

WESTERN CAPE

ASSET MANAGEMENT REVIEW

2003

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GLOSSARY

ACB	Automated Clearing Bureau
ACB	Automated Clearing Bureau
AFS	Annual Financial Statements
A-G	Auditor-General
BAS	Basic Accounting System
BAS	Basic Accounting System
CD	Compact Disc
CFO	Chief Financial Officer
CORE	Code of Remuneration
CPA	Cape Provincial Administration
CPD	Corporation for Public Deposits
CPIX	Consumer Price Index excluding Mortgage Bonds
DORA	Division of Revenue Act, 2003
EFT	Electronic Fund Transfer
EFT	Electronic Fund Transfer
FASSET	Seta for Finance, Accounting, Management Consulting and Other Finance Services
Fitch IBCA	Fