62 per cent) in 2005/06 and R59,041 million (19,36 per cent) anticipated of the total projected budget of R304,989 million in 2008/09 mainly originating from National Provincial Infrastructure Grant (PIG) funding.

Payments for capital assets expenditure sloped dramatically by an annual average nominal rate of 79,22 per cent (R35,359 million in absolute and 71,07 per cent in real terms) from 2002/03 to 2005/06 as the Vote attempts more own sector infrastructure investing as opposed to transferring the funds to households for this purpose.

Past expenditure on payments for capital assets varied significantly between a high of R42,793 million in 2005/06 to a low of R7,434 million in 2002/03. By 2005/06, however, payments for capital assets realised expenditure of R42,793 million, which signify a 112,62 per cent nominal increase (103,08 per cent real increase) on the 2004/05 expenditure level of R20,127 million, which confirms the Vote's new strides in disbursing capital funds within the sector and will continue this as capital funds are now being included in their equitable share allocations, going forward.

Agriculture is anticipating spending of R254,726 million or 94,62 per cent against the 2005/06 adjusted budget amounting to R269,226 million following a total nett increase of R31,041 million (13,04 per cent) on the main budget of R238,185 million. This shows an improvement on the 2004/05 situation when the Department expended R196,893 million or 85,37 per cent against the 2004/05 adjusted budget amounting to R230,644 million. The improved spending can inter alia, be ascribed to the Department's improved internal planning processes.

The Department is synonymous with "hockey stick expenditure" due to inter alia, the Province's harvesting season coinciding with the third and fourth quarters of the financial year. The Department anticipates spending 35,81 per cent of the 2005/06 adjusted budget in the fourth quarter compared to 23,32 per cent during the third quarter, 18,57 per cent during the second quarter and 22,29 per cent during the first quarter of 2005/06.

During 2004/05 the Department expended 31,17 per cent of its adjusted budget of R230,644 million during the fourth quarter, compared to 30,67 per cent during the third quarter, 23,01 per cent during the second quarter and 15,15 per cent during the first quarter.

It appears that the Vote's capital funds (Payments for capital assets) have been reprioritised from mainly, Programme 4: Veterinary Services, which saw a 19,84 per cent real budget decrease, and Programme 5: Technology Research and Development, which experienced a 16,62 per cent real budget decrease, to one of the big capital expenders i.e Programme 2: Sustainable Resource Management (engineering programme) to inter alia, effect infrastructure projects in a drive to improve the vote's 2006/07 capital expenditure performance.

Table 15: Vote 12: Economic Development and Tourism

Programmes	Audited			Projected Expenditure	Budget	Real Growth	MTEF	
	2002/03	2003/04	2004/05	2005/06	2006/07	2005/06-2006/07	2007/08	2008/09
	R'000	R'000	R'000	R'000	R'000	%	R'000	R'000
1. Administration	3,614	10,997	14,890	18,144	28,502	49.47%	29,336	30,813
% Share	*2.53%*	*8.96%*	*11.78%*	*12.74%*	*15.13%*		*14.19%*	*14.35%*
2. Economic Participation	16,182	42,690	40,830	38,969	49,594	21.09%	52,251	54,602
% Share	*11.35%*	*34.78%*	*32.29%*	*27.36%*	*26.32%*		*25.28%*	*25.43%*
3. Fair Business Environment		7,741	9,790	8,931	15,180	61.72%	16,341	17,593
% Share		*6.31%*	*7.74%*	*6.27%*	*8.06%*		*7.91%*	*8.19%*
4. Economic Sector Development		36,879	34,466	41,383	51,020	17.30%	64,158	64,808
% Share		*30.04%*	*27.26%*	*29.06%*	*27.08%*		*31.04%*	*30.18%*
5. Tourism		24,448	26,463	34,978	44,137	20.06%	44,623	46,933
% Share		*19.92%*	*20.93%*	*24.56%*	*23.42%*		*21.59%*	*21.85%*
Total	**142,622**	**122,755**	**126,439**	**142,405**	**188,433**	**25.90%**	**206,709**	**214,749**
Difference		(19,867)	3,684	15,966	46,028		18,276	8,040
Nominal Growth %		(13.93)%	3.00%	12.63%	32.32%		9.70%	3.89%
Real Growth %		(18.42)%	(1.06)%	7.57%	25.90%		4.67%	(0.58)%
Average annual nominal growth % (2002/03 - 2005/06)				(0.05)%				
Average annual nominal growth % (2005/06 - 2008/09)								14.67%
Average annual real growth % (2002/03 - 2005/06)				(4.60)%				
Average annual real growth % (2005/06 - 2008/09)								9.42%
Current Payments	**16,006**	**35,028**	**45,417**	**59,462**	**102,648**	**64.56%**	**124,450**	**131,490**
Compensation of employees	11,348	14,678	22,182	28,869	45,093	47.78%	47,839	50,109
Goods and services	4,656	20,350	23,188	30,584	57,555	80.67%	76,611	81,381
Financial transactions in assets and liabilities	2		47	9		(100.00)%		
Transfers and subsidies to	**126,561**	**84,784**	**79,495**	**82,478**	**85,285**	**(1.73)%**	**82,259**	**83,259**
Provinces and municipalities	4,364	4,731	2,565	1,948	513	(104.95)%		
Departmental agencies and accounts	6,340	29,802	52,232	45,350	40,583	(32.45)%	38,570	39,570
Universities and technikons			550		480	11.39%	480	480
Public corporations and private enterprises	750	4,250	17,330	18,400	20,100	1.19%	20,100	20,100
Non-profit institutions	115,107	46,001	6,818	16,780	23,609	40.61%	23,109	23,109
Households								
Payments for capital assets	**55**	**2,943**	**1,527**	**465**	**500**	**(0.26)%**		
Buildings and other fixed structures								
Machinery and equipment	55	2,943	1,527	465	500	(0.26)%		
Total	**142,622**	**122,755**	**126,439**	**142,405**	**188,433**	**25.90%**	**206,709**	**214,749**

The above table depicts increasing and decreasing spending trends with growth rates per programme and economic classification over a seven-year period from the 2002/03 to 2008/09 financial years. Programme 3, Fair Business Environment constitutes the highest growth in real terms from 2005/06 to 2006/07 when compared to other programmes. The major contributing factor to this increase is the fact that the new liquor legislation will be passed early in the new financial year. The enactment of this legislation will pave the way for the Western Cape Liquor Board becoming a fully independent and autonomous Public Entity of the Department. Also contributing to the increase is the fact that the Office of the Consumer Protector will expand its services in the Province by establishing its first regional office.

Real growth for the vote is 25,90 per cent or an increase of R46,028 million from total expenditure of R142,405 million in 2005/06 to R188,433 million in 2006/07. Total expenditure decreased moderately by an average annual nominal rate of 0,05 per cent (4,60 per cent in real terms) from 2002/03 to 2005/06. From 2005/06 to 2008/09 it increases by an average annual nominal rate of 14,67 per cent (projected increase of 9,42 per cent in real terms).

From 2002/03 to 2003/04 the Vote underwent some changes due to increases and decreases specifically in programme 2: Economic Participation and Programme 5: Tourism respectively. Programme 2 increased with about R26 million which resulted from the once-off allocation of part of the iKapa Elihlumayo funds (in total R45,154 million), shifted to this Department from the Provincial Treasury during the 2003/04 adjustments estimate to effect more capacity, manoeuvrability and muscle for economic development in the Province. The decrease in Programme 5 was mainly as a result of the lower allocation to Convenco, the Province's contribution to the Cape Town International Convention Centre (CTICC), which was only R22 million in 2003/04 compared to R105 million in 2002/03.

From 2005/06 to 2006/07 the allocation to almost all the programmes increased. The increases in the programmes were due to the restructuring within the Department, which was required in view of the actual implementation of the Micro-economic Development Strategy (MEDS), Delivery Enabling Services and the Real Enterprise Development (RED Door) Initiative. Another issue, which required additional expenditure, was the implementation of the Destination Marketing Organisation (DMO).

Since its creation in 2002/03 the Department was in a development phase up to 2005/06. This can be detected from the trends in the allocations to the various economic classifications in the vote. There was significant growth in the provision for compensation of employees, as the staff establishment increased from 56 in 2003/04 to a projected 218 in 2006/07. The increase in the 2002/03 to the 2003/04 financial years in departmental agencies and accounts was due to the iKapa Elihlumayo funds received by the Department. The decrease in non-profit institutions from the 2002/03 to the 2003/04 financial year was due to the much lower contribution towards the CTICC (R15 million in 2001/02, R105 million in 2002/03 and R22 million in 2003/04).

Although the Department has marginally underspent on its allocated budget in 2004/05 with R97 000, it is, however, clear that vast amounts were shifted from goods and services to transfers and subsidies to departmental agencies and accounts, subsequent to the adjustments estimate. A similar tendency is depicted in 2005/06 with a projected underspending of R586 000, although large shifts between economic classifications are detected. It thus seems as if, due to a lack of clarity or planning during the initial and adjustments budget process, ad hoc shifts would be needed to ensure full spending by the end of the financial year.

Table 16: Vote 13: Cultural Affairs and Sport

Programmes	Audited			Projected Expenditure	Budget	Real Growth	MTEF	
	2002/03	2003/04	2004/05	2005/06	2006/07	2005/06 - 2006/07	2007/08	2008/09
	R'000	R'000	R'000	R'000	R'000	%	R'000	R'000
Administration	2,964	18,328	22,290	28,049	26,666	(9.54)%	26,957	28,213
% Share	*2.73%*	*4.74%*	*14.97%*	*16.66%*	*14.21%*		*13.18%*	*12.94%*
Cultural Affairs	37,782	37,915	44,897	51,236	49,623	(7.85)%	51,795	54,752
% Share	*34.83%*	*25.17%*	*30.15%*	*30.44%*	*26.44%*		*25.33%*	*25.10%*
Library and Information Services	49,171	56,160	55,168	54,679	65,227	13.50%	69,951	73,306
% Share	*45.33%*	*41.76%*	*37.04%*	*32.49%*	*34.75%*		*34.21%*	*33.61%*
Sport and Recreation	18,561	22,074	26,577	34,348	46,175	27.91%	55,761	61,835
% Share	*17.11%*	*16.41%*	*17.85%*	*20.41%*	*24.60%*		*27.27%*	*28.35%*
Total	**108,478**	**134,477**	**148,932**	**168,312**	**187,691**	**6.10%**	**204,464**	**218,106**
Difference		25,999	14,455	19,380	19,379		16,773	13,642
Nominal Growth %		23.97%	10.75%	13.01%	11.51%		8.94%	6.67%
Real Growth %		17.50%	6.39%	7.94%	6.10%		3.95%	2.08%
Average annual nominal growth % (2002/03 - 2005/06)				15.77%				
Average annual nominal growth % (2005/06 - 2008/09)								9.02%
Average annual real growth % (2002/03 - 2005/06)				10.50%				
Average annual real growth % (2005/06 - 2008/09)								4.03%
Current Payments	**78,577**	**100,375**	**116,258**	**134,975**	**160,653**	**13.25%**	**175,972**	**187,808**
Compensation of employees	37,029	48,360	57,237	68,543	91,318	26.76%	96,132	102,469
Goods and services	41,548	52,015	58,903	66,386	69,335	(0.63)%	79,840	85,339
Financial transactions in assets and liabilities			118	46		(100.00)%		
Transfers and subsidies to	**28,691**	**28,694**	**29,427**	**31,386**	**25,836**	**(21.68)%**	**26,981**	**28,770**
Provinces and municipalities	6,740	6,574	3,488	5,073	5,202	(2.43)%	5,308	5,683
Departmental agencies and accounts	9,716	9,257	9,472	10,165	9,669	(9.50)%	9,979	10,568
Universities and technikons								
Non-profit institutions	12,235	12,863	16,389	16,031	10,965	(34.92)%	11,689	12,514
Households			78	117		(100.00)%	5	5
Payments for capital assets	**1,210**	**5,408**	**3,247**	**1,951**	**1,202**	**(41.38)%**	**1,511**	**1,528**
Buildings and other fixed structures								
Machinery and equipment	1,210	5,408	3,184	1,939	1,202	(41.02)%	1,511	1,528
Software and other intangible assets			63	12		(100.00)%		
Total	**108,478**	**134,477**	**148,932**	**168,312**	**187,691**	**6.10%**	**204,464**	**218,106**

The table above depicts spending trends and growth rates per programme and economic classification over a seven-year period from the 2002/03 to the 2008/09 financial years.

The most significant increase in the Vote's expenditure is from the 2002/03 to 2003/04 financial years. The budget increased nominally by R26 million (R15,3 million in

Programme 1: Administration) resulting in a nominal growth of 23,97 per cent and thereafter grew steadily until the 2008/09 financial year. This was due to the split between the Department and the Department of Environmental Affairs and Development Planning.

The 2006/07 budget of Programme 1: Administration decreases by 9,54 per cent due to once off payments of R900 000 and R1 million for restructuring costs and the Incubator Approach Programme, respectively, in 2005/06.

Programme 2's (Cultural Affairs) expenditure increased slightly from 2004/05 to 2005/06 to inter alia accommodate the Nobel Peace Square Project, which was completed in the current financial year. This once-off expenditure of R2 million also lead to the negative real decrease of 7,85 per cent in the programme from 2005/06 to 2006/07. The 13,5 per cent real growth in Programme 3 (Library and Information Services) in 2006/07 is due to the archives function shift from the National Department of Arts and Culture. In 2006/07, Programme 4 (Sport and Recreation) has a real increase of 27,9 per cent mainly due to the increase in the conditional grant (Mass Sport and Recreation Participation Programme Grant) and earmarked funds for the Sport School and the 2010 FIFA World Cup.

The increase in compensation of employees from 2002/03 to 2003/04 is mainly as a result of the appointment of new staff in the Sport and recreation and the Heritage functions. In 2006/07 compensation of employees increases substantially by 26,76 per cent in real terms. This increase is mainly due to the strengthening of the supply chain management component, provision for 28 posts for the archives function shift from the national Department of Arts and Culture and the earmarked funds for the 2010 FIFA World Cup.

After taking the compulsory saving into account (R5,3 million), the underspending for 2004/05 amounted to R1,6 million or 1 per cent of the Department's adjusted budget. A contributing factor in achieving below the 2 per cent underspending norm is the higher expenditure incurred in the last month of 2004/05. The Department spent 16 per cent of its adjusted budget in the month of March, while for the rest of the year monthly expenditure averaged 10 per cent.

6. Conclusion on the way forward

The improvement of expenditure management requires a phased approach. The first phase of implementation focused on the institutionalisation of in-year expenditure monitoring systems. Now that these are in place and functional, the focus is on substantive matters such as the smoothing of expenditure (avoiding the "March spike"), decreased levels of underspending, as well as the efficiency of departmental budget programmes. To this effect, numerical spending information has and will be further augmented with deepened analytical and explanatory narrative reports to promote and enforce effective management of expenditure.

Key challenges that need to be addressed relate to the achievement of tighter control over the budget for compensation of employees to limit mid-year shifts, which undermine good planning practices; monitoring that gains are indeed achieved through transfer payments; and undertaking least cost analysis of various items located under goods and services.

To enable the Treasury and provincial departments to gain a better understanding of efficiency parameters (least cost analysis) within the government sector and how it can be used to achieve value for money spending, various partners will be consulted and/or contracted during the course of the 2006/07 financial year.

Departments will be regularly and robustly interacted with regarding their in-year expenditure reports to ensure smoothing of expenditure and as a consequence the reduction of the "March spike" phenomenon, as well as improved expenditure management resulting in no overspending and limited underspending.

5

Asset Management

1. Supply Chain Management

1.1 Introduction

The accountability for Supply Chain Management (SCM) as of 1 January 2004 has been vested with Accounting Officers of provincial departments and SCM units are currently in operation in all provincial departments. Capacitation of departmental SCM units with skilled and competent personnel has been achieved to a certain level although on going training is still provided.

Supply Chain Management can be defined as the collaborative strategy that aims to integrate procurement and provisioning processes, to eliminate non-value added cost, infrastructure, time and activities to competitively serve end customers better. The essence being integrated planning of operations, tactics and strategies.

1.2 Legislative Framework

It is imperative that the functional parameters are understood, and more so the legislative framework that governs supply chain management.

A summary of the legislation governing supply chain management is listed below:

- The Constitution of the Republic of South Africa, Act 108 of 1996 (Specific reference to Section 217 of the said Act)
- The Public Finance Management Act, Act 1 of 1999 (PFMA) (Refer to Sections 76 and 38 of this Act respectively)
- The Preferential Procurement Policy Framework Act, Act 5 of 2000 and its Regulations of 2001
- The Western Cape Preferential Procurement Policy dated 13 December 2003

- Supply Chain Management Regulations and Policy Strategy to Guide Uniformity in Procurement Reform Processes in Government (Section 76(4)(c) of the PFMA) dated 1 January 2004
- PT Instructions dated 1 January 2004 and 13 October 2005
- Broad-Based Black Economic Empowerment Act, 2003 (Act 53 of 2003)

1.3 Development

Transversal Contracts

A need was identified to issue a practice note/policy on transversal contracts. The purpose of this policy will be to outline and establish a procedure in terms of arranging, facilitating and managing transversal term agreements within the Provincial Government of the Western Cape. These contracts/agreements must be cost effective, competitive, transparent, equitable, fair and in terms of best practice in the interest of the Provincial Government of the Westerns Cape's Procurement Goals.

The PT facilitated two transversal contracts/bids within this financial year. The first contract was for the placing of advertisements in the newspapers (advertising of posts). The second contract was for the travel, accommodation and hiring of vehicles.

The contract for the placing of advertisements contract has been finalised and is currently being rolled out to Provincial departments.

The bid for travel, accommodation and the hiring of vehicles has been cancelled as a result of a ruling by the Competition Commission in regards to the air travel industry, during 2005. The ruling has affected the industry and thus also the basis on which this contract was advertised, the SCM office had no choice but to cancel the contract.

Provincial Treasury has identified two commodities as possible commodities for Transversal Contracts. The two commodities identified are Paper and Office Furniture due to the low value high volume characteristics of these commodities. Provincial Treasury is currently conducting an industry analysis in order to compile an appropriate specification document.

Compliance: SCM (Provincial)

One of the objectives of this component for the 2005/06 financial year was to perform Supply Chain Management assessments at five Departments.

The unit has completed assessments at 12 departments including detailed reports on their findings.

The methodology adopted includes, but is not limited to the following:

- Compliance to Accounting Officers System and Provincial Treasury Instructions;
- Random sampling;

- Questionnaires; and
- Interviews

The component has completed 8 Departments thus far and will be assessing the remaining 4 Departments before the end of the 2005/06 financial year.

Value-for-Money

SCM will also be undertaking a value-for-money assessment. This assessment was performed independently and is aimed at ensuring that satisfactory management measures have been instituted to confirm that resources are both acquired economically as well as used efficiently and effectively.

The key to Value for Money assessments are:

- Economy: The acquiring of resources in the right quantity, of the right quality, at the right time and place at the lowest cost.
- Efficiency: The optimal relationship between the output of goods, services and the resources used to procure them.
- Effectiveness: The extent to which set policy objectives, operational goals and other intended effects are achieved.

The PFMA emphasises the need for accountability of results by focusing on outputs and responsibility, rather than just on procedural accountability, which ensures that rules have been adhered to. In terms of financial management, the focus is no longer only on compliance with the relevant prescripts, but also on obtaining value for money from each department.

Effectiveness is measured by focusing on the twelve management attributes that are based on a generally accepted international framework. This framework, which assesses effectiveness, can be used to conduct a study of the economy, efficiency and effectiveness of a Department's operations. These attributes are as follows:

- Management direction
- Relevance
- Appropriateness
- Achievement of intended results
- Acceptance
- Secondary impacts
- Cost and productivity
- Responsiveness
- Financial Results
- Working environment

- Reporting and monitoring
- Protection of Assets

The scope and objectives of the Value for Money Assessment will take place in an environment where it is the responsibility of management to institute measures to:

- Acquire resources of the right quality, in the right quantity, at the right time and place at the lowest possible cost.
- Achieve the optimum relationship between output of goods, services or other results and the resources used to produce them.
- Achieve policy objectives, operational goals and other intended effects.

The primary objective of the Value for Money assessment is to confirm independently that these measures do exist and are effective, and to provide management with information, by means of a structured reporting process on good and inadequate measures, and to explain the effects thereof. Furthermore value for money can bring possible areas for improvement to the attention of management and to encourage management to take the necessary corrective steps and to improve its management measures.

The Compliance team will do value for money assessment within this financial year and then continue with these assessments within the new financial year.

Total Cost of Ownership (TCO)

The PGWC is tasked with delivering effective service to provincial customers with limited resources. The PGWC can accomplish this task by continuously aiming and driving to reduce its total cost of ownership (TCO) for goods and services.

TCO can be defined as all the relevant cost elements that have an impact on the cost of the commodity i.e. not just the purchase price (all supply side cost elements) but the demand (PGWC) side costs which include the cost incurred by using the product.

The Compliance team has developed the TCO methodology and will incorporate it within the Value for Money assessments.

Assessments – Electronic Purchasing System and Western Cape Supplier Database

Provincial Treasury are currently reviewing the performance of our database management company which houses the database containing the list of strategically important suppliers to government and the electronic purchasing system, which is utilised by departments to obtain quotations.

In addition it will also be ascertained whether the current systems and procedures constitute good procurement practice and what alternative systems or service provider options are available in order to make recommendations in terms of future practice.

A strategy to increase efficiency and accessibility of the systems will be implemented. Given the significance of electronic commerce to the modernizing government agenda, treasury might take further action to ensure that electronic commerce becomes a standard way of doing business for departments. Effort is needed to promote the benefits of electronic commerce. Doing business electronically offers the potential of faster purchasing and more reliable up to date information to secure better prices.

Training

The SCM office does not currently have a training unit and so does not provide formal training to Departments. The Provincial Treasury was mandated to co-ordinate training courses arranged by National Treasury and arrange the logistics, where required. National Treasury contracted SAMDI and IPFA to provide SCM training to all Provinces.

The courses consisted of the following modules:

SAMDI:

- Introduction to Supply Chain Management
- Demand Management
- Acquisition Management

IPFA:

- Introduction to Supply Chain Management
- Legislative Environment
- Concepts and Elements of SCM
- Implementation Strategy
- Ethics
- Appointment of consultants

Departments were requested to supply nominations for every course. Although preference was given to bigger departments, all departments were provided an opportunity to submit nominations.

The objective for this financial year was to train/facilitate training for 100 officials. The unit facilitated training for 138 officials.

Asset Management

The Public Finance Management Act (PFMA) has specific requirements relating to Financial Management within the Public sector, one of which is the effective and efficient management of state assets.

The Auditor-General has taken a strict stance on this, which has led to the qualification of numerous departments. In response the Accountant-General has embarked on numerous activities such as:

- The development of an Asset Management Guide;
- The development and distribution of the Asset management Learner Guide, and
- Disclosure of the physical assets, software and other intangible assets as an Annexure to the Annual Financial statements.

These initiatives served to highlight the need for an Asset Management Reform Strategy.
The main purpose of the Asset Management strategy is to facilitate asset management processes to ensure adherence to the requirements of the PFMA.

The Asset Management Strategy requires the establishment of specific Asset Management units at National and Provincial Treasury levels and Asset Management Teams at National and Provincial Department level.

The Western Cape Provincial Treasury as overall guardian of the Province's resources has a legal obligation to provide strategic guidance and leadership to Provincial Departments regarding the management of physical assets to ensure efficient and effective service delivery over the long term.

Asset Management polices, guidelines and training material must be developed in conjunction with Provincial Treasury, which will provide a structured and systematic approach by which Provincial Departments can align its assets planning and management practices with its service delivery priorities, within the limits of available resources.

Asset Management Policies will define the relationship between a department's strategic plan and its Acquisition, Operation, Maintenance and Asset disposal plans.

Asset Management Guidelines will outline the form and level of detail sought, to assist departments to develop and report their Asset Strategy and Strategic Plans and will also assist the Provincial Treasury to review these documents.

Asset Management Decision Tools will be a guideline to assist departments to improve the quality of their planning, assessments, decision making and overall implementation, including project monitoring.

The Asset Management Training Manual will explain the integration and operation of the Asset Management Policy, Guidelines and Decision Tools.

A consultant agency has been appointed to develop the Asset Management Policy, Guidelines, Decision Tools and Training manual. The developments will be completed within this financial year.

Strategic Sourcing

To promote procurement efficiency, a strategic sourcing team within SCM will be established with the purpose of seeking to optimise the opportunities for cooperative procurement to ensure that all parts of the public sector are able to secure the best value for money. They will promote the use of good deals where these have been or are being negotiated, where they see scope for greater savings they will work with public sector organizations and purchasing bodies to secure better deals. Treasury will also investigate the possibility of arranging transversal contracts on commodities that have low value and high volume to better leverage government spending power.

Before the above-mentioned objectives can be reached the strategic sourcing methodology must first be thoroughly researched and developed. Training guides will also be developed to assist departments to obtain savings enabling them to acquire best value for money while still meeting socio-economic objectives.

Western Cape Supplier Database (WCSD)

The Western Cape Supplier Database is a tool/mechanism, which enable departments to manage their suppliers and assists with achieving their socio-economic obligations. The database provides the BEE and SMME companies the opportunity to register as potential, verified suppliers on a provincial database and provides greater visibility in the procurement process. The WCSD, currently hosts 9 766 suppliers of which 77,8 per cent has HDI equity ownership and 92,5 per cent are SMME's. These suppliers are more visible to Departments and can be targeted for procurement purposes, but at no additional cost to the supplier.

Electronic Purchasing System (EPSi)

The EPSi is an integrated web-based mechanism, which integrates with the WCSD. This enables departments to electronically source quotations and automatically calculate preferences based on the quotes received through the EPSi. In October 2005 the threshold for quotations was lifted to R100 000. SMME's also have exposure to procurement opportunities by way of the Electronic Procurement System (EPSi).

During this financial year thus far (January 2006) more than 43 000 requests for quotation have been sent via the system and more then R47 million have been awarded to SMME and Historical Disadvantaged Individuals (HDI's). Currently there are 80 sites in the Provincial Government that utilises the system

Black Economic Empowerment

BEE is broad based – accelerating the deracialisation of the economy and fast tracking the re-entry of HDI's into the mainstream of the economy.
BEE is an inclusive process – implemented throughout all sectors of the economy and is not limited only to those enterprises that derive income from government procurement.
BEE is associated with good governance – improving quality and transparency of all economic activity. BEE is part of the growth strategy.

The codes of Good Practice are to be applied in the development, evaluation and monitoring of BEE charters, initiatives, transactions and other implementation mechanisms. The codes established the idea that empowerment would not only be about ownership, but also include procurement, skills development and management. This concept falls in with broad definition of BEE.

There are three envisaged parts to the BEE implementation process:

- The Charters;
- The Advisory Council; and
- The Codes of Good Practice (CGP)

There is a concern that there is lack of full understanding of BEE at the ground level, however it is thought that the CGP will make the meaning and purpose of BEE clearer. It is imperative that legislation aid in the implementation of CGP.

It has also been indicated that the CGP follows the logical flow of BEE and allows for flexibility within the code so that one part of the code could be changed without having to rearrange the structure entirely.

The Code 000 establishes the conceptual framework of BEE and sets targets for the scorecard and provides generic guidelines for the application of BEE.

The Code 010 deals with Sector Transformation Charters, which provides guidelines for forming sector charters, how to harmonize the different charters within the economy, and how to constitute charter councils and the powers that the councils should have.

The Code 100 gives the criteria and means to measure black ownership in companies and will also reduce the practice of "fronting".

There is a need to harmonize rating agencies by having the government accredit these agencies once they have met the standards of BEE. Currently rating agencies are inconsistent as a company could receive a passing rating one day and a failing rating the next.

The National Government is currently still in the process of aligning the PPPFA Regulations to BEE and issuing new Regulation. In the interim the Province has continued applying the principles of the PPPFA Regulations to procurement processes. Once the new Regulations on BEE (codes, scorecards etc.) have been approved by Government, current policies, practices and instructions will be revised and implemented.

Strategic use of BEE in procurement

One of the key elements within the BEE Policy is Preferential Procurement. Therefore it is imperative that all provincial departments, particularly its Supply Chain Management units, have a sound understanding of BEE.

The WCPG's overall expenditure on procurement is R2,8 billion, (2005/06) and although it is relatively small in the national context, one should not underestimate the value that it can contribute to black economic empowerment.

The WCPG's procurement budget may not be significant enough to impact on the structure of the provincial economy but it will create opportunities for BEE companies to get a foothold in the economy and to benefit from the multiplier effect. The redistribution of expenditure to BEE companies will have a significant impact on stimulating growth and job creation.

1.4 Way forward

The accountability for Supply Chain Management now vests with departments, it has become important that a co-operative working relationship exists amongst those role-players who have to oversee that this provincial government meets its socio-economic obligation in terms of contracts awarded. This would entail a comprehensive survey of the current procurement processes as well as the development of new initiatives to meet the current and future requirements.

Currently Provincial Treasury has embarked on a programme review process, which emphasizes early review for maximum added value. The review currently concentrates on three main areas namely efficiency of the business processes, compliance to prescripts and regulations and value for money.

PT is embarking on a programme to take the SCM implementation programme to the next level of ensuring efficiency and success of the implementation. PT will house a centre of excellence within its structure to provide strategic support to departments. The Norms and Standards component of the SCM office will provide this service by providing further training and expert advice to SCM officials. A complaints mechanism will also receive our undivided attention to ensure that it is implemented in all provincial departments to enhance transparency of all government procurement processes. PT will develop a centre of expertise for the procurement of high value strategic items. PT will, through careful monitoring and strong expertise, provide up to date advice to departments based on modern SCM practices.

Better Procurement will depend on a cultural change in departments to give procurement staff the authority and management backing to influence all purchasing especially that of goods and services critical to the operation of the department.

Departments must have better management information about the amount they spend on procurement, i.e. on what, and to which suppliers. Such information is essential to benchmark prices to ensure that they remain competitive, to monitor suppliers' performance, and to ensure that the cost of departments' purchasing function – the procurement overheads remains reasonable.

High value strategic procurements are generally more complex and carry greater risks. Too often procurement staff is brought into the procurement process too late after key decisions have been taken. They need to be involved at an early stage to ensure that they understand market conditions, in particular, cost drivers and the latest technological solutions, to identify the risks and develop risk management strategies, draw up tender specifications which are output based and reflect user needs, and that they plan a contract management strategy with appropriate performance measures.

Departments must collaborate with suppliers to achieve continuous cost and quality improvements. Working closely with suppliers can drive costs down and improve quality of complex, longer-term contracts for services or products. It does not necessarily mean increasing the risk of financial impropriety if appropriate oversight mechanisms are in place, for example clear definition of responsibilities and proper monitoring of supplier performance.

2. Immovable Assets

2.1 Introduction

The extensive and diversified immovable asset portfolio has significant impact on the overall macro-economic, socio-political and physical landscape of the Province. Immovable assets are important resources for service delivery. For the purpose of discussion and period under review (31 December 2005), the focus is on property management as managed by the Department of Transport and Public Works and infrastructure delivery also provided by the latter as the implementing agent.

Firstly, we will focus on the extent and diversity of immovable assets, more specific property management. The provincial government owns 6 560 properties which covers 316 425 hectares. Of the 6 560 properties owned by the Provincial Government, 12 332 have buildings on it and covers 7 145 945 square meters floor space. Furthermore, the number of buildings leased and square meters occupied by the Provincial Government for the period under review is 446 and 304 166 respectively. The cost to the Provincial Government for leasing the buildings amounted to R105 million. The leasing portfolio section also manages 762 properties that they leased out. The revenue generated for 2005 amounts to R23 million vs R3 million outstanding fees. Of the total number of buildings owned, 590 or 5 per cent were in a very good condition whilst 119 or 1 per cent were in a very poor condition. Five (5) properties to the value of R3,1 million were acquired to address the demand for new space. Thirty eight (38) properties were identified for disposal purposes, which generated revenue of R14 million.

Secondly, we will focus on the Provincial Infrastructure budget to ensure effective and efficient infrastructure delivery. The quality and extent of infrastructure are primary determinants of the efficiency of business activities and the degree to which the social fabric of our communities is improved to the benefit of all. The Infrastructure budget for the period under review amounted to R1,794,477 billion. A significant amount of time was spent on improving infrastructure delivery within the Province. The Infrastructure Delivery Improvement plan (IDIP), an initiative of National Treasury that seeks improvement in infrastructure expenditure and delivery, was introduced and implemented in the Department of Education. This also encompassed the finalisation and acceptance of the Service Delivery Agreement between the implementing agent (Dept of Transport and Public Works) and the respective client departments.

In conclusion, we are on our path of continual improvement. The lessons we learnt for the reporting period was that new leadership remains key. We must continue to support and provide guidance to our customers, provide them with useful and consistent messages about best practices in the workplace, and sharpen targets and performance measures for the next review.

2.2 Legislative framework

It is imperative that we understand the parameters within which the Province function, and more so the legislative framework that governs property management inclusive of infrastructure monitoring and reporting and the administration involved in its execution. The legislative frameworks are:

- The Constitution, 1996 (Act 108 of 1996)
- The Constitution of the Western Cape, 1998 (Act 1 of 1999)
- Western Cape Land Administration Act, 1998 (Act 6 of 1998)
- White Paper on Provincial Property
- Division of Revenue Act (DORA)

2.3 Development

- The Finalisation of the Service Delivery Agreement between the Department of Transport and Public Works (Implementing Agent), Education and Health (client departments)
- Successful implementation of IDIP in the department of Education
- Completion of department of Education's Infrastructure Plans compliant to DORA and improved Project lists (Project Plans) for other departments
- The further roll out and implementation of the Infrastructure Developing Improved Program (IDIP)
- Provincial status report pertaining infrastructure projects
- The draft Provincial Treasury Instructions were circulated for comment to Branch: Property Management to ensure an all-encompassing process and that consensus for implementation is reached
- Finalisation of the Provincial Disposal Policy for fixed assets

The Province continued to strengthen the Property Portfolio by finalizing the White Paper on the Management of Provincial Property. The document focuses on the management of the property portfolio of the Provincial Government and property-related activities that impact upon the overarching objectives of the Provincial Government. Provincial properties are deemed a powerful tool to advance the goals of iKapa Elihlumayo.

The province currently owns 6 560 properties which covers 316 425 hectares of land. There are 12 332 buildings on some of these properties and covers 7 145 945 square meters of floor space. Although the Province has 12 332 buildings it is not sufficient and therefore has to lease other buildings to accommodate the departments' needs. Significant progress has been made in the identification of vacant land and unused buildings that do not form part of province's needs in the foreseeable future. More than 90 per cent of the un-used properties are vacant land.

The Province leased 446 additional buildings or 304 166 square meters of floor space at a cost of R105 million for the review period. The status of the Province's Property and Lease Portfolio as per department is depicted in the respective tables below:

Table 1: The Province's Property Portfolio as per department (Departmental Annual Report 2004/05 page 19)

State Owned Properties	Land				Building	
	Number of Properties	Number of vacant urban properties	Number of unutilised rural properties	Total number of hectares	Number of properties with buildings	Square meters of building
Health	234	0	0	7 810	1 600	1 685 643
Education	3 976	0	0	220 519	8 837	4 964 358
Social Services	10	0	0	78	150	100 000
Other clients combined	1 640	0	0	69 573	1 745	395 944
Unutilised	700	399	301	18 445	0	0
Total	**6 560**	**399**	**301**	**316 425**	**12 332**	**7 145 945**

Table 2: The Province's Lease Portfolio as per department (Departmental Annual Report 2004/05 page 19)

Lease Portfolio	Land		Buildings		Cost to Government in R'000
	Number of Properties leased	Total number of hectares	Number of building leased	Square meters of building	
Health	0	0	27	10 646	6 300
Education	0	0	241	191 625	56 700
Social services	0	0	35	19 771	8 400
Other clients combined	0	0	143	82 124	33 600
Unutilized	0	0	0	0	0
Total	**0**	**0**	**446**	**304 166**	**105 000**

The Province also rented out 762 buildings, which consisted of houses and other buildings. There is however a number of buildings that are being leased out to other departments. The debt collection section of Property Management is following up these outstanding amounts on a regular basis.

The Property Section at the department of Transport and Public Works is also responsible for the acquisition and disposal of property management that is based on the clients needs. In some cases land is required to build school buildings or health facilities. For the period under review five (5) properties to the value of R3,1 million were acquired.

Infrastructure Budgets

One of the biggest challenges this unit encountered during 2005, was to monitor the infrastructure projects identified in Budget Statement 2 and to ensure infrastructure expenditure reports complied with the requirements of the Division of Revenue Act (DORA). Phase I of the implementation of IDIP was implemented in Education and preparations for the further roll-out of IDIP phase II continued with the appointment of an assessment and design team by National Treasury to conduct an assessment and design study at the Departments of Transport and Public Works and Education.

For the period under review the Provincial Infrastructure budget increased from R1 665,742 to R1,794,477 billion in the adjustment budget with the biggest increase in the Education sector. Department of Transport and Public Works: Roads has in real terms spent the highest percentage (73 per cent) of the infrastructure allocation followed by Education (71 per cent). The provincial infrastructure allocation recorded an expenditure of R782,754 or 70,34 per cent against R1 794,477 which is reflected in the table below:

Table 3: Infrastructure Budgets and Expenditure as per department

Department	Main Appropriation	Adjustment Budget	Actual Expenditure Spent at 31 Dec 2005	Percentage Spent at 31 Dec 2005 as %
	R'000	R'000	R'000	%
Health	296,805	273,725	146,127	53.38
Education	188,972	373,808	267,865	71.66
Transport and Public Works: Roads	889,842	895,482	660,902	73.80
Agriculture	14,310	16,943	12,057	71.16
Other	230,275	186,325	155,241	83.32
Subtotal	**1,620,204**	**1,746,283**	**1,242,192**	**71,13**
Vote 11				
Agriculture	45,538	48,194	20,073	41.65
Total	**1,665,742**	**1,794,477**	**1,262,265**	**70,34**

2.4 Way forward

The aforementioned issues illustrate the challenges facing Provincial Treasury in respect of the development of sound asset management principles. As mentioned in various prior discussions, there should be an increased focus directed towards the strategic planning, acquisition and disposals of assets. The integration of principles of asset management will enable us to achieve the best usages and optimal utilisation of our current resources. Hopefully these challenges will be overcome with the implementation of the Government-Wide Immovable Asset Management Bill/Act that will enable the whole of government to ensure demonstrable linkages between service delivery, resource planning and co-ordination.

In terms of public accountability, PT plays an important role in overseeing compliance with DORA and monitoring spending. The roll-out of IDIP to other departments is of utmost important to ensure that planning processes are completed in an effective and efficient manner to speed up the process of infrastructure delivery.

PT will also ensure that the Provincial Treasury Instructions on immovable property are issued to enforce the necessary compliance thereof.

PT will monitor and report on the spending of infrastructure and give guidance and training in the development of effective mechanisms, as well as facilitating monthly meetings between various departments. It will ensure compliance to reporting and monitoring requirements.

PT will monitor the implementation of policy directives as entrenched in the White Paper and ensure the effective and efficient implementation of PSAIP as well as monitor the optimal utilisation of space.

3. Public Private Partnerships

3.1 Introduction

Public private partnerships offer good potential for infrastructure and public service delivery. It is an important instrument in creating an environment that is favourable to the normal functioning of business as well as the attraction of private investment which simultaneously also generates employment.

Public private partnerships combine private sector interests with the developmental goals of the Western Cape Government as contained in its iKapa Elihlumayo vision. The following outcome goals are embodied within this vision:

- increasing economic growth;
- increasing employment and economic participation;
- reducing geographical and socio-economic inequality and
- providing a sustainable social safety net.

Co-operation between the private sector and the Western Cape Government enables both sides to achieve their respective goals efficiently. The iKapa Elihlumayo has become the blueprint whereby the provincial budget as a whole as well as a series of strategic partnerships will be utilised to stimulate the economy. The Western Cape public-private partnership programme is shaped by the iKapa Elihlumayo targeted policies, i.e.:

- building human capital and skills;
- micro-economic strategy,
- strategic infrastructure plan,
- spatial development framework,
- financial governance,
- co-ordination and communication,
- provincial local government interface,
- building social capital.

There has been a quantitative increase in public private partnerships over the past three years at a national and provincial level. To date, several projects have been signed and delivered. These public private partnerships vary widely in both scope and nature. This reflects the growing acceptance in South Africa and in the Western Cape, i.e. that public private partnerships can be used to meet public sector investment needs in a wide range of sectors, including toll roads, prisons, eco-tourism, health and accommodation. The Western Cape has been active from the very start and has a proud record of projects including a "first" in the toll road sector.

3.2 Legislative framework

The PFMA aims to ensure transparency, accountability and sound management of the revenue, assets and liabilities of the institutions to which it applies. The shift in responsibility to the accounting officers also grant heads of departments the opportunity to have a hands-on approach with regard to procurement decisions, the achievement of objectives and accountability for such decisions, which in turn contributes to the viability of PPPs.

Treasury Regulation 16 issued in terms of the PFMA provides for strict treasury supervision of transactions within the definition of public-private partnerships. The Regulation provides for a series of treasury approvals at specified points in the process of the public private partnership project cycle. Treasury approval I must be granted before commencement of the procurement phase and may not be granted unless the National Treasury is satisfied that value for money, affordability and appropriate shifting of operational, technical and financial risk, have been met.

The draft *Code of Good Practice for Black Economic Empowerment (BEE) in Public Private Partnerships*, provides preferential procurement criteria in the assessment of the various bidders and as such sets a clear BEE framework for both public and private parties that engage in PPPs create certainty and ensure a consistent approach. Higher preferential targets are set in the draft Code for BEE in PPPs than those provided for in the *Preferential Procurement Policy Framework Act (PPPFA).*

3.3 Development

The PPP Unit in the Western Cape was established in May 2003. Its role with regard to the thirteen departments in the Provincial Government is to provide guidance and advise on PPPs and to give direction in terms of the budget. The PT PPP Unit was established within the organisational structures of Supply Chain Management to primarily:

- Promote and assess new PPP projects;
- Assess projects and provide developmental technical assistance and support to departments;
- Monitor and enforce compliance with legislation; and
- Build the necessary capacity in the PT to take over all PPP related responsibilities from the National Treasury.

Promote New PPPs

The PT PPP Unit's promotional theme centres on provincial departments' strategic plans. Departmental strategic plans have been reviewed to identify possible areas where PPPs can effectively be developed.

The Western Cape Department of Education has been identified as a department where possible PPP models can contribute to the building of schools. Fiscal constraints and the importance of education have prompted the PT to take the lead to influence the building of schools via the PPP mechanism. A key concern of the WCED is the timeous and effective delivery of classrooms/schools for the Province's growing learner population. The infra structure need of the WCED as reflected in the 2005/2006 Strategic Plan can be listed as follows:

- 65 new schools;
- 869 classrooms at existing schools experiencing acute accommodation shortages;
- 700 forums;
- 47 flush toilets at former farm schools;
- 682 computer rooms, and
- 545 resource centres.

A process for consensus is being developed to encourage the Departments of Education and Transport and Public Works to focus collectively on the assessment of the future education and of educational trends, as these should provide good insights for additional schools to be built. Efforts to continually provide quality schools are based on collectively developing a long-range plan between these two different departments. The challenge is to discover the most economically efficient and politically acceptable arrangement for co-ordinating public and private efforts to improve the building of school infrastructure and to apportion costs and benefits among the stakeholders.

Compliance reviews are conducted on all active PPPs to ensure that each project complies with all the requirements, as set by the National Treasury. The key criteria which projects ought to satisfy, are: affordability, value for money and appropriate risk transfer.

Value for money is achieved if the private sector provides the selected service or facility and this result is a net benefit to the Provincial Government in terms of cost, price, quality, quantity, or risk transfer or a combination thereof.

Risk transfer involves the transfer of risk to the party that is best able to manage it. Examples of risk include: commissioning, design, capital operations, obsolescence, residual, volume, environmental and financing risk.
A particular procurement option is ***affordable*** i.e. if a department can afford the project in terms of its existing budget or can save on current expenditure by entering into a PPP.

Table 4: Status of Health PPPs

Project	Rehabilitation Facility – Lentegeur site	Swellendam Hospital co-location project	Hermanus Hospital co-location project	Eerste River Hospital Facility Management
Status	The Final Evaluation Panel will be evaluating the 2 bidders for the Lentegeur Hospital on the 10 February 2006.	The TA llA for the RFP and Draft Concession Agreement was given in August 2005 and we are now at the procurement phase. The closing date for bids was the 15 November 2005. Subsequently, meetings with the prospective bidders were held on the 31 January 2006 to clarify information regarding the financials. The closing date for the submission of bids is now the 10 February 2006.	This PPP is currently at the procurement stage with the 27 March 2006 being the closing date for the submission of bids.	Transaction advisors have been appointed in the Eerste River Hospital PPP. Initially, the feasibility study was performed to only include facilities management services. However, the Department of Health wants to retain their staff that is to be managed by the Private Party. National Treasury has not given the TA l due to HR issues that need to be resolved and has requested the Department of Health to re-run the model to include staff. A meeting is scheduled for March 2006 with Health's Top Management in order to resolve this matter.

One notable feature of the health PPP projects is the lengthy delay between project registration and finally obtaining Treasury Approval 1 (TA 1). Some of these projects suffered unnecessary delays because they were not sufficiently well planned or scoped.

Value for money needs to be demonstrated by a comparison of private sector bids with a detailed public sector comparator. The public sector comparator describes the option of what it would cost the public sector to provide the outputs it is requesting from the private sector by a non–PPP route.

The length of the contracts varies and depends on the specific circumstances of the project. The main concern is to ensure that contracts are long enough to enable value for money savings to be generated, but not so long that competitive pressures are reduced.

Eco-tourism PPPs

The Western Cape Nature Conservation Board is a provincial public entity, which is responsible for the management of nature reserves and other protected areas in the Western Cape.

The number and quality of the bids received was poor. However there is a preferred bidder with which negotiations are currently taking place.

Closed Deals

Chapman's Peak Drive PPP of the Department of Transport and Public Works is the first prominent example of government's support for PPPs. It is based on a 30-year concession period and is modelled on the design, finance, build, operate and transfer (DFBOT) PPP principle.

Chapman's Peak Drive is designed to operate as a fully automated toll road. Currently, however, it uses temporary tolling facilities to collect the tolls, which vary according to the classification of the motor vehicle. Since its operation, there has been an increase in revenue of 2,5 per cent per annum.

Build the necessary capacity in the PT to take over all PPP related responsibilities from the National Treasury

National Treasury Regulation 16 grants accounting officers, the exclusive competency to enter into a PPP agreement on behalf of an institution. This created a context where individual departments have considerable authority in determining how to provide services or procure infrastructure.

As the PT PPP unit grows it will move from organizational and management issues to policy direction and funding - geared to provide services that promote faster and more efficient services in the interaction between the public sector and the private sector. Looking forward, we envisage this unit to be fully functional and accredited by the National Treasury. It will provide departments with a central source of procurement skills and will set the strategic framework within which departments should operate.

Presently, the PT PPP Unit does not reflect the full range of skills necessary to take over all public-private partnership (PPP) related responsibilities from the National Treasury. Existing vacancies have been advertised and consideration will be given for additional members to supplement skills.

3.4 Way Forward

A range of existing procurement legislation and regulations geared to conventional procurement activities are currently being reviewed. Existing procedures are being designed by the National Treasury PPP Unit to address the complexities of public-private partnerships and to provide a basis for ensuring that the key dimensions: affordability, value for money and risk allocation; are appropriately evaluated. The legal doctrine and institutionalized public accountability through administrative procedures are being altered to support public-private partnership arrangements.

Project evaluators of similar projects will in the near future be shared between National Treasury PPP Unit staff, PT PPP Unit staff and departmental staff dealing with similar PPP projects. Attempts will be made to integrate evaluation with departmental team members to build capacity in the Province.

Public private partnerships are relatively new in SA, which means that we have a lot to learn about how they should be run. All involved are on a "learning curve", both provincially and nationally.

4. Financial Systems

This chapter deals with the development and maintenance of financial systems as well as the provision of technical assistance and training to all users.

4.1 Introduction

The Basic Accounting System (BAS)

The Basic Accounting System (BAS) is an online windows based accounting system that encompasses government's basic accounting requirements on a cash basis. This system is in stark contrast to its predecessor, the Financial Management System (FMS) that had to be phased out due to non-compliance to current accounting prescripts.

In order to conform to current accounting prescripts, the National Treasury took a policy decision to migrate all national and provincial departments from FMS to BAS by no later than 1 April 2004. As a proactive measure to obtain the necessary practical and technical knowledge, the Provincial Treasury successfully piloted BAS implementation in two provincial departments namely, the Provincial Parliament and the Provincial Treasury on 1 April 2003. This task was performed mainly with own resources resulting in a substantial reduction in the cost of implementation.

The migration from FMS to BAS utilising the SCOA items for the remaining provincial departments took place successfully on 1 April 2004. The conversion of the two pilot departments and the Provincial Revenue Fund from BAS (standard items) to BAS (SCOA items) took place simultaneously. An additional department namely, the South African Social Security Agency was subsequently successfully implemented on BAS on 01 April 2005.

The Personnel and Salary Administration System (PERSAL)

PERSAL utilises the information medium Internet, by providing a customised Intranet web page specifically for PERSAL. This bridges the gap in delivering information to the PERSAL clients. This service is available to all government users, irrespective whether they can sign on to PERSAL or not. The Intranet scope includes help on PERSAL functions, the PERSAL user manual and simulated training and will contribute to a paperless environment.

The system has interfaces with other systems, which include financial institutions, educational institutions, employee institutions, medical aid funds, pension funds, insurance companies, Automated Clearing Bureaus and financial systems.

Table 5: Bureau Statistics as at 31 December 2005

Number of Personnel	1 117 845
Number of Organisations	154
Active Users of Persal	31 814
Pay groups	38
Supplementary payments for the month	1 259 783
Transactions advised for the month	2 648 898
Western Cape Only	
Number of Personnel	69 359
Number of Organisations	14
Active Users of Persal	1 668
Pay groups	7
Supplementary payments for November 2005	28 214

Currently all 14 departments (including the Provincial Parliament) are utilising the system for the salary and human resource requirements. Since 1 April 2005 an agency service is also being rendered to the South African Social Service Agency (SASSA).

The Logistical Information System (LOGIS)

The Logistical Management System (LOGIS) is a computerised system that facilitates two of the core functions of Supply Chain Management, Logistical and Disposal Management. The system further assists Accounting Officers in their responsibilities with regard to the management, including the safeguarding and the maintenance of assets.

4.2 Legislative Framework

- The Constitution, Act 108 of 1996
- Public Finance Management Act, 1999
- Public Service Act, 1994
- Labour Relations Act, 1995
- Employment Equity Act, 1998
- Basic Conditions of Employment Act, 1998
- Skills Development Act, 1998
- South African Qualifications Authority Act, 1995
- White Paper on Transformation in the Public Service
- White Paper on Affirmative Action in the Public Service
- White Paper on Service Delivery in the Public Sector (Batho Pele)
- White Paper on Education and Training
- White Paper on Human Resource Development

4.3 Development

Logistical Information System (LOGIS)

LOGIS is currently implemented at 61 institutions (47 Health Institutions) and utilised by 2 646 users in the Western Cape. A total of R1,1415 billion worth of assets are managed. PT is currently busy rolling out LOGIS at 4 Provincial institutions and envisage the further roll-out to the remaining 5 institutions during the 2006/07 financial year.

LOGIS was enhanced to accommodate the requirements of current standards set by NT (depreciation, asset categories, increase in capacity, replacement, etc.) and is also the first financial system to fully integrate with the Basic Accounting System (BAS). Integration holds the promise that the budget can now be controlled at the point of placing a requisition.

These enhancements required training and re-training of 800 core users and a further 1 846 non-core users, which included various presentations and workshops as well as person to person training sessions throughout the Province in supporting these institutions, in the transformation process.

Training material was also updated with the latest enhancements and new courses were developed by the PT to assist managers to interpret and analyse the various financial reports available on LOGIS.

Even though not originally developed as an Asset Management System, new standards and requirements necessitated the following of further enhancements of LOGIS in order to comply with current national requirements, for asset management i.e.:

- Information on serial number (individual item number), location receipt documentation, order and payment detail.
- Transaction history on:
  - Performance condition
  - Performance useful life
  - Disposal - remaining useful life
  - Accounting - Accumulated depreciation

LOGIS: System Implementation

Implementation of LOGIS is managed by a project manager under which a project team consisting of a team leader and four contract workers resorts.

The roll-out of LOGIS consists of various implementation phases which starts with the project plan followed by an extensive training program and ends with a team that will give support (hand-holding) directly after the institution goes live onto the new system.

The four phases of implementation consist of:

- Assessment
- Data preparation
- Data implementation
- Post implementation

Currently LOGIS is being implemented at 4 Provincial institutions by three project teams.

Procurement Integration availability and response times

The new web-based application was implemented on 5 April 2004, after thorough testing of the functionalities, by NT and the PT of the Western Cape.

Workshops and training sessions commenced as early as September 2003, to train and re-train more than 1300 users.

The following sporadical problems were experienced during 2005:

- Extreme slow response times when utilising the LOGIS on line functionality, due to national and local network problems being experienced,
- BAS System Controllers not making the new SCOA items available to LOGIS on line users,
- NT that incorrectly registered some gate keeper ID's,
- A large number of orders printed and payments were made during the last two months of the 2004/05 financial year resulting in slow response times.

The steps taken to rectify the situation:

- All these problem areas, with the exception of the slow response times could be adequately addressed. To address the slow response times, various meetings were held between the PT, NT, CeI and SITA (Local and Centurion) to address these problems.

User support:

Support is rendered to 2 646 users utilising LOGIS throughout the Provincial Government Western Cape. The following services have been rendered:

- Identify various problems with LOGIS/BAS integration and made proposals to NT for rectification,
- Monitor the response time of the system on a daily basis,
- Upgrade insufficient networks and equipment in an effort to increase the processing time of transactions,
- Done research in conjunction with Centre for e-Innovation (CeI) to bypass local servers on the internet access and monitor the implementation thereof at all 2 646 users,

- Assist all 800 core users in the new functionalities on the LOGIS/BAS integration system access and network problems,
- A total of 1 073 calls were logged and various calls were logged at LOGIK (call centre at National Treasury) on behalf of users,
- Site visits were done to assist with critical functional problems (response time, printers, access to LOGIS/BAS integration and software),
- Fax, telephone, electronic mail and all other possible communication instruments were utilized to their full potential to communicate with NT, SITA, 10 project team members and 2 646 users,
- Performed monitoring at 33 of the 61 sites with regard to the site's performance on Logis,
- Developed and distributed a management tool to evaluate each site's Balanced Score Card performance and provided guidance for rectification of problem areas.

Technical support and training

Training

The experience and lessons learned had inspired the PT training component to developed their own database and material to be used for training. Various new courses were initially developed and presented with great success.

Growth in training needs

The number of institutions to which LOGIS has been rolled out has increased during the last 12 months from 55 to 61 resulting in a greater need for more decentralised training venues. Currently five training venues are utilised.

Establishment of a LOGIS User Forum

LOGIS User Forums were established on a decentralised basis situated at, the Metropole Region, Worcester, Citrusdal and Oudtshoorn. Three user forum workshops were held per venue during 2005.

Integrated Financial Management System (IFMS)

Currently there are three major systems, the Personal and Salary Administration System (PERSAL), Basic Accounting System (BAS) and Logistical Information System (LOGIS) that are maintained by the National Treasury for national and provincial departments. The various systems are managed as separate stand-alone "silos" and with the exception of the new LOGIS on line functionality not one of the other systems are integrated. In addition, the national Treasury also maintains a Management Information System (Vulindlela).

At a meeting held during December 2000, a position paper was tabled by National Treasury in which it was anticipated that sufficient progress would have been made by April 2002 to commence with the implementation of the new financial management solution.

Further work performed by the National Treasury, in consultation with the different users of the current systems indicated that a more phased approach should be adopted in replacing the current systems, rather than attempting to replace all the current systems over a relatively short period of time.

On 17 May 2002, it was directed that the National Treasury should convene a working group to assess the progress made towards the implementation of the new integrated financial management system. This working group comprises of members of the TCF and be responsible for recommending proposals on the way forward to the Budget Council (via the TCF).

Basic Accounting System (BAS)

The financial year closure of March/April 2005 on BAS was characterised by extreme slow response times due to an increased number of users (nationally and provincially) utilising the system and the resulting increase in the volume of data created a backlog in the processing and extraction of reports.

In an attempt to prevent a re-occurrence of such unacceptably slow response times particularly at financial year-end, the Provincial Treasury held a number of meetings with senior management of the National Treasury and SITA to address the problems. In this regard, the Provincial Treasury applied relentless pressure on all the role players that finally resulted in a mainframe upgrade on 16 January 2006.

Since the mainframe upgrade, a significant improvement in response times have been noted but the real proof will only become evident whether the upgrade was sufficient or not at year-end closure. The added advantage of the new mainframe is that it can be further upgraded should any further problems be encountered with slow response times.

Enhancements

As can be expected from the implementation of any new system of which BAS is no exception, certain enhancements are required to cater for an increased level of accountability. In view of this, the National Treasury arranged for the following system enhancements:

- A report was developed which displays all entity information (name, address & banking details).
- The function for the manual release of payments was piloted at the Department of Health on 05 September 2005 while all remaining departments received the function on 05 December 2005.
- An online mechanism was created to register requests for departments who require to work overtime on BAS.

- A new procurement integration report was created.
- The credit transfer report was enhanced to cater for rand denominations of billions.
- An interface to BAS for a sub-system known as E-Works designed to facilitate and expedite payments for the Department of Transport and Public Works was implemented in August 2005.

Helpdesk (User support)

The Provincial Treasury provides a comprehensive BAS helpdesk function. Calls relating to BAS queries are received via the departmental system controllers and are either solved locally or are referred to National Treasury for resolution and advice.

For the period April to September 2005, 1 350 calls were logged with the Provincial Treasury of which 484 calls were logged at National Treasury.

Technical Support

Currently CeI personnel support PT with technical aspects regarding maintenance and support by:

- Collecting of technical data (name of user, IP address, location, etc.)
- Registering of users on the terminal server
- Access to BAS (icon on desk top)
- Setup of printers
- Creation of a web page giving access to the terminal server
- Updating of internet explorer
- Replacing of hardware and software where required
- Updating of codes tables (new releases) on the 3 terminal servers.

Establishment of a National and Provincial BAS User Forum

The BAS User Forum is well established in the Western Cape with the following main objectives in mind:

- To implement the provisions of the Public Finance Management Act, Act 1 of 1999 (as amended by Act 29 of 1999), the Public Service Act, 1994 & Public Service Amendment Act, 1996, Employment of Educators Act, 1998 and other statutory enactments, in so far as they relate to BAS.
- To promote the effective, efficient and economical utilisation of BAS.
- To promote effective and efficient coordination between BAS Controllers.
- To share and discuss BAS related issues and new enhancement to the System to be advised to National Treasury.

- To promote uniformity and consistency amongst BAS users in the interpretation of policy and prescripts.
- To undertake such task, activities and projects which will benefit BAS in general.

Personnel and Salary Administration System (PERSAL)

The PERSAL system has also undergone changes to facilitate the pay progression rules.

The implementation of a deduction register for insurance and micro lending took place to comply with regulations issued by National Treasury in this regard.

A new Middle Management System (MMS) was developed and implemented on PERSAL for personnel on salary levels 11 and 12.

Changes were made to the validation rules of PERSAL to prevent overpayment of service benefits to contract personnel.

The leave function on PERSAL was changed to accommodate the new 8 week rule with regards to sick leave.

The housing functions on PERSAL was revamped to accommodate the payment of the new R100 subsidies.

Persal was also enhanced to accommodate the new tax tables for 2005 tax year.

A PERSAL /BAS facility was enhanced to ensure a standard method of reconciliation between said Systems.

A facility enabling users to access and print reports generated during salary runs (Control D) was deployed to the various user organisations.

A new function was developed on PERSAL to report on any rejected transactions on the Basic Accounting System (BAS).

On request from National Treasury, new reset access security form was developed to have better control over reset of user id’s.

Training

An integrated training course with the Premier’s office was developed and implemented as from 1 October 2005 to ensure more effective and efficient utilisation of the system.

Currently three (3) fully equipped training venues situated in Cape Town, George and Worcester are utilised for the presentation of Persal training.

Due to new appointees during 2005 training could only be presented in selected courses.

Technical Support

Although most of the technical development and maintenance of the Persal System is conducted in the Persal component at National Treasury, certain functions pertaining to the Western Cape have been decentralised to the Persal component of the PT.

Due to the dynamic nature of the Public Service and the continuous need for innovative statistical and audit reporting, numerous amendments to existing and development of new reports have been done over the reporting period
A total number of 483 system change requests to e.g. change the termination reasons, merge Persal records, rectify appointment dates and service records etc. were received and rectified by the Persal component.

PERSAL User Support

Although user support also include visits by Treasury officials to organisations, most support is done telephonically.

PERSAL User Forum

The PERSAL User forum is well established in the Western Cape. Meetings are held on a quarterly basis.

4.4 The Way Forward

Basic Accounting System (BAS)

To maintain and where possible further enhance the rendering of user support to users of the various systems, to enable the more effective registering of all incoming calls, monitoring of outstanding calls and determining the service delivery level. Further, to ensure an uptime of at least 95 per cent of all financial administration and management information systems.

Advise and provide information to departments to enable them to verify their BAS data.

The provincial system controller in the PT will represent this Province at the various National Forums, user meetings and workshops.

The PT will, as assessed, issue the necessary Treasury Circulars, system Circulars/Notices regarding the effective, efficient and economical utilisation of the systems in all provincial departments.

Utilisation of additional training venues and the presentation of all BAS courses available.

Initiate procedures and processes to ensure that courses are well attended.

Personnel and Salary Administration System (PERSAL)

Roll out Persalshare to a wider range of users.

Extend the audit reporting and functionalities on Persalshare.

To maintain and where possible further enhance the rendering of user support to users of the various systems, to enable the more effective registering of all incoming calls, monitoring of outstanding calls and determining the service delivery level. Further, to ensure an uptime of at least 95 per cent of all financial administration and management information systems.

Advise and provide information to departments to enable them to verify their PERSAL data.

The provincial system controller in the PT will represent this Province at the various National Forums, user meetings and workshops.

The PT will, as assessed, issue the necessary Treasury Circulars, system Circulars/Notices regarding the effective, efficient and economical utilisation of the systems in all provincial departments.

Utilisation of additional training venues and the presentation of all PERSAL courses available.

Initiate procedures and processes to ensure that courses are well attended.

The Logistical Information System (LOGIS)

To maintain and where possible further enhance the rendering of user support to users of the various systems, to enable the more effective registering of all incoming calls, monitoring of outstanding calls and determining the service delivery level. Further, to ensure an uptime of at least 95 per cent.

The further roll out of LOGIS to the remaining five provincial institutions during 2006/07 financial year.

The provincial system controllers in the PT will represent this Province at the various National Forums, user meetings and workshops.

The PT will, as assessed, issue the necessary Treasury Circulars, system Circulars/Notices regarding the effective, efficient and economical utilisation of the systems in all provincial departments.

The monitoring of the remaining 28 sites on LOGIS regarding the sites' performance on LOGIS.

Integrated Financial Management System

The PT forms part of the Technical Committee on Finance (TCF) work group, a sub-committee of the Budget Council, which will actively participate in finalising the further phases of the integrated financial management solution. It is further the intention to play a significant role in the planning, development, testing and implementation phases of the project.

IFMS Recommendations

- All financial systems solutions will be provided centrally.
- Two further phases of IFMS:
  - Phase II: 6 months
  - Phase III: 2 – 5 years

The IFMS recommendations for the remaining two phases are as follows:

<u>Phase II</u>

- Establishing a Prime System Integrater (PSI) capability at the State Information Technology Agency (SITA).
- Assessing the feasibility of the proposed Hosting Infrastructure.
- Assessing the feasibility of the overarching Network design.
- Initiate a Change Management Programme at national departments and provinces.

<u>Phase III</u>

- Re-write the BAS to a common application architecture taking into account the identified gaps in the User Requirements Statement (URS).
- Re-write the payroll part of PERSAL to a common application architecture taking into account possible identified gaps in the User Requirements Statement (URS).
- Procure a HR best-of-breed and integrate to the new Payroll application.
- Develop a new core Supply Chain Management (SCM) as per user requirement statement.
- Procure a best of breed procurement solution and integrate to SCM.

5. Financial Asset Management

This Chapter deals with optimising liquidity requirements and maximising returns within acceptable levels of risk with the main objectives being to:

- Manage cash flow matters
- Manage investments

5.1 Introduction

Cash Flow Management: Provincial Government

Section 21(1) of the PFMA stipulates that the PT is in charge of that Province's Provincial Revenue Fund (PRF). The creation and practise of sound cash flow management by the PT is therefore imperative for maintaining and improving the delivery of services to the various communities within the WC.

Investments

The main function of investments is to efficiently utilise interest-bearing instruments to optimise capital accumulation. The significance of this income generation mechanism is becoming more profound as province attempts to address unlimited needs with limited resources. Once the daily cash flow has been finalised, any moneys that are not immediately required to defray expenditure are invested at financial institutions, in terms of an internal investment policy.

5.2 Legislative framework

The following legislation and prescripts apply to cash management and investment policy in the provincial government sphere:

- The Constitution, Act 108 of 1996 provides for the establishment of a Provincial Revenue Fund for each province.

Stipulations in terms of the PFMA:

(a) Section 7(2) provides for the opening of banking accounts at a bank registered within the borders of the Republic of South Africa.

(b) Section 21(1) places the PT in charge of a province's PRF.

(c) Section 21(2) prescribes that money that must be paid into the PRF is paid into the Fund by depositing it into a bank account of the Fund.

(d) Section 21(3) empowers a PT to establish appropriate and effective cash management and banking arrangements for its PRF.

(e) Section 22(1) stipulates that all moneys due to the Provincial Government must be credited to the PRF.

(f) Section 24(3)(a) mandates a PT to temporarily invest money in the PRF, within the borders of the Republic, which is not immediately needed to defray expenditure.

(g) Section 24(3)(b) stipulates that when money in a PRF is invested, the capital and interest earned is regarded as part of that Fund.

TR's issued in terms of section 76 of the PFMA: Chapter 15 pertains to banking, cash management and investment.
TR 13.3.1 stipulates that the MEC for finance may raise funds during a financial year for bridging purposes. All bridging finance raised during a financial year must be repaid within 30 days after the end of the financial year.

PTI's issued in terms of section 18(2)(a) of the PFMA: Chapter 15 prescribes the procedures with regard to banking, cash management and investment in the provincial sphere.

Direct Charges Act, 2000 (Act 6 of 2000) provides for withdrawals as a direct charge from the PRF.

DORA provides for the division of funds to be received by provinces and which accrues to the PRF.

5.3 Development

Cash Flow Management: Provincial Government

Provincial revenue and expenditure projections

Section 40(4)(a) of the PFMA, read in conjunction with TR 15.10.2.1 and 15.10.2.2 stipulates that each provincial department must submit a breakdown of anticipated revenue and expenditure projections by not later than the last working day of February of each year to the relevant PT.

These projections are consolidated and forwarded to the NT by no later than the 15th working day of March, thereby indicating the revenue and expenditure patterns of the Province for a specific financial year. Significant variances currently exist between actual drawings and projected expenditure. Any amendments requested by departments and approved by the PT will be adjusted to reprioritise provincial cash flow only but will not affect the original figures forwarded to NT prior to the beginning of the financial year.

Challenges

The following represents the constant challenge, which the PT encounters with regard to cash flow trends:

- Closer co-operation between the PT and the various departments is imperative in order to eliminate the deviation between actual and projected expenditure on a daily basis. The PT must ensure that provincial departments develop a more evenly spread expenditure pattern over a financial year.
- Provincial cash flow trends have to be monitored more closely and constantly re-assessed to prevent possible over-expenditure on the part of an individual department and to ensure that there is sufficient funds at all times in the various departmental banking accounts.

Accruals to the Provincial Revenue Fund

Accruals

In terms of section 22(1) of the PFMA, all moneys due to the Provincial Government are credited to the Provincial Exchequer Account, which is known as the accredited account of the Province. DORA provides for the appropriation of funds in the form of equitable share and conditional grants to the Province.

The NT currently credits the equitable share portion due to this Province on a Wednesday of each week with the exception of the third Wednesday of each month. A payment equal to two week's equitable share allocation is therefore received on the last Wednesday of each month. These allocations are being deposited into the CPD account of the Province held at the South African Reserve Bank. Funds are being transferred from the CPD account to the Provincial Exchequer account on such days.

Provincial own revenue such as motor vehicle licence fees, hospital patient fees and gambling taxes is another important source of income to the Province, which accrues to the Provincial Exchequer Account.

Cash Flow Planning

Scheduling of Payments and Investment Maturities

The cash flow requirements for the Province is initially planned in April for the entire financial year. More detailed planning three months ahead, from the current date ensures that a constant review of the figures takes place to eliminate the potential for errors or unnecessary variances. The large scheduled payments such as salaries, month end, etc. are provided for beforehand by means of investments, which are planned to mature on the day that the funds are to be expensed.

As all payments are made by means of EBT's, it represent a major milestone in the elimination of fraud and the reduction of associated bank charges. The WC is the only Province, which operates fully on an electronic payment basis. As from 5 December 2005, PT introduced the function of manually releasing payments and thus providing for creditor payments only once a week.

Cash Flow Procedures

Daily Cash Flow Reconciliation

Each individual PMG account (departmental banking account) is funded on a daily basis with the minimum cash requirement for that specific day. Each department forwards a cash flow statement to the PT daily (Monday to Friday) before 09:30. The inputs are verified by the PT and queried where necessary. These inputs are then consolidated into a single daily cash flow reconciliation. Personnel within PT access the various accounts electronically from their homes on Saturdays by means of a modem and notebook computer whereafter account balances are scrutinised and any transfers are actioned if necessary.

Technical Assistance and Training

Liaison with Provincial Banker and Departments

The PT renders assistance specifically with regard to the implementation and maintenance of a sound cash flow framework within the Province.

Provincial departments which encounter any problems with regard to the compilation and forwarding of cash flow data to the PT are provided with the necessary training to rectify the matter. These departments are also kept abreast of the latest developments pertaining to cash flow matters within the Province by means of regular information sessions, PTI's and meetings with the provincial banker.

Financial Statements

In terms of section 19(1)(a) of the PFMA, a PT must prepare consolidated financial statements consisting of an income statement, balance sheet and a cash flow statement for each financial year.

Investments

Investment Policy

The provincial investment policy approved by the Provincial Minister of Finance and Economic Development on 21 October 2002, is a framework in accordance with which investments can be made at various financial institutions at optimum interest rates, to determine investment periods and exposure limits to such financial institutions or groups, simultaneously ensuring that such funds are exposed to minimal risk. The policy is a written culmination of past successful practices, practices that has resulted in all capital and interest repaid on maturity from the first investment placed at a commercial bank as from 1 April 1995.

Interest earned on investments

Table 6: Annual interest earned on investments

	Actual	Actual		Actual		Projected		Projected		Projected	
	2002/03	2003/04	% Change	2004/05	% Change	2005/06	% Change	2006/07	% Change	2007/08	% Change
	R'000	R'000		R'000		R'000		R'000		R'000	
Interest on investments	244 717	237 218	-3.1	209 144	-13.4	100 244	-108.6	88 196	-13.7	98 878	8.9
Interest on current account	5 377	3 365	-37.4	2 170	-55.1	3 000	7.2	3 500	8.6	3 500	0.0
Total interest earned	**250 094**	**240 583**	**-3.9**	**211 314**	**-13.9**	**103 244**	**-104.6**	**91 696**	**-12.6**	**102 378**	**9.0**

From the table above, the total interest earned for the financial year consists of interest earned on investments and interest earned on the Province's various departmental bank accounts and exchequer account. The first two financial year's total interest earned decreased by 3,9 per cent in 2003/04 and decreased by 13,9 per cent in 2004/05. The projections for the total interest earned, however, decreases by

104,6 per cent and 12,6 per cent in 2005/06, 2006/07 and increased by 9 per cent in 2007/08. These variances in interest earned projections are due to a number of prevailing factors in these three financial years.

Future interest on investments

Where cash management is concerned, the Province has reached a point of fine-tuning to the degree that optimum funds are made available for investment. This would mean that the Province could receive a greater benefit from investment. The aforementioned is evident in the previous financial years actual interest earnings.

The NT has initiated a process whereby the equitable share and conditional grants earmarked for Provinces should be credited directly to an account held at the CPD. This mechanism has been implemented at the Provinces as from 1 April 2005. NT has also indicated that they are awaiting approval whereupon all monies will be deposited into the CPD and only funds required for cash flow needs may be withdrawn. It was also indicated that the accumulated reserves of Provinces will be deposited into the CPD upon maturity of such investments. There is however a potential risk that the interest earnings could be less than is currently generated.

A further initiative proposed by the NT is to limit the equitable and conditional grant transfers to provinces in accordance with provincial expenditure. This will result in provinces not having access to excess funds and therefore not having the means for investment purposes. If this initiative is realised, interest revenue generation for the Province could be negatively affected.

5.4 Way Forward

The implementation of the Asset Financing Reserves (AFR) initiative, as from 1 April 2006, will provide for transparent reporting and management of reserves as well as to enhance resource management and manage transfers of funds from these reserves.

Our current tender for banking services expires on 31 March 2007. To ensure that a new tender is in place as from 1 April 2007, the tender process will commence during June 2006 and be completed by end November 2006.

The ongoing challenge is to further refine the provincial cash flow policies and strategies to such an extent that the province is aware of its current and future cash flow position at any given time.

6

Normative Financial Management

1. Introduction

The Norms and Standards component assesses the Western Cape Provincial Government's achievements through the implementation of the PFMA. This assessment is conducted annually to determine compliance with the PFMA and indicate areas of improvement. Since governance goes further than mere compliance with the provisions of the requisite legislation, setting of best practice and other applicable models contribute to good governance.

This section will focus mainly on an analysis of a few of the critical success factors currently being addressed with departmental heads. These factors pertain to the following:

- Management Arrangements: Human Resources
  - Vacancy Rate within the CFO structures,
  - Structured Training Programmes,
  - Annual Performance Agreements,
- Accounting and Reporting Requirements
- Audit Outcomes

To assist departments in progressing from mere nominal compliance to demonstrable improvement in financial management, the Provincial Treasury, on a quarterly basis assess to departmental performance via a Normative Measures for Financial Management Questionnaire, which in essence is a management tool for perfecting the basics of PFMA implementation.

An analysis of feedback from the above mentioned Questionnaire from all twelve Departments in the Province over the past years indicated a 98 per cent success rate. In assessment of the critical strategic success factors identified in 2004, the consequences of the survey showed a list of seven critical strategic factors currently being addressed with departmental heads, and therefore triggered a weighted adjustment of these factors. However, to ensure substantive improvement it would appear that further investment over the medium term needs to be maintained to elevate compliance to desired levels.

Departments were requested to self-evaluate the achievement of each critical area in their quarterly report dated 30 June 2005. The limited responses, together with a synoptic review per provincial department's performance, where applicable, were assessed by the Provincial Treasury and will be discussed in the relevant sections within the chapters on Financial Governance, Expenditure and Revenue.

National Treasury is of the view that this tool has become relatively UNIMPORTANT compared to its original purpose, "Perfecting the Basics for PFMA implementation". Furthermore, the findings of the June 2005 analysis would present evidence in support of this view. At this point in time, the focus of National Treasury has shifted to the formulation of an Internal Control Framework to be rolled out to National and Provincial Departments during 2006, which will therefore most likely reveal the implementation of a new measurement tool.

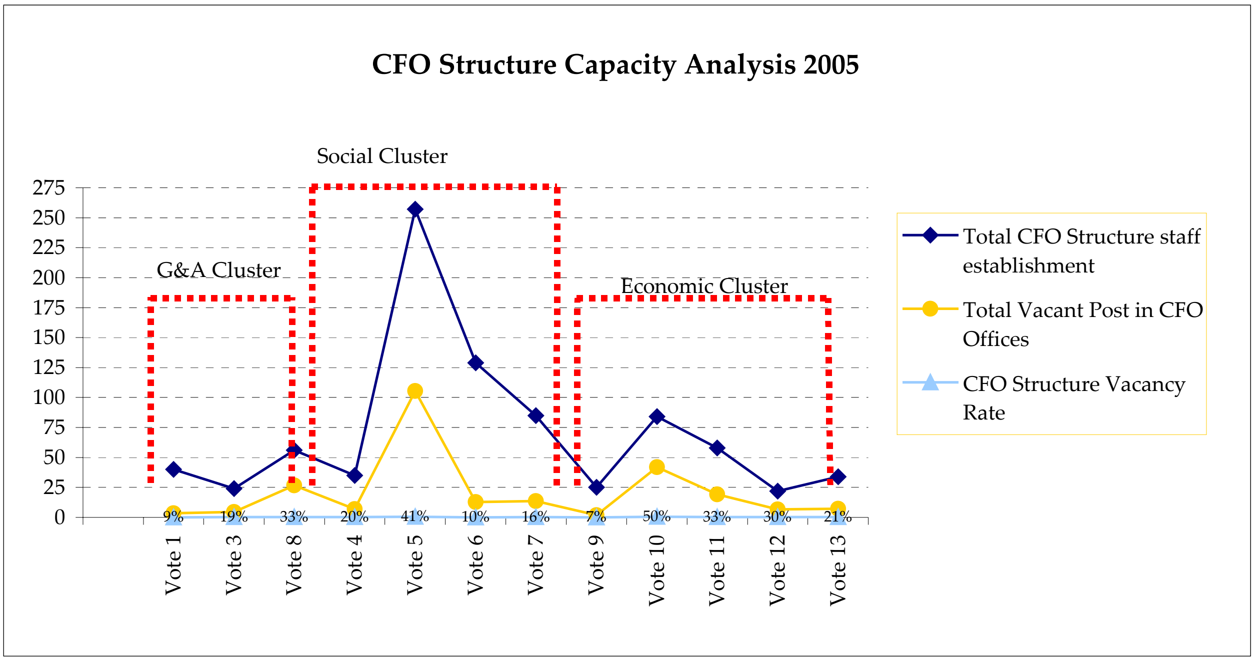
2. Management arrangements

Human Resources: Vacancy Rate/Structured Training Programmes

The vacancy rate in Chief Financial Officers' support structures affects performance of individual departments and limits the improvement of financial management across the Social, Economic, and Governance & Administration clusters. The lowest vacancy rate achieved by a provincial department during the period under review is two per cent, as reported by the Department of Social Services and Poverty Alleviation during the quarter ended December 2004.

As at June 2005, the vacancy rate for the Province ranged from 6 per cent – 50 per cent (2004: 8 per cent - 56 per cent), with the provincial average vacancy rate in the CFO support structures reported still at 23 per cent (2004: 27,1 per cent 2003: 35,2 per cent).

Figure 1: CFO Structure Human Resources Capacity



The graphic presentation shows no fundamental change in observations recorded previously, which means that the 4,1 per cent variance between June 2005 compared to 2004 is rather insignificant and that matters have largely remained unchanged, except for the slight increase and decrease in the G&A, and Economic cluster, respectively, because of the amalgamation of the Local Government and Housing votes.

The table below provides information of the CFO support structures in the various clusters:

Table 1: CFO Support Structure in the Clusters

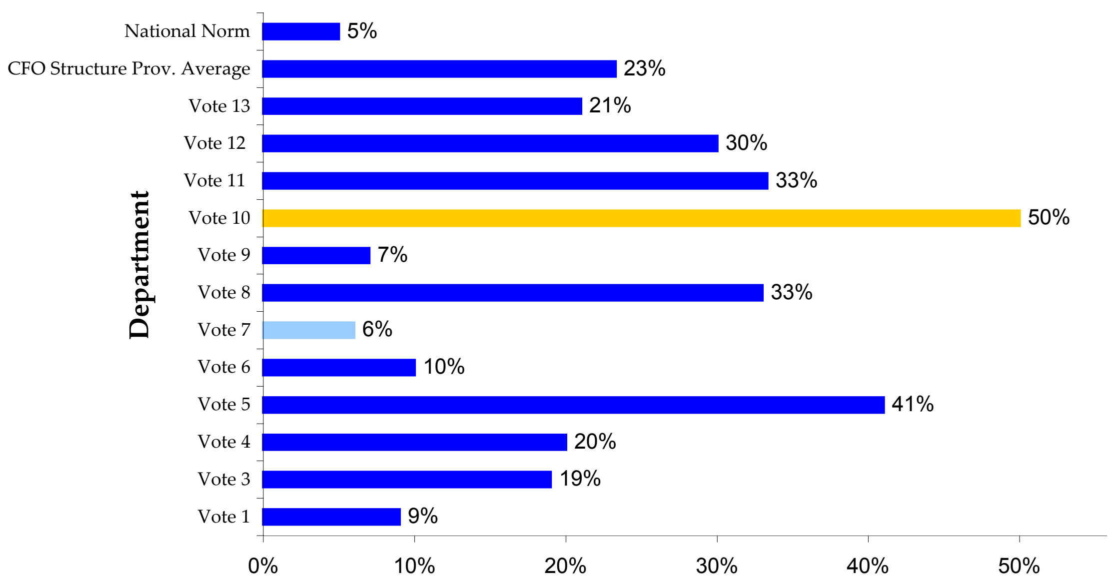
Provincial Department	Performance Agreement between the AO and CFO	Appoint-ment of Key Personnel	% Vacancy Rate in Finance Compo-nent	% of Staff involved in Structured Training Programme	% Qualified Finance Staff
GOVERNANCE AND ADMINISTRATION CLUSTER					
Department of the Premier	Yes	Yes	9	100	30
Provincial Treasury	No	Yes	19	6	92
Local Government & Housing	Yes	No	33	100	90
Cluster Average			20	69	71
SOCIAL CLUSTER					
Community Safety	Yes	Yes	20	100	90
Education	Yes	Yes	41	100	66
Health	Yes	Yes	10	0	26
Social Services and Poverty Alleviation	Yes	No	6	80	13
Cluster Average			22	78	58
ECONOMIC CLUSTER					
Environmental Affairs & Development Planning	Yes	Yes	7	100	90
Transport and Public Works	No	Yes	50	100	14
Agriculture	Yes	Yes	33	0	75
Economic Development and Tourism	Yes	Yes	30	80	65
Cultural Affairs and Sport	Yes	Yes	21	100	47
Cluster Average			28	78	58

Note: The amalgamation of the Departments of Local Government, and Housing, led to a re-shuffle in votes and the restructuring of the CFO component within this new establishment. This would have a slight impact on the cluster analysis presented in the Part A – Management Arrangements. Furthermore, the Department of Social Services and Poverty Alleviation is restructuring and this impacts on appointments within this department's CFO component.

Analysis

- On average, the incumbent chief financial officers have been serving in office for approximately 2.5 years.
- An average of 58 per cent of all finance staff employed in the CFO's structures in the Province have relevant financial qualifications. The percentage of finance staff involved in structured training programmes, to better their financial qualifications have increased from 63 per cent in the previous reports to 78 per cent.
- Social Services & Poverty Alleviation has increased the percentage of staff involved in structured training from 0 to 80 per cent, however the departments of Agriculture and Health indicate no change in the percentage of staff involved in structured training, yet only 26 per cent and 75 per cent, respectively are suitably qualified in these departments.
- The departments represented in the Economic Cluster have managed to appointment key personnel,
- However, the Departments of Social Services & Poverty Alleviation, and Local Government & Housing indicate that restructuring appointments to key positions are in progress.

Figure 2: CFO Structure vacancy rate per Vote vs National Norm



Analysis

- Both the minimum and maximum provincial vacancy rates recorded over the past three years reflect a slight, but consistent decrease: with a current minimum of 6 per cent (2004: 8 per cent 2003: 8 per cent), and a current maximum of 50 per cent (2004: 56 per cent 2003: 68 per cent).
- The bulk of provincial departments are severely understaffed and this poses a **high** risk to financial management efficiency, efficacy and economy and may hamper compliance of national norms & standards, and meeting the subsequent strategic objectives set by provincial departments.

Annual Performance Agreements

In terms of Resolution No. 13 of 1998 of the Public Service Co-ordinating Bargaining Council (PSCBC) senior managers must enter into a performance agreement on an annual basis. Performance management aims to enhance organisational efficiency and effectiveness, accountability for the use of resources and the achievement of results. The conclusion and implementation of such agreements should be monitored by the Human Resources Management components within departments.

Ten of the twelve Departments have signed their performance agreements before or on 30 April. As at June 2005, the CFO's of the two Departments were in the process of signing the performance agreement between the Accounting Officer and the CFO, and the CFO for Environmental Affairs and Development Planning concluded an agreement with the Chief Director: Financial Management and Administration. The CFO of the Department of Provincial Treasury signed his agreement on 24 June 2005 and the CFO of the Department of Transport & Public Works agreed on the terms but has not yet signed the agreement.

Treasury interventions and recommendations in relation to management arrangements

To ensure an interface with departments, quarterly progress reports have been initiated, however thus far only a 50 per cent response rate has been achieved. Some of the following factors indicates the reasons for this average response rate.

- *Vacancy Rate:* It is recognized that the quality of financial management in the public sector is directly related to the ability of accounting officers to recruit and retain adequate qualified chief financial officers, financial and management accountant and other staff. CFO's should interactively engage the Human Resources Management components in order to reduce the Provincial financial management vacancy rate of 23 per cent.
- *Appointment of key personnel:* Key personnel in the CFO's structure include the positions of a financial accountant, management accountant and a supply chain management practitioner. The relevant departments are encouraged, by means of letters of concerns which originate from the quarterly questionnaire to the various departments, to fill the key vacant positions without delay.
- *Structured Training Programmes vs Staff that have finance related qualifications:* The percentage of staff involved in structured training programmes have been boosted from 63 per cent to 78 per cent. However this positive result has not

translated to an increase in staff with finance related qualifications. In addition, further linkages with accredited providers that provide qualification that is recognized within the framework of the South African Qualifications Authority (SAQA), such as IPFA and Provincial Academy should be made to obtain recognition for training or skills development programmes pursued by the departments. The benefit of using accredited providers will translate into credits towards formal qualifications.

- *Performance agreements:* Performance agreements are prepared, but not signed within the specified timeframes. On average CFOs have been serving in these positions for 2.5 years and cognizance should be taken of the 30 April deadline for signing annual performance agreements.

3. Accounting and Reporting Requirements

Annual, Quarterly and Monthly Reports

Departments and Schedule 3C listed public entities must report monthly on expenditure and revenue; quarterly on performance; and annually they have to table Annual Reports, as prescribed, by the Legislature.

Table 2: Compliance with annual, quarterly and monthly reporting requirements

Departments	Public Entity	Date annual report received by Provincial Treasury	Annual report submitted to National Treasury	Quarterly performance against strategic plan	Monthly reporting (IYM)
Department of the Premier		31-August-2005	√	√	√
	Provincial Development Council	31-August-2005	√	√	
Provincial Treasury		31-August-2005	√	√	√
	Western Cape Gambling & Racing Board	31-August-2005	√	√	√
Community Safety		31-August-2005	√	√	√
Education		After tabling date	√	√	√
Health		After tabling date	√	√	√
Social Services and Poverty Alleviation		31-August-2005	√	√	√
Housing		31-August-2005	√	√	√
	Western Cape Housing Development Board	31-August-2005	√	√	
Environmental Affairs & Development Planning		31-August-2005	√	√	√
	Western Cape Nature Conservation Board	31-August-2005	√	√	

Departments	Public Entity	Date annual report received by Provincial Treasury	Annual report submitted to National Treasury	Quarterly performance against strategic plan	Monthly reporting (IYM)
Transport and Public Works		31-August-2005	√	√	√
Agriculture		31-August-2005	√	√	√
Local Government		31-August-2005	√	√	√
Economic Development and Tourism		31-August-2005	√	√	√
	Western Cape Tourism Board	31-August-2005	√	√	
	Wesgro	31-August-2005	√	√	
Cultural Affairs and Sport		31-August-2005	√	√	√
	Western Cape Cultural Commission	31-August-2005	√	√	
	Western Cape Language Commission	31-August-2005	√	√	

Analysis

Departments have succeeded in tabling their 2004/05 Annual Reports as well as those of the public entities under their control, within the prescribed timeframes.
Two of the twelve departments, namely the Departments of Education and Health, submitted annual reports to the Provincial Treasury after the specified due date (31 August), which caused a delay in submission to National Treasury.

There is improvement in the process for considering annual reports in Legislature, including the tabling of an oversight report at the end of November by the relevant portfolio committees. Further improvements include:-

1. All accounting officers and accounting authorities in the Western Cape Provincial Government have improved on the quality of non-financial performance information in their 2004/05 annual reports, including reporting against the measurable objectives outlined in the 2004 provincial budgets and departmental strategic or corporate plans.
2. The year under review is the first year that the public entities reported in terms of a specific guideline for such entities.
3. National Treasury published the first preparation guideline for legislative oversight through annual reports in January 2005. This guideline specifies that departments should publish draft annual reports for submission to the MEC, the Department of the Premier and Provincial Treasury by 30 June 2005. In this regard, the departments of Health, Transport & Public Works, Social Services & Poverty Alleviation, and Economic Development & Tourism submitted the necessary draft reports by the due date.

Visual illustration of the weighted analysis of the impact of the 7 critical success factors identified for provincial departments for 2005

Figure 3: Critical Success Factor: 2005

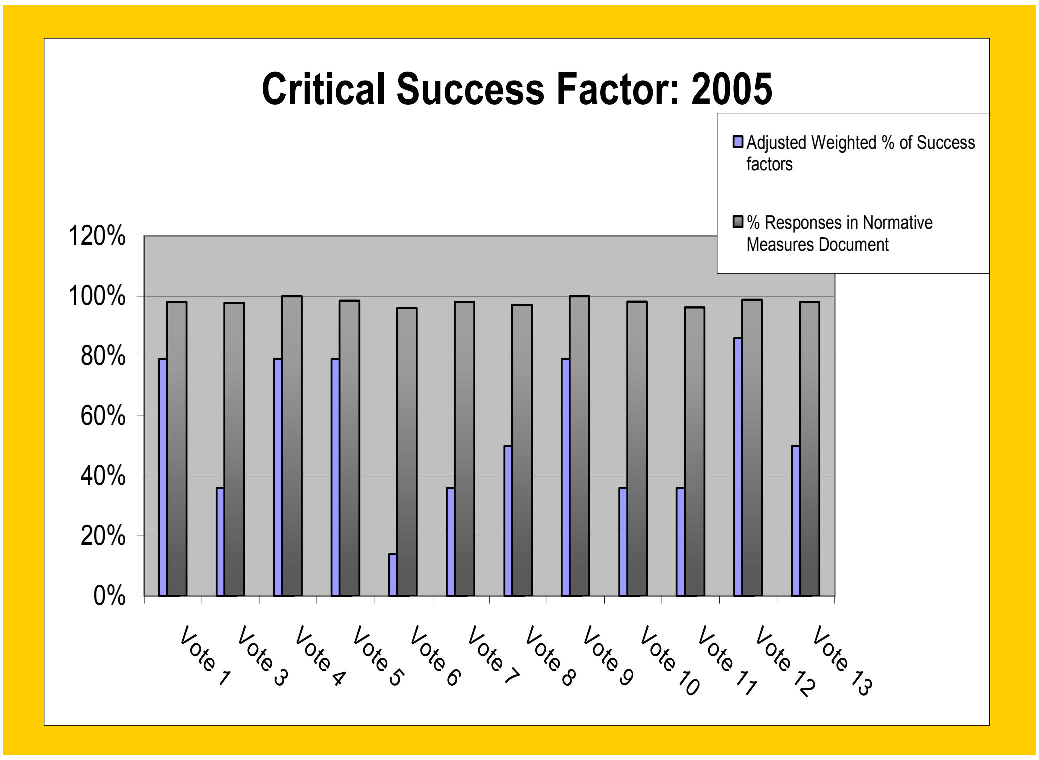


Figure 3 above illustrates the percentage of departmental responses to the 315 questions in relation to the percentage of 7 critical success factors.

The *Normative Measures for Financial Management Questionnaire*, although focussing on 5 critical areas, consists of the assessment of 315 nominal issues. In terms of departmental responses and assuming that the information contained in the questionnaire is reliable, a mean rate of compliance of approximately 98 per cent would be a best guesstimate. An analysis based on a methodology consistent to the evaluation in 2004 and a weighted adjustment of the factors is visually illustrated in figure 3.

4. External Audit Opinions

Audit Opinions

Financial governance utilises the audit's opinion as expressed by the external auditor being the Auditor-General or an auditor appointed in terms of section 58(1)(b) of the PFMA to assess and ensure continued adherence to laws, policy as well as compliance with sound financial management practices. Apart from the audit opinion, the Auditor-General may also issue an "emphasis of matter", even where reports are unqualified, which focuses on critical areas or weaknesses that the accounting officer or accounting authority should address. In addition, the Auditor-General also issues a more detailed management letter to the accounting officer.

A review of the provincial audit outcomes for the 2004/05 financial year indicates an improvement in the results for the western cape provincial departments and trading entities, however shows a slight drop in the performance of the PFMA listed public entities. The Auditor General in a press release held in July 2006 on provincial audit outcomes for the 2004/05 financial year complemented the Western Cape Provincial Parliament as one of the best performing departments in the country and the Western Cape as the best performing province.

> "The Western Cape Provincial Parliament and the North West Department of Sport, Arts and Culture were the best performing departments. Both received clean audit opinions. This means that the departments were free of any financial management problems that would normally warrant a paragraph in the audit report.
>
> The best performing province was the Western Cape - only the Department of Education received a qualified opinion." (AG press release – 31 July 2006)

The provincial audit outcomes for the western cape provincial departments, public entities and trading entities for the financial years 2002/03; 2003/04; and 2004/05 are presented below.

Table 3: Audit outcomes for the departments 2002/03 – 2004/05

Department	2004/05	2003/04	2002/03
Premier	Unqualified	Unqualified	Unqualified
Provincial Parliament	Unqualified (No Emphasis of Matter)	Unqualified	Unqualified
Provincial Treasury	Unqualified	Unqualified	Unqualified
Community Safety	Unqualified	Unqualified	Unqualified
Education	Qualified	Qualified	Unqualified
Health	Unqualified	Qualified	Unqualified
Social Services & Poverty Alleviation	Unqualified	Qualified	Qualified
Housing	Unqualified	Unqualified	Unqualified
Environmental Affairs & Development Planning	Unqualified	Unqualified (No Emphasis of Matter)	Unqualified
Transport and Public Works	Unqualified	Unqualified	Unqualified
Agriculture	Unqualified	Unqualified	Unqualified
Local Government	Unqualified	Unqualified	Unqualified
Economic Develop & Tourism	Unqualified	Unqualified	Unqualified
Cultural Affairs & Sport	Unqualified	Unqualified	Unqualified
Summary in Percentage	7.1% of audit opinions were qualified	21,4% of audit opinions were qualified	7.1% of audit opinions were qualified

Table 4: Audit outcomes for Public Entities 2002/03 – 2004/05

Public Entities	2004/05	2003/04	2002/03
PROVINCIAL PUBLIC ENTITIES			
WC Gambling & Racing Board	Unqualified (No EoM)	Unqualified	Unqualified
WC Nature Conservation Board	Qualified	Unqualified	Unqualified
WC Provincial Development Council	Unqualified (No EoM)	Unqualified	Qualified
WC Trade & Investment Promotion Agency (WESGRO)	Unqualified	Unqualified	Unqualified
WC Tourism Board / DMO trading as Cape Town Routes Unlimited	Unqualified	Unqualified	Unqualified
WC Cultural Commission	Qualified	Qualified	Qualified
WC Language Committee	Unqualified	Unqualified	Unqualified
Heritage Western Cape*	Unqualified	Unqualified	Unqualified
Western Cape Housing Development Board*	Disclaimer	Disclaimer	Disclaimer
PROVINCIAL GOVERNMENT BUSINESS ENTERPRISE			
Casidra (Pty) Ltd	Unqualified	Unqualified	Unqualified
Summary in Percentage	U (No EoM) = 20% U = 50% Q = 20% D = 10%	U (No EoM) = 0 U = 80% Q = 10% D = 10%	U (No EoM) = 0 U = 70% Q = 20% D = 10%

Notes:

1. The Western Cape Liquor Board reports as an institution within the Department
2. **U** = Unqualified; **Q** = Qualified; **D** = Disclaimer; **EoM** = Emphasis of Matter
3. *unlisted public entity

Table 5: Audit outcomes for Trading Entities 2002/03 – 2004/05

Entity	2004/05	2003/04	2002/03
The Cape Medical Depot	Unqualified	Qualified	Unqualified
Government Motor Transport	Unqualified	Qualified	Unqualified
Summary in Percentage	100% of audit reports were unqualified	0% of audit reports were unqualified	100% of audit reports were unqualified

Transversal Emphasis of Matters per Department

The following are transversal matters identified by the Provincial Treasury during the analysis of the departments 2004/05 annual financial statements.

Table 6: Transversal emphasis of matter for departments 2004/05

Department	Transversal matters					
	Asset management	**No internal audits**	**Debtor management**	**Transfer payment**	**Non compliance with act/ntr**	**Human resources management**
Premier	X					
Provincial Parliament	None					
Provincial Treasury	X	X				
Community Safety	X			X	X	X
Education	X	X	X	X	X	X
Health	X		X	X	X	X
Social Services & Poverty Alleviation	X		X	X		
Housing	X	X			X	
Environmental Affairs & Dev. Planning		X				
Transport and Public Works			X			X
Agriculture	X	X				
Local Government	X	X				
Economic Develop & Tourism	None					
Cultural Affairs & Sport	X		X		X	
Summary: Percentage	**71%**	**43%**	**36%**	**29%**	**36%**	**29%**
Total number of departments	**10**	**6**	**5**	**4**	**5**	**4**

Table 7: Transversal Emphasis of Matters for departments 2003/04

Department	Transversal matters: Internal audits	Asset manage-ment	Recon: persal & fms / bas	Persal leave	Sick leave audits	Transfer payment	Housing Loan gaurantee
Premier	X	X		X			
Provincial Parliament		X					
Provincial Treasury	X	X	X				
Community Safety		X	X	X	X		X
Education	X	X	X		X	X	X
Health	X	X	X	X		X	
Social Services & Poverty Alleviation	X	X			X		
Housing					X		
Environmental Affairs & Dev. Planning							
Transport and Public Works		X				X	
Agriculture		X					X
Local Government		X					X
Economic Develop & Tourism		X					
Cultural Affairs & Sport						X	
Summary: Percentage	**36%**	**78%**	**29%**	**21%**	**29%**	**29%**	**29%**
Total number of departments	**5**	**11**	**4**	**3**	**4**	**4**	**4**

Note: Table modified based on the 2004 Financial Management Review

Transversal emphasis of matter extracted from the 2004/05 Auditor-General Report

Table 8: Qualifications per Public Entity

	Control over Cash Collected	Non-Current Assets and Current Assets, including Revaluation Reserve in 2004/05	HRM: Leave Pay Provision
WC Nature Conservation Board			X
WC Cultural Commission	X		
WC Housing Development Board		X	

Table 9: Transversal emphasis of matters per Public Entity

Entity	Transversal matters			
	Risk assessment/ fraud prevention	No internal audits	HRM	AFS discrepancies
WC Nature Conservation Board		X	X	
WC Trade and Investment Promotion Agency (WESGRO)				X
WC Tourism Board/DMO trading as Cape Town Routes Unlimited	X			
WC Cultural Commission	X			
WC Language Committee	X			
Heritage Western Cape*				X

**unlisted public entity*

Emphasis of matters for trading entities

Table 10: Transversal emphasis of matter for Trading Entities

Trading Entity	Transversal matters	
	Late submission of AFS	Delay in the finalisation of the Audit Report
The Cape Medical Depot	X	X
Government Motor Transport	X	X

Having done the analysis of the audit opinions as expressed, these were communicated to the respective departments. Financial governance will continue to monitor the departments progress to determine which problematic areas as identified are being addressed.

5. Way forward

Our, the Normative Financial Management component's, approach to monitoring compliance in terms of the PFMA is shifting from mere nominal compliance to substantive compliance. The component is in the process of updating and redefining its tools of measurement and the indicators used to ensure compliance monitoring.

In this regard the Normative Financial Management component will embark on a few initiatives to attain this, inter alia:

- Ensure an update of the PFMA compliance questionnaire in anticipation of an alternative mechanism of monitoring to be provided by the National Treasury,
- Ensure the revision of the indicators for public entities in line with the Treasury Regulations affective as from 15 March 2005, and
- Ensure the re-drafting and implementation of revised provincial treasury instructions.

The internal audit plan roll-out provides an additional source of reference for this component of financial governance. The departmental audits being conducted provides a more frequent and timely source of evidence and a reference tool to guide the component in identifying issues to be addressed with departments to ensure continued adherence to laws, policy as well as compliance with sound financial management practices.

Concurrently, the focus of National Treasury is the formulation of an Internal Control Framework to be rolled out to National and Provincial Departments during 2006. Nationally discussions on the subject of the PFMA amendments have fizzled out, but in the Western Cape we should proactively prepare for its implementation – particularly the legislative reform for public entities.

7

Internal Audit & Risk Management

1. Internal Audit

1.1 Introduction

The PFMA confers on an Accounting Officer, the responsibility to ensure that the department, trading entity or constitutional institution has and maintains -

- An effective, efficient and transparent systems of financial and risk management and internal control;
- A system of Internal Audit under the control and direction of an audit committee

To fully understand the purpose of the above-mentioned PFMA requirement, we need to focus on the definition of Internal auditing as defined by the Institute of Internal Auditors.

Internal Auditing is an,

- Independent
- Objective
- Assurance and
- Consulting Activity.

It is designed to;

- Add Value
- Improve an organisations operations.

It helps an organisation accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of,

- Risk Management
- Control and
- Governance Processes.

The need for an Internal Audit function is directly linked to assisting the Accounting Officer in ensuring effective, efficient and transparent systems of financial and risk management and internal control.

The Provincial Government of the Western Cape has co-sourced the Internal Audit function for the province to the Sihluma Sonke Consortium.

In terms of this agreement, the following were listed as key deliverables.
In the first year ending 31 March 2005:

- Inherent risk assessments for all provincial departments, inclusive of the Provincial Parliament.
- Internal Audits conducted in accordance with the approved Internal Audit plans for the Departments of Health, Social Services & Poverty Alleviation and Education.
- Three effective audit committees in place for the Departments of Health, Social Services & Poverty Alleviation and Education with a Shared committee for the remainder of the provincial departments.
- An approved three-year rolling strategic Internal audit plan and one year operational Internal Audit plan for all Provincial departments.

In the second year commencing 1 April 2005:

- Internal audits conducted in accordance with the approved internal audit plans for all provincial departments.

The contract term commenced on 15 December 2003 and will continue for a period of three years from the date of commencement with an option to extend for a further 2 years.

During the contract term of the Sihluma Sonke Consortium, an important focus is skills transfer to existing PGWC staff and recruiting additional human resources to capacitate an Internal Audit service capable of servicing 13 Provincial departments.

Taking into account the following factors, a centralised Internal Audit service is favoured:

- Internal audit skills are scarce skills and centralising the function will ensure optimal usage of scarce resources.
- Staff with specialised skills can be optimally used across departments to benefit all departments.
- Duplication of effort and skills will be avoided.
- Consistency in the development and application of Internal Audit methodology.
- Consistency in audit approach, audit execution and reporting.
- The quality of audit work and compliance with the IIA standards is easier to achieve in a centralised unit.
- The independence and objectivity of internal audit staff in a centralised unit will be easier achieved and maintained.

An overview of 2005

The year 2005 saw the roll-out of an Internal Audit service to all provincial departments including Parliament.

Consistent with the Internal Audit Methodology adopted by the Province, a risk based audit approach is followed which means that audit efforts are directed by the assessment of the risks identified in a department

The various audit committees approved the one year operational and 3 year strategic internal audit plans for all departments.

As a result of budgetary constraints, the utopia Internal Audit plans (top 20 high risk areas per department) could not be executed. The number of audit focus areas was reduced to fit the available funds.

To ensure that the available funds are maximized, certain transversal audit areas were identified. These areas included Supply Chain Management, Transfer Payments, Human Resource Management, and Asset Management. Subject matter experts were identified to gather information such as process descriptions, applicable policies, applicable laws and regulations etc. This information was then stored centrally for all departments to access as required. This exercise reduced duplication of effort and ensured that the available resources were used optimally.

The roll-out of an Internal Audit service to the Departments of Health, Education, Social Services and Poverty Alleviation and Transport & Public Works commenced in the 2004/05 financial year. The following are the outcomes of the audits conducted in these departments.

General

- A lack of supporting documentation for transactions captured on the systems.
- Policy and Procedure manuals are not in place. A number of the weaknesses in internal controls identified in the areas of Human Resource Management, Finance, Asset Management, Information Management and Supply Chain Management are as a result of the lack of documented policy and procedure manuals. Taking into account the high staff turnover ratios that are experienced in Government, the need for policy and procedure manuals is emphasised to ensure continuity and the continued functioning of the implemented controls in these areas.
- Inadequate information is kept on file.
- Inadequate control exists over files.
- No centralised unit co-ordinating the issuing of policies.
- Lack of awareness of policies issued.
- Inadequate consultation with stakeholders when policies are drafted.
- No evaluation/assessment of the effectiveness of policies implemented.
- Lack of business continuity or recovery plans.
- Staff members receive gifts.

Human Resource Management

- The performance of new appointees is not adequately measured and assessed.
- Inefficiencies in the recruitment and selection process as undue time delays occur in the process.
- The effectiveness of newly designed organisational structures are not appropriately measured after implementation of the structures.
- The possibility exist that the Equate system can be manipulated.
- Qualifications of new appointees are not adequately verified.
- Leave is approved subsequent to it being taken.
- No reference checks are performed when appointments are made.

Finance

- No authorisation or delegation letters were issued to officials responsible for signing subsidy payments.
- Inadequate security controls over cashiers office.
- Documentation supporting the budgeting process is not readily available or adequately safeguarded.
- Real time reports indicating the current status of actual expenditure compared to budgeted expenditure is not available.
- Information pertaining to the budgeting process is vested in one individual.
- No formal process in place to ensure that the budget is aligned with the strategic plan of the institution.
- Approval and communication of institutions budgets are not done timeously.
- Inaccurate budgeting and poor financial planning at year end.
- Inadequate supporting documentation attached to payments.
- No approved policy for Subsistence and Travel advances.
- The reconciliation between PERSAL and BAS is not performed.
- Reconciliations which are performed are not signed as evidence of review.
- Supporting documentation for S&T advances paid is not readily available.
- No supporting documentation detailing how the subsistence and travel claims were calculated.
- Overtime claim forms were not completed correctly.
- Incorrect calculation of overtime paid.
- No supporting documentation provided for PERSAL deductions implemented.
- Budget related discussions and decisions are not minuted.

Asset Management

- Lack of control over fixed assets issued from stores.
- Lack of follow-up on outstanding repairs to facilities.
- Inadequate control over contractors performing repairs to or extension of facilities.

- No formal sign off to certify that work performed by contractors were performed satisfactorily.
- Inadequate planning for preventative maintenance.
- No continuous inspection process to identify possible problem areas and to prevent more costly maintenance.
- Condemning of assets do not take place regularly.
- Inadequate storage facilities for assets.
- Inadequate personnel to deal with asset management.
- Individual asset numbers are not allocated to assets.
- The fixed asset register has not been updated timeously.

Information Management

- Poor documentation standards.
- Poor disaster recovery plans and back-up procedures.
- No retention and disposal program in place for records management.
- Inadequate archiving of files.
- Lack of electronic integrated document and records management system.
- Inadequate controls to ensure the confidentiality of information.
- Inadequate safeguarding of information.

Supply Chain Management

- Inadequate mechanisms in place to monitor the performance of service providers once contracts have been awarded.
- Inadequate consultations with Legal Services around Procurement and Tendering issues.
- Service Level Agreements are not in place for all contracts entered into.
- Inadequate skills and competencies on Bid Committees.
- Selected tenderers are invited to tender on open invitation.
- An approved suppliers database is not utilised when goods and services are procured.
- The necessary requisition form and other supporting documentation was not attached to the order.
- Sub-contractors to main contracts are not disclosed.
- Final delivery certificates are issued before the retention period lapses.
- No list of defaulting consultants are maintained.
- No approved signatory list exists.

The department specific audit findings were reported to the Accounting Officers, the relevant officials and to the audit committees. Appropriate corrective actions were recommended to address the reported weaknesses in internal controls. Departments offered a response to these findings and undertook to implement the recommended corrective action.

The responsibility now rests with the department to ensure that the necessary corrective measures are implemented. Internal Audit will conduct follow-up audits to ascertain whether the agreed actions were taken.

The strengthening of internal controls within departments will only be evident once there is an ongoing commitment to take corrective action when weaknesses are reported and an ongoing monitoring of corrective action taken, to ensure that the controls continue to function effectively.

1.2 Role of Audit Committees

In terms of the PFMA the audit committee must report on,

- The effectiveness of internal control.
- Quality of in year management and monthly/quarterly reporting in terms of DORA.
- The evaluation of the accuracy, completeness and reliability of the annual financial statements.

The Audit committees for Health, Education, Social Services & Poverty Alleviation and a Shared service for the other departments continued to execute their responsibilities in terms of the PFMA and the Audit committee Charter as approved by Cabinet.

The audit committees submitted their reports to the relevant Accounting Officers within the prescribed deadlines.

The audit committee reports focused broadly on the following aspects:
The shared committee commented on the fact that limited internal audit work was performed in the departments due to the phased roll-out of the Provincial Internal Audit service. The committee had to rely on the opinions of the Auditor General in order to make an assessment of the effectiveness of internal controls within the departments.

The Education audit committee commented on the lack of corrective action taken to address the findings raised by the Auditor General, Internal Audit, Forensic Audit and the departmental inspection teams.

The Health audit committee reported that,

- Elements of internal controls were not effective for the year under review and that compliance with prescribed policies and procedures were lacking in certain areas.
- Budgetary constraints resulted in limited Internal Audit work being done in the department.
- Forensic audit indicated that there are certain recurring problems in the department which gives rise to the perpetration of fraudulent activities.
- Attention should be given to ensure the follow-up and resolution of outstanding cases.

- The organisational structure for risk management within departments should be finalised as soon as possible and attention should be given to ensuring that the Sihluma Sonke Consortium delivers in terms of capacity building of PGWC staff.

The Social Services and Poverty Alleviation audit committee reported that:

- The Forensic audit unit investigated a large number of people being paid salaries by the Province who were also receiving grants.
- The committee was concerned with the limited internal audit work being done in departments as a result of the budget limitation.

The committee's reports focused extensively on the lack of Internal Audit coverage achieved in the departments as the committees rely on the work of Internal Audit to meet their reporting responsibilities in terms of the PFMA which requires that the audit committee must report on the effectiveness of internal controls.

During the course of 2005, the 4 audit committees requested presentations from the departments to build their knowledge of the operations of the departments they serve.

Training sessions focusing on building effective audit committees were presented to members. Committee members also attended a number of round table discussions arranged by the Institute of Directors and the South African Institute of Chartered Accountants to discuss audit committee best practices.

Appropriate training courses and keeping abreast of developments within departments, is key to ensuring that the committee is able to be effective in executing their responsibilities.

1.3 Facilitating improvement in Financial management

Facilitating sustainable improvement in internal controls will require that risk management and internal control is practiced at all levels within the organisation.

Strengthening internal controls in a department requires that process owners have a thorough understanding of the processes under their control, are aware of the controls within the process, understand the purpose of the control and ensure that the controls are applied consistently.

The role of Internal Audit is to provide assurance that risk management, control and governance processes within the organisation is operating effectively. To add value and improve the departments operations will require that Internal Auditors have a sound understanding of the department's operations, the strategic objectives and risks impacting on the achievement of these objectives.

To achieve this outcome, we need to focus on recruiting the necessary human resources to capacitate the Province's own Internal Audit Unit and provide focused training initiatives to develop these resources.

The value of the work performed by Internal Audit will only be evident once recommended corrective measures are taken to improve controls and the effectiveness of the corrective measures are monitored on an ongoing basis.

The audit committee will also start focusing on management response to the findings of Internal Audit, Auditor General and Forensic Audit and require a regular feedback on progress in this regard.

Ensuring maximum audit coverage and limiting duplication of audit effort will require greater co-operation between the various service providers (Internal Audit & Auditor General) and the audit committee, as the central committee reviewing the audit plans of all service providers.

2. Risk Management

2.1 Risk Assessment Overview

To enable the Provincial Government of the Western Cape (PGWC) to focus and prioritise its efforts in the process of achieving the required levels of control assurance and sound government governance, a risk assessment exercise has been undertaken by the Sihluma Sonke Consortium (SSC) on behalf of the Provincial Treasury across all 14 provincial departments, as part of their internal audit engagement over the last year. Consolidated risk profiles have been drafted and reported on for each provincial department.

SSC conducted on average between 6 and 35 interviews and workshops per provincial department, during which more than 14000 potential risks were identified. The risks were identified using a consistent approach, based on the perception of the departmental senior management of the PGWC, and are inherent, i.e. without consideration of any controls that may be in place to counter them, making it possible to derive trends and draw findings across provincial departments.

2.2 An executive overview of the key risk findings

Of all the potential risks identified, **operational type risks** outweighed all other types of risks being 48 per cent of all risks, followed by **strategic type risks,** being 28 per cent of all the risks, with only 8 per cent of all risks being of a **financial** nature.

Risks relating to **Process, Governance**, and **People and Culture** constitutes 57 per cent of all PGWC risks identified, with **Information Management** in a close fourth place.

From the risk assessment conducted, it is evident that one of the most significant challenges in the PGWC is the general lack of a process orientation. **Processes** create the link between service requirements and value delivery (outputs and outcomes) on the one hand, and activities and resources (inputs) on the other hand. Processes are the only mechanisms whereby both effective work design and work efficiency can be achieved.

An equally significant portion of risks identified, lie within the **Governance** space. Sound government governance elements and principles create the right environment within which processes can operate. It provides for the appropriate strategic planning processes to firstly focus on ensuring provincial departments and individuals within those departments are ***doing the right things***, and secondly to focus on the appropriate control environments, measurement mechanisms, and levels of accountability and responsibility, to ensure that the required levels of effectiveness and efficiency are achieved and sustained, i.e. ***doing things right***. Its foundation is a sound value system.

The findings above highlight **People** related concerns, firstly relating to the need for absolute role clarity, and secondly the need for appropriate skills, capability and commitment to deliver optimally and consistently. A strong process orientation, coupled with the service orientation initiatives, such as *Batho Pele* and *iKapa Elihlumayo,* and the Province's focus on *Building Social and Human Capital*, will also help to create the right **service delivery mindset and culture.**

Many concerns lie in the **Information Management** space, highlighting the requirement for the availability of the right information at the right time to support the service delivery processes of the PGWC. The focus here should be, not on information systems and technology, but on the broader requirements of information, and the most appropriate mechanisms to obtain, coordinate and deliver that timeously, as and when needed for appropriate decision making.

A significant number of risks identified relate to **Strategic Planning**. From observation and discussion it is evident that much strategic planning is conducted by the provincial departments, through its long term and annual strategic planning cycles, in a constant drive to meet the stringent legislative requirements of national and provincial government. From the further analysis of the risks identified, however, this process is not necessarily efficient. There is significant opportunity to rethink the effectiveness (the design) and efficiency (the execution) of the strategic planning processes within the PGWC, especially regarding the core focus of service delivery. There is a significant opportunity to rethink the year on year continuity of performance measurement and performance enhancement regarding strategic and operational plans. There is also a significant opportunity to reconsider the balancing of short term, medium and long term goals relating to any particular provincial department's goals, as well as the broader goals of the Province in its broader strategic initiatives, within an agreed governance framework, and within the broader programme development phase of the Provincial Growth and Development Plan.

From the risk assessment done, it is evident that **Supply Chain Management** has been a concern for some time. The disbandment of the Provincial Tender Board, and the decentralisation of Procurement to departmental level, have increased the current exposure in this area significantly, especially for the immediate future, until the new required processes have been put in place. A strong transversal focus to define the required standards, processes and controls will be necessary.

Also, the **Legislative and Regulatory** risk in the PGWC will always remain high on the risk agenda for the provincial government, due to the significant implications that any new policy direction, new legislation and regulation have on the operationalisation thereof. Greater awareness regarding the reality of the implications in terms of administrative burden may be required. This is essentially a government governance related issue, and needs to be dealt with in this context as well. The extension of the provincial risk assessment to the provincial Ministers' offices creates the opportunity to create greater awareness and sensitivity regarding these issues. Approval is currently being sought from the Provincial Cabinet to conduct Risk assessment in the Ministers offices.

2.3 Departmental Structures

To facilitate the management of risks within departments, and to drive the implementation and monitoring process within departments, job descriptions and structures for risk management practitioners were developed by the Provincial Treasury in conjunction with Organisational Development. Individual meetings with departments and workshops were held until the majority of departments were in agreement with the role and function of the proposed risk management units. Approval has been obtained from the provincial cabinet for the creation of these posts within departments. Once these units are in place the role out and implementation of risk management can be driven far more aggressively.

2.4 Data Platform

The risk assessment information as discussed in the first section was captured and manipulated within Excel. To ensure that this information could be taken forward into the risk management process, it was necessary to purify the spreadsheet data in preparation for importing into the risk management software solution. The basic importing process has been finalised and has been placed on a database that will be able to be accessed by departments once their structures are in place.

2.5 Way forward/Primary challenges

Departmental risk management units

The role-out of the risk management systems within departments is completely dependant on the existence of competent risk management practitioners within the departments. The challenge is to create these structures within the departments and fill the posts with suitable candidates as a matter of urgency. The primary challenge is finding the correct incumbents to these posts, as risk management practitioners with experience are scarce. By necessity, officials from within departments that have displayed potential will have to be appointed and provided with the necessary training and support.

Responsibility for risks

Although the risk assessments in departments were completed some months ago, risks have not yet been allocated to senior management for the required management attention and treatment. Once risks are allocated SMS members should have their performance agreements amended to include responsibility for the management of risk.

Identification of all existing controls

The identification of existing controls has already started within departments, by means of the documentation of process and control maps. The continuation of this process to cover all processes within all institutions will be boosted with the appointment of the risk management practitioners to facilitate the necessary workshops. The identified controls emanating from the process and control maps then need to be captured on the risk management software platform.

Performance of residual risk assessments

Once existing controls have been identified the residual risk needs to be assessed. Workshops with process owners and staff will need to be facilitated by the risk management practitioners. These workshops could include a review of the assessment of the level of inherent risk that was completed during the risk event identification workshops. The workshops could therefore be utilized not only to build on the risk management information, but also to refine and improve information already captured during previous workshops.

Compilation of risk treatment plans

The residual risk levels will indicate which processes need further intervention to bring the residual risk within acceptable levels. Risk treatment plans, indicating what treatments are required are the beginning of the improvement process. These plans are captured on the risk management software, where implementation progress can be monitored and reported on.

Need to identify all national and provincial strategies and ensure inclusion in next risk event identification exercises.

National and Provincial government have introduced many strategies to support and promote central objectives which need to be supported by all provincial departments. A concerted effort is needed to identify all these strategies and ensure that they are included within departmental processes. Attention must then be given to the identification of the risks related to these strategies and the implementation of controls to ensure that the objectives of these strategies are achieved where relevant within departments.

Issue directives to embed risk management and issue questionnaire to monitor implementation.

To drive the implementation of the risk management process, it is necessary for the Provincial Treasury to issue directives embedding risk management into departmental processes. The monitoring of implementation will also be enhanced by means of quarterly questionnaires to determine departmental progress and identify challenges in the implementation process for which further interventions will be required.

Training of facilitators iro risk event identification and risk assessment, and also ensure improved quality control of the process.

Risk management practitioners will have to be trained to ensure that shortcomings identified in the first risk assessment exercise are not repeated. Departments will also have to ensure that the necessary quality control measures are in place to ensure that the information captured on the risk management database is not only complete and accurate, but that all information is also of the required quality.

8

Accounting

1. Introduction

The Accounting component of Financial Governance aims to ensure that financial reporting is a full and true reflection of the financial position, performance and cash flows of the Province. It is positioned to play a lead role in advising departments and entities on sound accounting policies and financial reporting practices required to enhance good financial governance. Key services entail in-year monitoring of the state of books of account, roll-out of the Generally Recognised Accounting Practice (GRAP), consolidation of annual financial statements, further implementation and maintenance of the Standard Chart of Accounts and the interpretation of financial statements.

The financial governance arena and particularly the accounting facet, is subject to factors such as legislation and policy. Legislation is one of the key drivers responsible for change in the accounting environment within public financial management. The legislative framework mainly consists of the Constitution of the Republic of South Africa, 1996 ("the Constitution"), PFMA, DORA, and appropriation legislation. Reforms currently taking place in the accounting environment include, *inter alia*, the development of standards of GRAP by the ASB and incremental development of AFS in support of the transition from cash to accrual based accounting.

This Review is an attempt to assess accounting practices and analyse and interpret the AFS of the Western Cape Provincial Government departments, public entities and trading entities. It serves to encourage CFOs in provincial departments and PEs as partners in ensuring sound financial management to share their knowledge and skills in addressing the challenges facing financial management in the public sector.

2. Accounting – Developments and Initiatives

2.1 Cash to accrual accounting

The National Treasury has proposed a phased approach to the introduction of accrual based accounting in government. The Office of the Accountant-General of National Treasury, in its quest to improve the quality of financial accounting and reporting, has outlined timelines for the movement from cash to accrual accounting. The timelines aims at having all departments on accrual reporting by 31 March 2015, starting with the development of IFMS in the 2005/06 financial year.

It was recognised that an Integrated Financial Management System had to be the first key deliverable on the road to Accrual Accounting. The IFMS will be developed over the next six financial years, with 2005/06 being year one and 31 March 2011 being the end of year six. Throughout this period issues such as management strategies; training; policies, procedures and guidelines and standards of GRAP will be addressed. During 2011/12 training programmes will be completed and readiness assessments will be performed. Finally, during the 2012/13, 2014/15 financial years accrual accounting will be phased in at all departments.

2.2 Financial Management Improvement Programme

The FMIP is currently in the early part of the second phase, viz the implementation phase. This phase comprises changes to Annual Financial Statements, changes to Asset Management, changes to Policies and Procedures.

2.3 SCoA

The SCoA was introduced in the 2004/05 financial year as part of the Financial Management Improvement Programme, as part of an initiative to standardise the economic reporting format, in line with international best practice. To take this a step further the province in conjunction with National Treasury are currently engaging with public entities on the roll-out of the SCoA for these entities. This would facilitate the consolidation of financial statements of departments and public entities as well as the standardization of the budget process.

2.4 Standards of GRAP

The Accounting Standards Board (ASB) was established to set standards and guidelines for financial statements as required by section 216 (a) of the Constitution of South Africa. The Provincial Treasury has, through internal communication mechanisms, drawn in provincial departments with the purpose to submit comment in a consolidated way.

The Minister of Finance has approved the implementation of the following Standards of GRAP with effect from 1 April 2005 for entities on accrual accounting:

- GRAP 1: Presentation of Financial Statements
- GRAP 2: Cash Flow Statements
- GRAP 3: Accounting Policies, Changes in Accounting Estimates and Errors

Workshops were held with departments in the Province on the implementation of GRAP 1-3. Although this was done, departments still need to be capacitated to deal with the treatment of these GRAP standards.

2.5 Reporting timelines

The accounting and reporting cycle of provincial departments, for each financial year, starts before the beginning of the financial year in April and finishes six months after the financial year ends in March of the following year. A challenge that has been identified is to advance the year-end reporting timelines in respect of the previous year to enable the departments to address issues reported on by the AG as early as possible in the current year.

3. Accounting Capacity

Strengthening the capacity for the successful implementation of accrual accounting is priority. In order to ensure that the province is fully equipped to undertake the envisaged improvements in financial accounting, it is imperative that the accounting personnel's organisational and operational capabilities are enhanced. This is viewed as a long-term proposition, coupled to the implementation of accrual accounting. National Treasury facilitated training on the Asset Management Guideline, GRAP Standards 1, 2 and 3 and the AFS formats for the 2004/2005 financial year-end. Table 1 below reflects the number of officials who attended this training.

Table 1: Participation in NT training interventions

	AFS and GRAP 1,2,3	Asset Management Guideline	SCoA
Participants	106	180	335

Furthermore, during July and September 2004 National Treasury also invited provincial departments to participate in a 3-day training workshop with the aim to equip financial practitioners on the New Economic Reporting Format (NERF) and the SCoA, which was once again coordinated by PT. The workshop dealt with aspects of theory regarding NERF and SCoA, practical course work, as well as a written assessment at the end of the third day. It was requested that all relevant staff within the CFO support structure, including programme managers attend the workshop.

SCoA course results can be accessed on National Treasury's SCoA website: https://scoa.treasury.gov.za/ under the "Exam Results" tab. National Treasury continues to provide SCoA training.

4. Analysis and interpretation of annual financial statements

The AFS only become meaningful once the information has been analysed and interpreted. Consequently, the objective of this chapter is to provide an analysis of the financial position, performance and cash flows of the provincial departments. Ratios are applied to analyse the financial position and performance of departments, public entities and trade accounts. These ratios, as applied, provide interpretation methodologies that will add significant value when benchmarked against similar departments and institutions of other provinces in the future. The application of the ratios to the financial results of the Western Cape Government must be seen as a step in developing the analysis and interpretation of AFS that could be refined along with future improvement in financial reporting.

4.1 Provincial Departments

This part provides an analysis and interpretation of the financial position, performance and cash flows of departments.

Revenue management

Own Revenue collected versus Own Revenue Budget (Own Revenue collected/Own Revenue Budget as a percentage). The purpose of this ratio is to provide an indication of the own revenue collected above or below budget level with a year on year comparison. 100 per cent indicates that the own revenue collected equals the budget for each financial year. A percentage exceeding 100 per cent indicates by how much the budget was exceeded, and below 100 per cent, by how much it was under collected. The ratios per financial year are driven by increases and decreases of the revenue budget and own revenue collected and thus analysed from both these angles to derive a meaningful interpretation.

Table 2: Own revenue collected against Budget

Consolidated/ Department	Own Revenue collected		Revenue Budget		Own Revenue collected/Budget	
	2004/05	2003/04	2004/05	2003/04	2004/05	2003/04
	R'000	R'000	R'000	R'000	%	%
Consolidated	1 470 765	1 527 428	1 176 960	1 109 061	124.96	137.72
Office of the Premier	1516	1910	548	396	276.64	482.32
Provincial Parliament	158	224	70	70	225.71	320
Provincial Treasury	385 312	388 934	170 558	225 001	225.91	172.86
Community Safety	1 647	2 402	375	967	439.20	248.4
Education	9 962	15 585	13 440	13 440	74.12	115.96
Health	236 541	165 011	203 536	154 261	116.22	106.97
Social Services and Poverty Alleviation	31 267	18 212	7 260	7 060	430.67	257.96
Housing	38 757	27 985	25 077	25 162	154.55	111.22
Environmental Affairs and Development Planning	767	559	301	10	254.82	5590
Transport and Public Works	744 423	691 175	745 137	666 595	99.90	103.69
Agriculture	13 385	12 224	10 528	11 114	127.14	109.99
Local Government	327	489	13	6	2515.38	8150
Economic Development and Tourism	5 937	4 040	3 680	3 650	161.33	110.68
Cultural Affairs and Sport	766	1 329	629	1 391	121.78	95.54

Analysis

Table 2 above provides an analysis of own revenue collected against budget from a consolidated provincial perspective and per department for the 2003/04 and 2004/05 financial years.

Departments managing smaller own revenue budgets reflect a tendency to under budget that results in an over collection above budget. Over-collections mainly occurred at the departments of Provincial Treasury, Community Safety, Social Services and Poverty Alleviation, Housing, Local Government and Economic Development and Tourism.

Although the revenue budget of the Provincial Treasury was 24,2 per cent lower than the previous financial year, revenue collected in 2004/05 only decreased by 0,93 per cent. The department of Social Services and Poverty Alleviation exceeded its own revenue budget by 430,67 per cent (257,96 per cent 2003/04) that indicates the continued prevalence under-budgeting still prevailing.

Although the revenue budget of the Provincial Parliament remained at the same level as the previous financial year, revenue collected decreased by 29,46 per cent from R224 000 in 2003/04 to R158 000 in 2004/05. This reflects a declining trend of own revenue generated by the Provincial Parliament. The same trend is evident from own revenue generated by Education, which decreased by 36,08 per cent from R15,585 million in 2003/04 to R9,962 million in the 2004/05 financial year.

Reliance on Donor funding

Reliance on Donor funding (Donations/Total Revenue as a percentage). The purpose of this ratio is to provide an indication of the level of total revenue that is generated by way of donor funding. A growing trend indicates the increased augmentation of funds available for service delivery. If the percentage is low it may be evident of a need to improve the inflow of donor funds to departments in the Province.

Table 3 below provides information for the analysis of donations received from a consolidated perspective and per department and illustrates, in value, as well as a percentage of total revenue, reliance on donor funding as part of total funding.

Table 3: Donations received by departments as part of total revenue

Consolidated/ Department	Donations received		Total Revenue		Donations/ Total Revenue	
	2004/05 R'000	2003/04 R'000	2004/05 R'000	2003/04 R'000	2004/05 %	2003/04 %
Consolidated	13 853	206	18 978 653	16 747 144	0.07	0.00
Provincial Administration WC	0	0	298 209	322 006	0.00	0.00
Provincial Parliament	0	0	46 949	43 414	0.00	0.00
Provincial Treasury	0	0	323 734	266 584	0.00	0.00
Community Safety	0	0	162 899	142 765	0.00	0.00

Consolidated/ Department	Donations received		Total Revenue		Donations/ Total Revenue	
	2004/05 R'000	2003/04 R'000	2004/05 R'000	2003/04 R'000	2004/05 %	2003/04 %
Education	0	177	5 516 384	5 094 317	0.00	0.003
Health	13 853	0	4 925 201	4 399 592	0.28	0.00
Social Services and Poverty Alleviation	0	0	4 350 511	3 898 936	0.00	0.00
Housing	0	0	726 561	543 435	0.00	0.00
Environmental Affairs and Development Planning	0	0	137 883	124 210	0.00	0.00
Transport and Public Works	0	0	1 882 316	1 618 793	0.00	0.00
Agriculture	0	29	233 501	172 809	0.00	0.00
Local Government	0	0	89 336	79 245	0.00	0.00
Economic Development and Tourism	0	0	128 793	131 490	0.00	0.00
Cultural Affairs and Sport	0	0	156 376	138 154	0.00	0.00

Analysis

In the 2004/05 financial year only the Departments of Health and Transport and Public Works received donor funding. This table includes all donor funding received and accounted for during the period under review. A remarkable increase compared to the previous financial year is reflected, mainly as a result of amounts received for the Department of Health from overseas development assistance.

According to the current accounting methodology, donations in kind, such as items of PPE, i.e. movable and immovable property, are not reflected in the AFS. If these items were accounted for the ratio would improve.

5. Expenditure Management

5.1 Levels of spending

Levels of spending (Total expenditure/Total budget) The purpose of this ratio is to provide an indication of spending by departments against their total budget. Underspending as well as overspending will have to be investigated and corrective measures will need to be put in place to ensure that the issues are addressed, which contribute to under- and overspending.

Table 4: Levels of spending

Consolidated/ Department	Total Expenditure		Total Budget		Total Expenditure/ Total Budget	
	2004/05 R'000	2003/04 R'000	2004/05 R'000	2003/04 R'000	2004/05 %	2003/04 %
Consolidated	18 261 855	16 366 880	18 670 995	16 752 482	97.81	97.70
Department of the Premier	294 939	306 622	297 241	320 492	99.23	95.67
Provincial Parliament	43 599	41 003	46 861	43 260	93.04	94.78
Provincial Treasury	102 333	64 635	108 980	102 651	93.90	62.97
Community Safety	157 979	141 187	161 627	141 330	97.74	99.90
Education	5 451 372	5 114 885	5 516 384	5 092 172	98.82	100.45
Health	4 889 988	4 383 872	4 878 343	4 386 592	100.24	99.94
Social Services and Poverty Alleviation	4 261 612	3 770 627	4 326 504	3 887 784	98.50	96.99
Housing	600 453	370 619	712 881	540 612	84.23	68.56
Environmental Affairs and Development Planning	135 468	120 622	137 417	123 661	98.58	97.54
Transport and Public Works	1 786 429	1 571 811	1 882 316	1 594 213	94.91	98.59
Agriculture	196 893	160 591	230 644	171 699	85.37	93.53
Local Government	65 419	56 073	89 022	78 762	73.49	71.19
Economic Development and Tourism	126 439	129 856	126 536	131 100	99.92	99.05
Cultural Affairs and Sport	148 932	134 477	156 239	138 154	95.32	97.34

Analysis

An analysis of the level of spending reflects that all departments have under spent during 2004/05 financial year, except for the Department of Health. The following is a selected analysis of the levels of spending per department:

- PT's level of spending in 2004/05 was 93,90 per cent. This is as a result of the revenue from interest on surplus funds invested from the PRF being allocated to PT. If the interest were to be apportioned to departments earning interest this percentage would increase.
- Spending by the Department of Housing improved from 68,56 per cent of the 2003/04 Budget to 84,23 per cent during the 2004/05 financial year. Spending still remains below the national norm for under spending of 2 per cent.
- The Department of Local Government has improved spending levels from 71,19 per cent of the 2003/04 to 73,49 per cent during the 2004/05 financial year but remains below the norm of 2 per cent. The reasons for under spending are highlighted in the management report.
- Spending levels of the Department of Agriculture decreased from 93,53 per cent in 2003/04 to 85,37 per cent during the 2004/05 financial year. This resulted from the compulsory saving transferred to the Department of Transport and Public Works and unspent conditional grants as explained in the management report.

5.2 Current and Capital Expenditure and Transfer Payments

In table 5 below, the levels of current expenditure and capital expenditure is expressed as a percentage of total expenditure.

Table 5: Levels of current and capital expenditure

Consolidated/ Department	Total Current Exp		Total Capital Exp		Total Expenditure		Total Cur Exp/ Tot Exp		Total Cap Exp/ Total Expenditure	
	2004/05 R'000	2003/04 R'000	2004/05 R'000	2003/04 R'000	2004/05 R'000	2003/04 R'000	2004/05 %	2003/04 %	2004/05 %	2003/04 %
Consolidated	11 544 284	10 407 931	1 057 786	925 313	18 261 855	16 366 880	63.22	63.59	5.79	5.65
Department of the Premier	248 869	247 767	41 211	49 907	294 939	306 622	84.38	80.81	13.97	16.28
Provincial Parliament	34 742	33 542	354	691	43 599	41 003	79.69	81.80	0.81	1.69
Provincial Treasury	99 614	53 521	1 996	6 342	102 333	64 635	97.34	82.80	1.95	9.81
Community Safety	123 935	104 171	2 282	7 827	157 979	141 187	78.45	73.78	1.44	5.54
Education	4 959 415	4 663 058	25 748	40 158	5 451 372	5 114 885	90.98	91.17	0.47	0.79
Health	4 317 253	3 793 438	105 586	90 715	4 889 988	4 383 872	88.29	86.53	2.16	2.07
Social Services and Poverty Alleviation	389 677	331 960	18 164	3 907	4 261 612	3 770 627	9.14	8.80	0.43	0.10
Housing	55 690	64 565	1 563	511	600 453	370 619	9.27	17.42	0.26	0.14
Environmental Affairs and Development Planning	61 105	44 805	3 503	5 306	135 468	120 622	45.11	37.14	2.59	4.40
Transport and Public Works	901 272	770 258	831 022	694 806	1 786 429	1 571 811	50.45	49.00	46.52	44.20
Agriculture	145 342	126 733	20 127	16 636	196 893	160 591	73.82	78.92	10.22	10.36
Local Government	45 695	32 835	1 456	991	65 419	56 073	69.85	58.56	2.23	1.77
Economic Development and Tourism	45 417	40 377	1 527	2 695	126 439	129 856	35.92	31.09	1.21	2.08
Cultural Affairs and Sport	116 258	100 902	3 247	4 820	148 932	134 477	78.06	75.03	2.18	3.58

Transfer Payments

Table 6: Transfer Payments

Consolidated/Department	Transfer payments		Total Expenditure		Transfer Payments/Total Expenditure	
	2004/05 R'000	2003/04 R'000	2004/05 R'000	2003/04 R'000	2004/05 %	2003/04 %
Consolidated	5 659 785	5 033 636	18 261 855	16 366 880	30.99	30.76
Department of the Premier	4 859	8 948	294 939	306 622	1.65	2.92
Provincial Parliament	8 503	6 770	43 599	41 003	19.50	16.51
Provincial Treasury	723	4 772	102 333	64 635	0.71	7.38
Community Safety	31 762	29 189	157 979	141 187	20.10	20.67
Education	466 209	411 669	5 451 372	5 114 885	8.55	8.05
Health	467 149	499 719	4 889 988	4 383 872	8.55	11.40
Social Services and Poverty Alleviation	3 853 771	3 434 760	4 261 612	3 770 627	90.43	91.09
Housing	543 200	305 543	600 453	370 619	90.46	82.44
Environmental Affairs and Development Planning	70 860	70 511	135 468	120 622	52.31	58.46
Transport and Public Works	54 135	106 747	1 786 429	1 571 811	3.03	6.79
Agriculture	31 424	17 222	196 893	160 591	15.96	10.72
Local Government	18 268	22 247	65 419	56 073	27.92	39.68
Economic Development and Tourism	79 495	86 784	126 439	129 856	62.87	66.83
Cultural Affairs and Sport	29 427	28 755	148 932	134 477	19.76	21.38

Levels of current/capital expenditure and transfer payments

Total Current expenditure/Total Expenditure The purpose of this ratio is to provide an indication of the current expenditure in relation to total expenditure. This ratio highlights departments that spend materially less or more on current expenditure than others and may indicate or confirm under spending by departments. Furthermore, the ratio may indicate a shift in spending patterns for individual departments from capital to current or from current to capital. This shift in spending needs to be justified by departments and measures for the effectiveness of the spending need to be ensured.

Analysis

An analysis of the level of spending for current expenditure for all the departments reveals the following:

- The Departments of Social Services and Poverty Alleviation and Housing both reflect levels of current expenditure that are far below the level of current spending for other departments. These spending levels result from transfer payments made by these departments from budgeted funds.

- Current expenditure incurred by the Provincial Treasury increased by 86,12 per cent resulting from costs incurred on computer services, consultants and the filling of vacancies.
- Capital expenditure incurred by the Community Safety decreased from R 7,827 million (2003/04) to R2,282 million (2004/05).
- Provincial Treasury's capital expenditure decreased by 69 per cent from R6,342 million (2003/04) to R1,996 million (2004/05).

5.3 Total accruals added to total expenditure

Total accruals plus total expenditure/Total Budget The purpose of this ratio is to provide an indication of the level of accruals in each department and also whether the accruals in relation to total budget grew or declined from one year to the next. An increase in this percentage may indicate that a department is deferring payments of invoices in one financial year for payment from the following year's budget and therefore increasing spending levels above 100 per cent that needs to be investigated.

Table 7: Total Accruals added to total current and capital expenditure

Consolidated/ Department	Exp plus Accruals		Total Budget		Exp plus Accruals/ Total Budget	
	2004/05 R'000	2003/04 R'000	2004/05 R'000	2003/04 R'000	2004/05 %	2003/04 %
Consolidated	18 372 477	16 474 516	18 670 995	16 752 482	98.40	98.34
Department of the Premier	295 564	310 284	297 241	320 492	99.44	96.81
Provincial Parliament	43 599	41 011	46 861	43 260	93.04	94.80
Provincial Treasury	103 270	66 541	108 980	102 651	94.76	64.82
Community Safety	158 959	142 481	161 627	141 330	98.35	100.81
Education	5 456 899	5 117 015	5 516 384	5 092 172	98.92	100.49
Health	4 962 138	4 445 501	4 878 343	4 386 592	101.72	101.34
Social Services and Poverty Alleviation	4 264 319	3 771 587	4 326 504	3 887 784	98.56	97.01
Housing	610 610	371 544	712 881	540 612	85.65	68.73
Environmental Affairs and Development Planning	135 729	120 793	137 417	123 661	98.77	97.68
Transport and Public Works	1 800 984	1 600 997	1 882 316	1 594 213	95.68	100.43
Agriculture	197 403	160 591	230 644	171 699	85.59	93.53
Local Government	66 707	58 604	89 022	78 762	74.93	74.41
Economic Development and Tourism	126 521	130 217	126 536	131 100	99.99	99.33
Cultural Affairs and Sport	149 775	137 399	156 239	138 154	95.86	99.45

As stated in the accounting policies applied by departments, accruals represent goods/services that have been delivered, but no invoice has been received from the supplier at year-end, OR an invoice has been received but remains unpaid at year-end. These amounts are not recognised in the balance sheet as a liability or as expenditure in the income statement as the financial statements are prepared on a cash basis of accounting.

Accruals could also be classified as permissible deferred payments. The deferment of payments by departments could be wrongfully used to avoid over expenditure or in that sense unauthorised expenditure in avoidance of public accountability for such unauthorised expenditure. Towards the end of the 2003/04 financial year the PT requested departments to institute measures to avoid the deferring of payments and ensure that payments are processed and accounted for during the financial year the expenditure was incurred.

Analysis

The consolidated financial position of the Province indicates that, if accruals were accounted for, the consolidated expenditure levels would still not have exceeded the total budget.

The expenditure of the Department of Health would have exceeded their total budget by 1,72 per cent or if accruals had been taken into consideration. Given the extent of Health's budget, this level of deferred payment is acceptable but should not exceed 2 per cent of the Budget.

5.4 Compensation of employees

Compensation of employees/Total Expenditure The purpose of this ratio is to provide an indication of the personnel expenditure per department and for the Province as a whole in relation to total expenditure. A material increase or decrease from one financial year to the next for an individual department will have to be investigated and explained.

Table 8: Compensation of employees: expenditure trends

Consolidated/Department	Compensation of Employees		Total Expenditure		Compensation of Employees/Total Expenditure	
	2004/05	2003/04	2004/05	2003/04	2004/05	2003/04
	R'000	R'000	R'000	R'000	%	%
Consolidated	8 219 679	7 461 418	18 261 855	16 366 880	45.01	45.59
Provincial Administration WC	106 237	96 189	294 939	306 622	36.02	31.37
Provincial Parliament	26 723	25 669	43 599	41 003	61.29	62.60
Provincial Treasury	33 590	29 332	102 333	64 635	32.82	45.38
Community Safety	80 619	68 422	157 979	141 187	51.03	48.46
Education	4 567 683	4 262 001	5 451 372	5 114 885	83.79	83.33
Health	2 799 467	2 446 196	4 889 988	4 383 872	57.25	55.80
Social Services and Poverty Alleviation	193 357	168 325	4 261 612	3 770 627	4.54	4.46
Housing	40 126	39 478	600 453	370 619	6.68	10.65
Environmental Affairs and Development Planning	37 401	30 252	135 468	120 622	27.61	25.08
Transport and Public Works	139 451	128 633	1 786 429	1 571 811	7.81	8.18
Agriculture	92 585	85 108	196 893	160 591	47.02	53.00
Local Government	23 021	16 639	65 419	56 073	35.19	29.67
Economic Development and Tourism	22 182	16 565	126 439	129 856	17.54	12.76
Cultural Affairs and Sport	57 237	48 609	148 932	134 477	38.43	36.15

Analysis

Education: This high percentage reflects that this department spends 83,79 per cent of its total expenditure on personnel. It is therefore notable that the department spends smaller percentages, than other departments, on amongst others, administrative expenditure, professional and special services, and transfer payments:

- Health: Personnel expenditure as a portion of total expenditure increased by 1,45 percentage points from 2003/04 to 2004/05. This is as a result of an increase of 14,4 per cent in personnel spending in 2004/05 compared to 2003/04.
- Local Government: Personnel expenditure as a portion of total expenditure increased by 5,52 percentage points from 2003/04 to 2004/05 resulting from an increase in compensation of employees of 38,36 per cent.
- Provincial Treasury's expenditure on the Compensation of employees only increased by 14,51 per cent although total expenditure increased by 58,32 per cent from 2003/04 to 2004/05. This has resulted in the portion of spending decreasing by 12,56 percentage points.
- Expenditure levels on Compensation of employees of the departments of PAWC, Economic Development and Tourism and Cultural Affairs and Sport increased by a higher margin than their overall total expenditure**.**

5.5 Staff debtors

Staff debtors/Personnel expenditure. This ratio provides a comparison of staff debtors in relation to personnel expenditure per department for comparison year on year. The purpose of this ratio is to identify departments where high incidence of staff debt occurs, as well as the trend thereof.

Table 9: Staff debtors/Personnel expenditure

Consolidated/ Department	Staff debtors		Personnel Expenditure		Staff debtors/ Personnel Expenditure	
	2004/05	2003/04	2004/05	2003/04	2004/05	2003/04
	R'000	R'000	R'000	R'000	%	%
Consolidated	29 005	27 085	8 219 679	7 461 418	0.35	0.36
Provincial Administration WC	472	616	106 237	96 189	0.44	0.64
Provincial Parliament	1	26	26 723	25 669	0	0.10
Provincial Treasury	63	112	33 590	29 332	0.19	0.38
Community Safety	307	233	80 619	68 442	0.38	0.34
Education	13 349	13 983	4 567 683	4 262 001	0.29	0.32
Health	13 962	11 243	2 799 467	2 446 196	0.50	0.46
Social Services and Poverty Alleviation	63	214	193 357	168 325	0.03	0.13
Housing	18	8	40 126	39 478	0.04	0.02
Environmental Affairs and Development Planning	13	32	37 401	30 252	0.03	0.11
Transport and Public Works	619	433	139 451	128 633	0.44	0.34
Agriculture	54	98	92 585	85 108	0.06	0.12
Local Government	14	14	23 021	16 639	0.06	0.08
Economic Development and Tourism	46	33	22 182	16 565	0.21	0.20
Cultural Affairs and Sport	24	40	57 237	48 609	0.04	0.08

Analysis

In general the levels of staff debt remained stable from 2003/04 to 2004/05. With the implementation of BAS and transfer of debts on 1 April 2004 departments cleared staff debtors to ease the transfer of balances. The staff debtors of the bigger departments such as Health and Transport and Public Works increased during 2004/05.

Although the table does not reflect the original debt, it provides an indication of the error rate in personnel administration and the trends in this regard. Increasing trends may indicate that there may be an operational problem in the personnel administration office that needs to be investigated.

5.6 Average personnel expenditure per employee

Average personnel expenditure per employee (Personnel expenditure/Number of employees). The purpose of this ratio is to reflect the average salary cost per employee for each department, as well as for the Province as a whole. Departments with a high average will be indicative of the staff structure for those departments being filled with pro rata more senior staff members than departments with a lower average.

Table 10: Average personnel expenditure per employee

Consolidated/Department	Average personnel expenditure per employee	
	2004/05	2003/04
Consolidated	122 000	113 000
Provincial Administration WC	192 000	180 000
Provincial Parliament	438 000	420 000
Provincial Treasury	228 000	171 000
Community Safety	108 000	112 000
Education	120 000	117 000
Health	120 000	103 000
Social Services and Poverty Alleviation	144 000	126 000
Housing	145 000	146 000
Environmental Affairs and Development Planning	158 000	147 000
Transport and Public Works	102 000	105 000
Agriculture	122 000	121 000
Local Government	184 000	186 000
Economic Development and Tourism	183 000	186 000
Cultural Affairs and Sport	112 000	118 000

Extracted from the 2004/05 AFS

Analysis

The personnel expenditure per provincial employee has risen by 7,96 per cent from R113 000 to R122 000 per annum. The average personnel expenditure per employee varies across departments depending on the number and level of senior and middle management staff included in the composition of the staff compliment.

In some departments the average increases exceeded the average provincial increase of 7,96 per cent. They are Provincial Treasury (33,33 per cent), Health (16,50 per cent), Social Services and Poverty Alleviation (14,29 per cent). These increases can be attributed to the filling of vacant posts.

The number of employees for the department of Cultural Affairs and Sport has risen by 24,09 per cent but the average expenditure per employee reflects a decrease of 5,08 per cent, which could indicate that the filling of posts occurred at lower levels.

5.7 Goods and services

<u>Goods and Services/Total Expenditure</u>. The purpose of this ratio is to indicate the expenditure on goods and services by departments and the province as a whole in relation to total expenditure. Departments that spend a materially higher percentage of total expenditure on goods and services than others may have to be analysed in more detail to determine cost drivers, cost efficiency measures, provincial spending norms and cost reduction strategies.

Table 11: Goods and Services expenditure

Consolidated/Department	Goods and Services Expenditure		Total Expenditure		Goods and Services Exp/Total Exp	
	2004/05 R'000	2003/04 R'000	2004/05 R'000	2003/04 R'000	2004/05 %	2003/04 %
Consolidated	3 302 782	2 928 663	18 261 855	16 366 880	18.09	17.89
Department of the Premier	142 566	151 469	294 939	306 622	48.34	49.40
Provincial Parliament	7 977	7 871	43 599	41 003	18.30	19.20
Provincial Treasury	65 930	24 189	102 333	64 635	64.43	37.42
Community Safety	43 160	35 371	157 979	141 187	27.32	25.05
Education	389 638	398 557	5 451 372	5 114 885	7.15	7.79
Health	1 508 050	1 343 090	4 889 988	4 383 872	30.84	30.64
Social Services and Poverty Alleviation	187 761	154 313	4 261 612	3 770 627	4.41	4.09
Housing	15 564	25 068	600 453	370 619	2.59	6.76
Environmental Affairs and Development Planning	23 685	14 454	135 468	120 622	17.48	11.98
Transport and Public Works	760 938	640 535	1 786 429	1 571 811	42.60	40.75
Agriculture	52 748	41 533	196 893	160 591	26.79	25.86
Local Government	22 674	16 196	65 419	56 073	34.66	28.88
Economic Development and Tourism	23 188	23 780	126 439	129 856	18.34	18.31
Cultural Affairs and Sport	58 903	52 237	148 932	134 477	39.55	38.84

Analysis

The consolidated cost of goods and services of the Departments increased by 12,77 per cent from R2,929 million to R3,303 million in 2004/05. Although this increase exceeds the cost of inflation it is proportionate to the increase of 11,88 per cent in total expenditure.

From the table above it is clear that the higher levels on expenditure on goods and services compared to growth on total expenditure were incurred by the Departments of Provincial Treasury (172,56 per cent), Local Government (39,99 per cent) and Environmental Affairs and Development Planning (63,86 per cent). It should also be noted that these spending levels increased fairly consistent year-on year.

5.8 Inventories

Inventories/Total Expenditure. The purpose of this ratio is to indicate the cost of inventories spent by departments and the province as a whole (consolidated) in relation to total expenditure. Departments that spend a materially higher percentage of total expenditure on inventories than others may have to be analysed in more detail to determine the adequacy of the existing inventory management systems and management policies.

Table 12: Inventories

Consolidated/Department	Inventories		Total Expenditure		Inventories/ Total Expenditure	
	2004/05 R'000	2003/04 R'000	2004/05 R'000	2003/04 R'000	2004/05 %	2003/04 %
Consolidated	993 357	1 010 380	18 261 855	16 366 880	5.44	6.17
Provincial Administration WC	3 478	3 536	294 939	306 622	1.18	1.15
Provincial Parliament	366	507	43 599	41 003	0.84	1.24
Provincial Treasury	853	450	102 333	64 635	0.83	0.70
Community Safety	3 768	7 927	157 979	141 187	2.39	5.61
Education	137 399	155 728	5 451 372	5 114 885	2.52	3.04
Health	763 469	766 958	4 889 988	4 383 872	15.61	17.49
Social Services and Poverty Alleviation	13 699	10 026	4 261 612	3 770 627	0.32	0.27
Housing	1 156	857	600 453	370 619	0.19	0.23
Environmental Affairs and Development Planning	1 001	1 391	135 468	120 622	0.74	1.15
Transport and Public Works	19 040	16 823	1 786 429	1 571 811	1.07	1.07
Agriculture	12 960	9 675	196 893	160 591	6.58	6.02
Local Government	366	811	65 419	56 073	0.56	1.45
Economic Development and Tourism	881	2 062	126 439	129 856	0.70	1.59
Cultural Affairs and Sport	34 921	33 629	148 932	134 477	23.45	25.01

Analysis

The consolidated expenditure on inventories decreased by 1,68 per cent from R1,010 million in 2003/04 to R993 million in 2004/05, although total expenditure increased by 11,58 per cent.

- The Department of Health spent approximately 15,61 per cent of its total expenditure on inventories.
- The Department of Cultural Affairs and Sport spent 23,45 per cent (2003/04 – 25,01 per cent) of total expenditure on inventories (learning and teaching support material).

5.9 Buildings and other fixed structures (capital)

Buildings and other fixed structures/Total Expenditure The purpose of this ratio is to indicate the portion of capital expenditure on buildings and other fixed structures in relation to total expenditure. Departments that spend a materially higher percentage of funds on buildings and other fixed structures on a year on year basis and compared to similar departments in other provinces, may have to be analysed in more detail to determine:

- The adequacy of the existing Fixed Asset Registers;
- The adequacy of existing accounting policies on the buildings and other fixed structures;
- The development of a roadmap for the implementation of GRAP for the accounting for buildings and other fixed structures.

Table 13: Buildings and other fixed structures (capital)

Consolidated/Department	Buildings and other fixed structures		Total Expenditure		Buildings and other fixed structures/Total Expenditure	
	2004/05	2003/04	2004/05	2003/04	2004/05	2003/04
	R'000	R'000	R'000	R'000	%	%
Consolidated	811 229	686 486	18 261 855	16 366 880	4.44	4.19
Provincial Administration WC	0	0	294 939	306 622	0	0
Provincial Parliament	27	5	43 599	41 003	0.06	0.01
Provincial Treasury	0	0	102 333	64 635	0	0
Community Safety	0	0	157 979	141 187	0	0
Education	0	0	5 451 372	5 114 885	0	0
Health	0	0	4 889 988	4 383 872	0	0
Social Services and Poverty Alleviation	0	0	4 261 612	3 770 627	0	0
Housing	0	0	600 453	370 619	0	0
Environmental Affairs and Development Planning	0	0	135 468	120 622	0	0
Transport and Public Works	804 096	680 871	1 786 429	1 571 811	45.01	43.32
Agriculture	7 106	5 610	196 893	160 591	3.61	3.49
Local Government	0	0	65 419	56 073	0	0
Economic Development and Tourism	0	0	126 439	129 856	0	0
Cultural Affairs and Sport	0	0	148 932	134 477	0	0

Analysis

From the information analysed above, it is evident that Department of Transport and Public Works is the main driver of capital expenditure, being responsible for 99,12 per cent of total expenditure. The Department increased its capital expenditure by 18,10 per cent from R681 million (2003/04) to R804 million (2004/05) which correlates with the increase of 13,65 per cent in total expenditure. The centralised nature of spending contributes to poor reporting on capital expenditure incurred by the provincial departments and the maintenance of fixed assets.

5.10 Machinery and equipment (Capital)

Machinery and Equipment/Total Expenditure The purpose of this ratio is to indicate the portion of expenditure on machinery and equipment in relation to total expenditure. Departments that spend a materially higher percentage of total expenditure on machinery and equipment on a year on year basis and compared to similar departments in other provinces, may have to be analysed in more detail to determine:

- The adequacy of existing accounting policies on the accounting for machinery and equipment;
- The current levels of losses through damaged, stolen and poorly maintained items of machinery and equipment; and
- The development of a roadmap for the implementation of GRAP for the accounting for machinery and equipment.

Table 14: Machinery and equipment

Consolidated/Department	Mach and Equip		Total Expenditure		Mach and Equip/Total Expenditure	
	2004/05 R'000	2003/04 R'000	2004/05 R'000	2003/04 R'000	2004/05 %	2003/04 %
Consolidated	220 612	209 059	18 261 855	16 366 880	1.21	1.28
Provincial Administration WC	28 486	28 414	294 939	306 622	9.66	9.27
Provincial Parliament	327	673	43 599	41 003	0.75	1.64
Provincial Treasury	1 391	6 342	102 333	64 635	1.36	9.81
Community Safety	2 282	7 827	157 979	141 187	1.44	5.54
Education	25 652	40 158	5 451 372	5 114 885	0.47	0.79
Health	105 436	90 715	4 889 988	4 383 872	2.16	2.07
Social Services and Poverty Alleviation	17 960	3 774	4 261 612	3 770 627	0.42	0.10
Housing	968	511	600 453	370 619	0.16	0.14
Environmental Affairs and Development Planning	3 331	5 307	135 468	120 622	2.46	4.40
Transport and Public Works	16 059	5 806	1 786 429	1 571 811	0.90	0.37
Agriculture	12 590	11 026	196 893	160 591	6.39	6.87
Local Government	1 446	991	65 419	56 073	2.21	1.77
Economic Development and Tourism	1 500	2 695	126 439	129 856	1.19	2.08
Cultural Affairs and Sport	3 184	4 820	148 932	134 477	2.14	3.58

Analysis

The consolidated expenditure on machinery and equipment increased by 5,53 per cent from R209,059 million in 2003/04 to R220,612 million in 2004/05, although total expenditure increased by 11,58 per cent.

The main increases were incurred by Health (16,23 per cent), Social Services and Poverty Alleviation (375,89 per cent) and Transport and Public Works (176,59 per cent).

5.11 Consultants, contractors and special services

Consultants, contractors and special services/Total Expenditure The purpose of this ratio is to indicate the expenditure on consultants, contractors and special services by departments and the Province as a whole (consolidated) in relation to total expenditure. Departments that spend a significantly higher percentage of total expenditure on consultants and contractors than others may have to be analysed in more detail to determine cost drivers, cost efficiency measures, inter- and intra-provincial spending norms and cost reduction strategies.

Table 15: Consultants, contractors and special services

Consolidated/ Department	Consultants, contractors and special services		Total Expenditure		Consultants, contractors and special services/Total Expenditure	
	2004/05 R'000	2003/04 R'000	2004/05 R'000	2003/04 R'000	2004/05 %	2003/04 %
Consolidated	411 258	341 410	18 261 855	16 366 880	2.25	2.09
Department of the Premier	18 717	19 331	294 939	306 622	6.35	6.30
Provincial Parliament	48	1 540	43 599	41 003	0.11	3.76
Provincial Treasury	26 250	13 788	102 333	64 635	25.65	21.33
Community Safety	5 095	7 348	157 979	141 187	3.23	5.20
Education	22 889	27 238	5 451 372	5 114 885	0.42	0.53
Health	114 455	86 933	4 889 988	4 383 872	2.34	1.98
Social Services and Poverty Alleviation	124 365	108 326	4 261 612	3 770 627	2.92	2.87
Housing	878	2 456	600 453	370 619	0.15	0.66
Environmental Affairs and Development Planning	9 697	3 379	135 468	120 622	7.16	2.80
Transport and Public Works	46 104	32 665	1 786 429	1 571 811	2.58	2.08
Agriculture	9 384	8 516	196 893	160 591	4.77	5.30
Local Government	14 948	10 883	65 419	56 073	22.85	19.41
Economic Development and Tourism	12 210	13 366	126 439	129 856	9.66	10.29
Cultural Affairs and Sport	6 218	5 641	148 932	134 477	4.18	4.19

Analysis

The cost of consultants, contractors and special services employed by provincial departments increased by 20,46 per cent from R341,410 million (2003/04) to R411,258 million (2004/05). The main increases were incurred by the Provincial Treasury (90,38 per cent), Health (31,66 per cent), Social Services and Poverty Alleviation (14,81 per cent), Environmental Affairs and Development Planning (186,98 per cent), Transport and Public Works (41,14 per cent) and Local Government (37,35 per cent).

6. Assets and Liabilities

Information contained in the statements of financial position of departments does not provide a clear indication of the assets and liabilities and will subsequently only be analysed after the implementation of accrual accounting.

Way forward

Revenue and Expenditure

In terms of the NT norm, underspending by the Province should not exceed 2 per cent of the total funding budget. With underspending decreasing marginally in 2004/05 compared to 2003/04, measures will have to be applied to curtail underspending unless it can be ascribed to specific causes. Accruals, ie expenditure incurred in the following financial year, thus possibly contributing to the increased pattern of underspending, had very little impact on underspening during the 2004/05 financial year.

7. Public Entities

The following public entities listed in Schedule 3, Part C of the PFMA pertain to the Province of the Western Cape:

- WC Gambling and Racing Board
- WC Investment and Trade Promotion Agency (Wesgro)
- WC Provincial Development Council (PDC)
- WC Destination Marketing Organisation (DMO)
- WC Nature Conservation Board
- WC Language Committee
- WC Cultural Commission
- WC Heritage
- WC Liquor Board
- Casidra Pty (Ltd) - provincial business enterprise

Unlike provincial departments, provincial Public Entities (PE's) prepare AFS in accordance with GAAP[1].

An analysis of the financial performance of the above PE's is discussed below by making use of tables, ratios and ratios per entity whereby certain entities are highlighted for discussion.

The WC Liquor Board is not included in this analysis as its financial transactions form part of the activities of the provincial Department of Economic Development and Tourism and thus included in its annual financial statements.

The Western Cape Liquor Bill, 2005, is expected to be passed into law in February 2006 or March 2006, will establish the Board as an "independent juristic person" (i.e. a fully independent public entity), with full responsibility for its own funding and financial management.

The Western Cape Tourism Board dissolved on 31 March 2004 and became part of the DMO. All staff, assets and liabilities were transferred to the DMO on 1 April 2004.

7.1 Funding and Expenditure

Table 16 below presents an overview of the main sources of funding, expenditure and surplus or loss incurred by each public entity for the 2003/04 and 2004/05 financial years.

Table 16: Funding and expenditure

Public entity	Grants		Interest		Own Revenue		Expenditure		Surplus/(deficit)	
	2003/04 R'000	2004/05 R'000	2003/04 R'000	2004/05 R'000	2003/04 R'000	2004/05 R'000	2003/04 R'000	2004/05 R'000	2003/04 R'000	2004/05 R'000
Gambling & Racing Board	4,738	(462)	560	707	13,743	20,260	16,623	18,417	2,418	2,088
Nature Conservation Board	60,445	61,767	1,260	458	51,034	40,966	116,636	109,521	(3,897)	(6,330)
PDC	3,262	3,428	22	14	-	-	3,039	4,098	245	(656)
DMO	-	42,282	-	911	-	14,320	-	53,384	-	4,129
Cultural Commission	7,854	7,920	1,355	1,012	4,351	3,186	15,126	15,225	(1,566)	(3,107)
Language Committee	602	602	36	30	40	38	495	640	183	30
WESGRO	4,209	21,237	132	387	440	478	8,411	14,859	(3,630)	7,243
Heritage	800	950	16	68	-	-	221	607	595	411
Casidra	4,500	9,000	898	583	4,063	2,787	9,765	10,416	(304)	1,954
Total	**86,410**	**146,724**	**4,279**	**4,170**	**73,671**	**82,035**	**170,316**	**227,167**	**(5,956)**	**5,762**

[1] Section 55(1)(b) of the PFMA

Analysis

Funding consists mainly of government grants; interest and own revenue, representing respectively 52,57 per cent, 2,60 per cent and 44,83 per cent of the total funding (grants+ interest+ own revenue) that amounted to R164,360 million for 2003/04. For 2004/5 the total funding compared to 2003/04, increased by 41,72 per cent to R232,929 million, consisting of 62,99 per cent from grants, 1,79 per cent from interest and 35,22 per cent from own revenue sources.

Apart from the WC Gambling and Racing Board, provincial public entities in aggregate are substantially dependent on funding from the provincial government.

The aggregate net deficit of R5,956 million for 2003/04,which includes Western Cape Tourism Board, improved to a net surplus of R5,762 million at the end of 2004/05. Wesgro's net surplus of R7,243 million (net deficit 2004: R3,630) contributed directly to this shift.

The WC Nature Conservation Board's net deficit of (R3,897) million (2003/04) increased to a net deficit of (R6,330) million (2004/05). Cultural Commission's net deficit of (R1,566) million (2003/04) increased to a net deficit of (R3,107) million (2004/05).

The amplified net deficit of the WC Nature Conservation Board was as a result of increased pressure on the core funding which is unlikely to diminish in the next financial year. The increase in net deficit from the Cultural Commission was due to a decline in interest income and funding from international institutions.

The WC Nature Conservation Board and Cultural Commission's liquidity situation has deteriorated year on year. The WCNCB has implemented corrective measures to improve the liquidity position, the outcome of which will be reported on in the 2006 Review.

7.2 Assets and liabilities

Solvency (Total assets/Total liabilities) The purpose of this ratio is to determine the degree to which the entity's assets exceed its liabilities in the long term. The empirical norm for this ratio is 1:1 and should solvency decline to the point where liabilities exceed assets, the entity has become insolvent and faces termination. Solvency is therefore extremely important to creditors and especially long-term creditors.

Table 17 below presents information on the total assets, total liabilities and the solvency rate of each public entity for the 2003/04 and 2004/05 financial years.

Table 17: Total assets/Total liabilities

Public entity	Total Assets		Total Liabilities		Total assets/Total liabilities	
	2003/04 R'000	2004/05 R'000	2003/04 R'000	2004/05 R'000	2003/04	2004/05
Gambling Board	6,909	10,584	3,488	7,032	1.98	1.51
Nature Conservation Board	20,684	21,102	22,848	34,071	0.91	0.62
PDC	1,739	1,280	793	989	2.19	1.29
DMO	-	19,183	-	15,052	-	1.27
Cultural Commission	16,279	13,236	250	313	65.24	42.29
Language Committee	532	558	8	3	66.03	186.00
WESGRO	6,079	29,659	3,875	20,178	1.57	1.47
Heritage	594	1,006	76	-	7.82	-
Casidra	28,810	40,638	13,244	15,354	2.18	2.65
Total	**81,626**	**137,246**	**44,582**	**92,992**	**1.83**	**1.48**

Analysis

From Table 17 above it is clear that all the entities are financially in position to settle short and long-term liabilities according to the consolidated figure (2003/04:1.83, 2004/05: 1.48) except for the WC Nature Conservation Board.

The WC Nature Conservation Board's solvency declined from 0.91 in 2003/04 financial year to 0.62 in the 2004/05 financial year. This indicates that the Board's ability to cover its total liabilities has decreased. This could indicate that the NC Board is operating under an insolvency situation.

The WC Nature Conservation Board liquidity situation is deteriorating and should put drastic measures in place to reduce its liabilities.

The decrease from 2.19 in 2003/04 to 1.29 in 2004/05 in the PDC solvency ratio is due to the increase in current liabilities with regards to employee leave and bonus provisions.

7.3 Financial Performance ratios

<u>Net surplus (deficit) per cent (Net surplus (deficit)/Total Revenue)</u> The purpose of this ratio is to provide an indication of the financial performance of the individual entities. Net deficits will have to be investigated and corrective measures will need to be put in place to ensure that contributing factors are addressed, which resulted in the net deficits. Surpluses exceeding 2 per cent should also be investigated to assess funding levels.

The table 18 below provides an analysis of the financial performance from the 2003/04 to the 2004/05 financial years.

Table 18: Net surplus (deficit) per cent

Ratio	Finan-cial year	Consoli-dated	PDC	Gamb-ling & Racing Board	Nature Conser-vation Board	DMO	Wesgro	Cultural Commis-sion	Language Commis-sion	Heri-tage	Casidra
Net Surplus (Deficit)/ Total	2004/05	2.47%	(19.06%)	10.18%	(5.61%)	7.18%	32.77%	(25.64%)	4.48%	40.37%	15.80%
Revenue	2003/04	(3.62%)	7.46%	12.70%	(3.46%)	0.00%	(75.93%)	(11.55%)	26.99%	72.92%	(3.21%)
		R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Net surplus (deficit)	2004/05	5,762	(656)	2,088	(6,330)	4,129	7,243	(3,107)	30	411	1,954
Net surplus (deficit)	2003/04	(5,956)	245	2,418	(3,897)	-	(3,630)	(1,566)	183	595	(304)
Total Revenue	2004/05	232,929	3,442	20,505	103,191	57,513	22,102	12,118	670	1,018	12,370
Total Revenue	2003/04	164,360	3,284	19,041	112,739	-	4,781	13,560	678	816	9,461

Analysis

The overall position of all PE's reflected in the consolidated results above, shows a shift from a net deficit to a net surplus, 2003/4: (3,62 per cent), 2004/5: 2,47 per cent. This shift can be attributed to the surplus generated by the Wesgro, Gambling and Racing Board, Language Committee, Heritage, DMO and Casidra.

The deficit of the WC Cultural Commission has increased from (R1,566) million in 2003/04 (11,55 per cent of revenue) to a deficit of (R3,107) million in 2004/05 (25,64 per cent of revenue).This is as a result of the total revenue, that decreased by 10,63 per cent (2003/04: R13,560 million, 2004/05: R12,118 million) while the total expenditure, increased by 0,65 per cent (2003/04: R15,126 million 2004/05: R15,225 million), refer to table 18.

It is evident from table 20 that the WC Nature Conservation Board deficit increased from (R3,897) million in 2003/04 to (R6,330) million in 2004/5. The annual net deficit as a percentage of revenue thus increased from (3,46 per cent) in 2003/04 to (6,13 per cent) in 2004/05. This was caused by a decrease in total revenue of R112,739 million in 2003/04 to R103,191 million in 2004/05. As a result of increased pressure on cash flow during the year management capped certain expenditure items, this resulted in the decrease in expenditure by 6,50 per cent from R116,636 million in 2003/04 to R109,521 million in 2004/05, as stated in the management report.

The net deficit of Wesgro, as a percentage of revenue improved from (75,93 per cent) for 2003/04 to a net surplus of 32,77 per cent in 2004/05. This was as a result of total revenue increasing by 362 per cent from R4,781 million in 2003/04 to R22,102 million in 2004/05, resulting from increased government grants, as discussed in the management report. The total expenditure of R8,411 million in 2003/04 increased by 76,66 per cent to R14,859 million in 2004/05, refer to table 16.

The net deficit of Casidra, as a percentage of revenue improved from (3,21 per cent) for 2003/04 to a net surplus of 15,80 per cent in 2004/05. This was as a result of total revenue increasing by 30,72 per cent from R9,461 million in 2003/04 to R12,370 million in 2004/05, resulting from increased government grants, as discussed in the management report. The total expenditure of R9,765 million in 2003/04 increased only by 6,67 per cent to R10,416 million in 2004/05, refer to table 18.

The PDC ended 2004/05 financial year with a deficit of (R656 000), net deficit percentage of total revenue (19,06 per cent), compared to a surplus of R245 000 in 2003/04, net surplus percentage of total revenue 7,46 per cent. The shift resulted from an increase in expenditure of 35 per cent without a concomitant increase in total revenue.

7.4 Return on assets

Return on assets (Net surplus (deficit)/ Total assets) The purpose of this ratio is to provide an indication of the net return on investing activities of the individual entities. Negative returns will have to be investigated and corrective measures will need to be put in place to ensure that the issues are addressed, which contribute to net deficits.

Table 19 below provides an analysis of the return on assets from the 2003/04 to the 2004/05 financial years.

Table 19: Return on assets

Ratio	Financial year	Consolidated	PDC	Gambling & Racing Board	Nature Conservation Board	DMO	Wesgro	Cultural Commission	Language Commission	Heritage	Casidra
Net Surplus (Deficit)/ Total assets	2004/05	4.20%	(51.25%)	19.73%	(29.99%)	21.52%	24.42%	(23.47%)	5.38%	40.85%	4.81%
Net Surplus (Deficit)/ Total assets	2003/04	(7.29%)	14.09%	34.99%	(18.84%)	-	(59.71%)	(9.62%)	34.40%	100%	(1.06%)
		R'000	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
Net surplus (deficit)	2004/05	5,762	(656)	2,088	(6,330)	4,129	7,243	(3,107)	30	411	1,954
Net surplus (deficit)	2003/04	(5,956)	245	2,418	(3,897)	-	(3,630)	(1,566)	183	595	(304)
Total Assets	2004/05	137,246	1,278	10,584	21,102	19,183	29,659	13,236	558	1,006	40,638
Total Assets	2003/04	81,626	1,740	6,909	20,684	-	6,079	16,279	532	594	28,810

Analysis

From a consolidated perspective, the return on assets moved from a net deficit of (7,29 per cent) of total assets to a net surplus of 4,20 per cent in 2004/05. This primarily due to the improvement of Wesgro, Casidra and DMO net surplus percentage of total assets for the 2004/05 year.

It is evident that the WC Cultural Commission has enlarged the deficit from 1,566 million in 2003/04 (net deficit of total assets 9,62 per cent) to R3,107 million in 2004/05 (net deficit of total assets 23,47 per cent).

The PDC returns on assets have changed from 14,08 per cent in 2003/04 to (51,33 per cent) in 2004/05. The reason for the change was a shift from a net surplus of R245 000 in 2003/04 to a net deficit of (R656,000) in 2004/05,coupled with a decrease of 36,15 per cent in total assets from R1,740 million in 2003/04 to R1,278 million in 2004/05.

The WC Nature Conservation Board's deficit as a return on assets for 2003/04 was (18,84 per cent) which deteriorated to (30 per cent) for 2004/05. The change was due to the increase in the deficit from (R3,897) million in 2003/04 to (R6,330) million in 2004/05 with only a marginal increase in assets, 2003/04: R20,684; 2004/05: R21,102.

The mentioned public entities thus show a negative return on assets that influence the solvency level of these entities, which will result in making a government reluctant to continuously invest in such entities.

7.5 Reliance on Government Grants

Reliance on Government Grants (Government Grants/Total Revenue) The purpose of this ratio is to provide an indication of the dependence on government grants by the individual entities. Some entities are fully reliant on government grants while some are less dependent on government grants.

Table 20 below provides an analysis of the reliance on government grants from the 2003/04 to the 2004/05 financial years.

Table 20: Reliance on Government Grants

Ratio	Financial Year	Consolidated	PDC	Gambling & Racing Board	Nature Conservation Board	DMO	Wesgro	Cultural Commission	Language Commission	Heritage	Casidra
Government Grants/Total Revenue	2004/05	53.64%	99.59%	-	59.86%	34.83%	96.09%	65.36%	89.85%	93.32%	72.76%
Government Grants/Total Revenue	2003/04	52.57%	99.33%	24.88%	53.62%	-	88.04%	57.93%	88.79%	98.03%	47.56%
		R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Government Grants	2004/05	124,936	3,428	-	61,767	20,032	21,237	7,920	602	950	9,000
Government Grants	2003/04	86,411	3,262	4,738	60,445	-	4,209	7,855	602	800	4,500
Total Revenue	2004/05	232,929	3,442	20,505	103,191	57,513	22,102	12,118	670	1,018	12,370
Total Revenue	2003/04	164,360	3,284	19,041	112,739	-	4,781	13,560	678	816	9,461

Analysis

The WC Nature Conservation Board's government grants increased from R60,445 million in 2003/04 to R61,767 million in 2004/05.

Casidra's reliance on government grants increased from 47,56 per cent to 72,76 per cent, 2003/04: R4,500 million; 2004/05: R9,000 million.

Wesgro's reliance on government grants increased from 88,04 per cent to 96,09 per cent, 2003/04: R4,209 million; 2004/05: R21,237 million. The increase was due to strategic funds received for various projects handled by the agency.

The Language and Heritage Commissions' reliance on government grants have remained at fairly high levels of 89,85 per cent and 93,32 per cent respectively.

The WC Gambling and Racing Board has become financially independent and therefore no longer depends on government grants.

7.6 Receivables collection period

Receivables collection period (Receivables/Revenue * 365 days) The purpose of this ratio is to provide an indication of how long it took the entity in terms of number of days to collect money from debtors. When money is collected in the shortest period of time it will ensure continuous cash inflow.

The Table 21 below provides an analysis of the management of assets from the 2003/04 to the 2004/05 financial years.

Table 21: Receivables collection period

Ratio	Financial Year	Consolidated	PDC	Gambling and Racing Board	Nature Conservation Board	DMO	Wesgro	Cultural Commission	Language Commission	Heritage	Casidra
Receivables/ Revenue * 365 days	2004/05	36.01	1.27	24.24	18.94	67.39	63.10	22.71	0.54	2.15	48.24
Receivables/ Revenue * 365 days	2003/04	19.51	1.11	5.41	20.61	-	132.05	6.49	2.69	1.79	5.86
		R'000	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
Receivables	2004/05	22,981	12	1,362	5,355	10,035	3,821	754	1	6	1,635
Receivables	2003/04	8,789	10	282	6,365	-	1,729	241	5	4	152
Total Revenue	2004/05	232,929	3,442	20,505	103,191	57,513	22,102	12,118	670	1,018	12,370
Total Revenue	2003/04	164,360	3,284	19,041	112,739	-	4,781	13,560	678	816	9,461

Analysis

From the Table 21 above it is evident that, DMO (2004/05:67 days), Wesgro (2004/05: 63 days) and Casidra's (2004/05: 48 days) collection period is too long in comparison with the rest of the entities. The debtor's collection period should be in the shortest period of time for it will contribute to positive cash inflow.

The WC Gambling and Racing Board (2003/04: 5 days, 2004/05: 24 days), along with the WC Cultural Commission (2003/04: 6 days, 2004/05: 23 days) has shown material increases in their debtors collection period while Wesgro has shown a material decrease in the debtor collection period (2003/04: 132 days; 2004/05: 63 days).

7.7 Creditors payment period

Creditors payment period (Payables / Revenue * 365 days) The purpose of this ratio is to provide an indication of the financial ability of the entity to settle short term liabilities in terms of the number of days it takes to pay creditors.

The Table 22 below provides an analysis of the management of assets from the 2003/04 to the 2004/05 financial years.

Table 22: Creditors payment period

Ratio	Financial Year	Consolidated	PDC	Gambling and Racing Board	Nature Conservation Board	DMO	Wes-gro	Cultural Commission	Language Commission	Heritage	Casidra
Payables/ Revenue * 365 days	2004/05	48.72	91.41	70.19	53.97	46.75	33.08	2.11	1.63	0	46.86
Payables/ Revenue * 365 days	2003/04	37.74	10.45	19.38	38.91	0	18.09	1.16	4.31	0	138.23
		R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Payables	2004/05	31,094	862	3,943	15,259	7,366	2,003	70	3	0	1,588
Payables	2003/04	16,995	94	1,011	12,019	0	237	43	8	0	3,583
Total Revenue	2004/05	232,929	3,442	20,505	103,191	57,513	22,102	12,118	670	1,018	12,370
Total Revenue	2003/04	164,360	3,284	19,041	112,739	-	4,781	13,560	678	816	9,461

Analysis

From the table 22 above it is clear that the PDC (2003/04: 10 days, 2004/05: 91 days), WC Gambling and Racing Board (2003/04: 19 days, 2004/05: 70 days), WC Nature Conservation Board (2003/04: 39 days, 2004/05: 54 days) and Wesgro (2003/04: 18 days, 2004/05: 33 days) have all increased the creditors payment period. Casidra on the other hand decreased their creditors payment period significantly from 138 days (2003/04) to 47 days (2004/05).

The entities overall maintain a very long creditor payment period that could influence their creditability with suppliers. It can also lead to the forfeiting of discounts allowed by suppliers if debt is not settled in the required period.

7.8 Available cash to meet payables

Available cash to meet payables (Cash and cash equivalents minus Current liabilities) The purpose of this ratio is to provide an indication of the cash available to meet payables. This is an indication of the liquidity of the individual entities and their ability to honour short-term commitments.

The Table 23 below provides an analysis of the management of assets from the 2003/04 to the 2004/05 financial years.

Table 23: Available cash to meet payables

Ratio	Financial Year	Consolidated	PDC	Gambling and Racing Board	Nature Conservation Board	DMO	Wesgro	Cultural Commission	Language Commission	Heritage	Casidra
		R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Cash and cash equivalents minus Current liabilities	2004/05	(2,465)	104	2,894	(11,072)	(7,146)	(2,512)	12,082	554	1,000	1631
Cash and cash equivalents minus Current liabilities	2003/04	15,991	197	3,893	(11,455)	-	(18)	15,724	520	591	6,539
Cash and cash equivalents	2004/05	63,824	1,094	7,507	10,487	7,906	17,665	12,395	557	1,000	5,214
Cash and cash equivalents	2003/04	43,253	990	5,541	7,649	-	3,853	15,974	528	591	8,127
Current liabilities	2004/05	66,289	990	4,613	21,559	15,052	20,177	313	3	-	3,583
Current liabilities	2003/04	27,226	793	1,648	19,104	-	3,835	250	8	-	1,588

Analysis

The WC Nature Conservation Board did not have sufficient cash to meet payables in the 2003/04 and 2004/05 financial years. The current liabilities exceed the cash and cash equivalents in the 2003/04 financial year by R11,455 million and in the 2004/05 financial year by R11,072 million respectively. The entity is unable to settle short-term commitments, which is an indication that the entity will in future encounter cash flow problems.

Wesgro also did not have sufficient cash to meet payables in the 2003/04 and 2004/05 financial years. The current liabilities exceed the cash and cash equivalents in the 2003/04 financial year by R18,000 and in the 2004/05 financial year by R2,512 million respectively. The entity is unable to settle short-term commitments, despite showing a significant increase in cash and cash equivalents for 2004/05.

DMO did not have sufficient cash to meet payables in the 2004/05 financial year. The current liabilities exceed the cash and cash equivalents in the 2004/05 financial year by R7,146 million. The entity is unable to settle short-term commitments.

The remainder of the public entities has remained somewhat constant in regards to the net cash deficits or surpluses but all entities with the exception of the WC Language Committee have increased their levels of current liabilities.

8. Trading Entities

The following trading entities are found in the Province of the Western Cape:

- Government Motor Transport (GMT)
- Cape Medical Depot (CMD)

These Trading Entities (TE's) prepared their 2004/05 annual financial statements to conform with GAAP[2] to fairly represent the financial position, financial performance and cash flows of the entities based on accrual accounting principles. This resulted in the restatement of the 2003/04 Annual Financial Statements and the creation of Provisions that impacted on the reserves.

The disclosure of financial information in terms of GAAP provides a fairer presentation of the financial performance and position of these entities, resulting in information that is more readily accessible for financial analysis, assessment and recommendations.

An analysis of the financial performance of the above TE's is discussed below by making use of tables and ratios per entity. Certain entities are highlighted for discussion.

8.1 Funding and expenditure

Table 24 below presents an overview of the funding, expenditure and surplus or loss incurred by each trading entity for the 2003/04 and 2004/05 financial years. A surplus implies that the entity over-recovered costs. A deficit implies under-recovery. The objective is to reach break-even point, given optimal expenditure levels.

Table 24: Funding and expenditure

Trading entity	Other Income		Own Revenue		Expenditure		Surplus/ (deficit)		Net Surplus(Deficit)/ Total Revenue	
	2003/04	2004/05	2003/04	2004/05	2003/04	2004/05	2003/04	2004/05	2003/04	2004/05
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	%	%
GMT	14,111	19,094	148,718	143,740	231,653	170,695	(68,824)	(7,861)	(42.27%)	(4.83%)
CMD	4,469	6,521	284,556	297,337	288,268	299,200	757	4,658	0,26%	1.53%

Analysis

The table above indicates that:

- CMD's revenue (other income + own revenue) increased by 5,13 per cent and its expenditure increased by 3,79 per cent. The surplus of CMD increased by 1,27 percentage points.
- GMT's revenue (other income + own revenue) remained at the same levels.

[2] Section 40(1)(b) of the PFMA read in conjunction with TR 18.2

- GMT's expenditure decreased by 26,31 per cent, resulting in a significant decrease in the deficit.

In the 2003/04 financial year GMT recognised impairment losses and raised provisions on the balance sheet for the first time in accordance with GAAP requirements in terms of the AC standards. These accounting entries were the main cause of the deficit.

8.2 Repairs & Maintenance: Machinery & Equipment

<u>(Repairs & Maintenance: Machinery & Equipment)/Total revenue</u> The purpose of this ratio is to indicate the percentage of funds that is spent by entities on Repairs & Maintenance: Machinery & Equipment in relation to total revenue for the comparison of year to year trends. Entities that spend a significantly higher percentage of funds on Repairs & Maintenance: Machinery & Equipment than others may have to be analysed in more detail to determine cost drivers, cost efficiency measures and cost reduction strategies.

The table 25 below provides an analysis of the expenditure trends from the 2003/04 to the 2004/05 financial years.

Table 25: Repairs & Maintenance: Machinery & Equipment

Ratio	Financial Year	GMT	CMD
Repairs & Maintenance:	2004/05	48.08%	0.017%
Machinery & Equipment/Total Revenue	2003/04	49.01%	0.014%
		R'000	**R'000**
Repairs & Maintenance: Machinery & Equipment	2004/05	69,117	51
Repairs & Maintenance: Machinery & Equipment	2003/04	72,881	41
Total Revenue	2004/05	143,740	297,337
Total Revenue	2003/04	148,718	284,556

Analysis

The table above indicates that GMT spends nearly 50 per cent of its total revenue on repairs and maintenance of machinery & equipment, which is due to the nature of its business. GMT's expenditure in this regard has remained consistent over the two years.

CMD's expenditure in this regard remained consistent at less than 0,2 per cent of total revenue.

8.3 Repairs & Maintenance: Property & Buildings

(Repairs & Maintenance: Property & Buildings)/Total revenue The purpose of this ratio is to provide an indication of the percentage of funds that is spent per entity on Repairs & Maintenance: Property & Buildings in relation to total revenue that provides a year to year trend analysis. Entities that spend a significantly higher percentage of funds on Repairs & Maintenance: Property & Buildings than others may have to be analysed in more detail to determine cost drivers, cost efficiency measures and cost reduction strategies.

The table 26 below provides an analysis of the expenditure trends from the 2003/04 to the 2004/05 financial years.

Table 26: Repairs & Maintenance: Property & Buildings

Ratio	Financial Year	GMT	CMD
Repairs & Maintenance: Property & Buildings/Total Revenue	2004/05	0.09%	0
	2003/04	0.01%	0
		R'000	**R'000**
Repairs & Maintenance: Property & Buildings	2004/05	131	0
Repairs & Maintenance: Property & Buildings	2003/04	16	0
Total Revenue	2004/05	143,740	297,337
Total Revenue	2003/04	148,718	284,556

Analysis

The table above indicates that with regard to Repairs & Maintenance: Property & Buildings,

- CMD incurred no expenditure on this item.
- GMT remained consistent at less than 0,1 per cent of total revenue.
- The value of the property & buildings is not taken into consideration.

8.4 Administrative Expenses

Administrative Expenses/Total revenue The purpose of this ratio is to indicate the percentage of funds that is spent by entities as a whole on Administrative Expenses in relation to total revenue for comparison of year to year trends. Entities that spend a significantly higher percentage of funds on Administrative Expenses than others may have to be analysed in more detail to determine cost drivers, cost efficiency measures and cost reduction strategies.

The table 27 below provides an analysis of the expenditure trends from the 2003/04 to the 2004/05 financial years.

Table 27: Administrative Expenses

Ratio	Financial Year	GMT	CMD
Administrative Expenses/Total Revenue	2004/05	8.67%	0.52%
	2003/04	13.07%	0.82%
		R'000	**R'000**
Administrative Expenses	2004/05	12,462	1,550
Administrative Expenses	2003/04	19,436	2,328
Total Revenue	2004/05	143,740	297,337
Total Revenue	2003/04	148,718	284,556

Analysis

The table above indicates that:

- CMD consistently spends less than 1 per cent on administrative expenses.
- GMT's administrative expenditure decreased by 35,88 per cent.
- GMT's admin expenditure as a percentage of Total Revenue decreased by 4,4 percentage points.

8.5 Staff Costs

Staff Costs (Salaries)/Total Revenue The purpose of this ratio is to provide an indication of the percentage of funds that is spent on salaries per entity in relation to total revenue that provides a year-to-year trend analysis. A material increase or decrease from one financial year to the next for an individual entity will have to be investigated and explained.

Table 28 below provides an analysis of the expenditure trends from the 2003/04 to the 2004/05 financial years.

Table 28: Staff Cost management

Ratio	Financial Year	GMT	CMD
Salaries/Total Revenue	2004/05	7.41%	3.43%
Salaries/Total Revenue	2003/04	7.25%	3.45%
		R'000	**R'000**
Salaries	2004/05	10,646	10,194
Salaries	2003/04	10,779	9,823
Total Revenue	2004/05	143,740	297,337
Total Revenue	2003/04	148,718	284,556

Analysis

The table above indicates that with regard to salaries:

- Staff cost of the trading entities remained consistent.
- CMD at 3 per cent and
- GMT at 7 per cent of total revenue.

8.6 Assets and liabilities

8.6.1 Solvency (Total assets/Total liabilities)

The purpose of this ratio is to determine the degree to which the entity's assets exceed its liabilities in the long term. The empirical norm for this ratio is 1:1 and should solvency decline to the point where liabilities exceed assets, the entity has become insolvent and faces termination. Solvency is therefore extremely important to creditors and especially long-term creditors.

Table 29 below presents information on the total assets, total liabilities and the solvency rate of each trading entity for the 2003/04 and 2004/05 financial years.

Table 29: Solvency

Trading entity	Total Assets		Total Liabilities		Total assets/Total liabilities	
	2003/04 R'000	2004/05 R'000	2003/04 R'000	2004/05 R'000	2003/04	2004/05
GMT	169,412	189,317	24,046	14,642	7.05	12.93
CMD	36,479	48,300	5,163	13,898	7.07	3.48

Analysis

Table 29 above indicates that:

- Both entities are financially in a position to settle their liabilities.
- GMT's assets increased by 11,75 per cent and its liabilities decreased by 39,11 per cent, with the result that it's solvency increased by 83,52 per cent and its liabilities is covered 12.93 times over in the 2004/05 financial year.
- CMD's assets increased by 32,4 per cent, but its liabilities also increased - by 169 per cent. The result was that CMD's solvency decreased by 50,81 per cent.
- Even though CMD's solvency is declining, CMD had R3.48 in assets for every R1 in liabilities in the 2004/05 financial year.

8.6.2 Receivables collection period

Receivables collection period (Receivables/Revenue * 365 days) The purpose of this ratio is to provide an indication of how long it took the entity in terms of number of days to collect money from debtors. When money is collected in the shortest period of time it will ensure continuous cash inflow.

The table 32 below provides an analysis of the management of assets from the 2003/04 to the 2004/05 financial years.

Table 30: Receivables collection period

Ratio	Financial Year	GMT	CMD
Receivables/Revenue * 365 days	2004/05	50.71	1.6
Receivables/Revenue * 365 days	2003/04	21.66	4.59
		R'000	**R'000**
Receivables	2004/05	19,969	1,307
Receivables	2003/04	8,827	3,576
Total Revenue	2004/05	143,740	297,337
Total Revenue	2003/04	148,718	284,556

Analysis

Table 30 above indicates that:

- CMD's collection period improved slightly (3 days) and
- GMT's collection period worsened significantly (29 days). GMT's collection period is of particular concern.

8.7 Way forward

At current a changing environment is experienced pertaining to accounting for public and trading entities. Some Standards of Accounting that have been issued are applicable to the entities that are currently on GAAP. These Standards are issued for GRAP reporting entities, but with the provision that they apply to accrual based accounting. In this regard GRAP should be seen as an extension of, and not a replacement, for GAAP. Incorporating the new Standards of Accounting is but one of the challenges facing entities. This will no doubt filter through to the Annually Consolidated Financial Statements. The greatest room for advancement, however, must be to further synchronize the reporting and budgeting formats of the entities, and to implement a standard chart of accounts for this purpose. Addressing the issues of concern as identified in the report above is equally important.

To this extent the following are highlighted as concerns that will require further attention:

- The WC Nature Conservation Board and Cultural Commission's liquidity situation is deteriorating and these entities should generate more own revenue or should alternatively reduce expenditure.
- The WC Nature Conservation Board did not have sufficient cash to meet payables in the 2003/04 and 2004/05 financial years. The current liabilities exceed the cash and cash equivalents in the 2003/04 financial year by R11,455 million and in the 2004/05 financial year by R11,072 million respectively. The entity is unable to settle short-term commitments, which is an indication that the entity will in future encounter cash flow problems.

- All the entities are financially in a position to settle short and long-term liabilities, except for the WC Nature Conservation Board.
- The overall position of all PEs reflected in the consolidated results, shows a shift from a net deficit to a net surplus, 2003/04: (3,62 per cent), 2004/05: 2,47 per cent. This shift can be attributed to the surpluses generated by the Wesgro, Gambling and Racing Board, Language Committee, Heritage, DMO and Casidra.

The roll-out of further trading entities is also under consideration, as there are a number of areas where it has become necessary to provide figures regarding the costs to the province for services currently provided by departments.

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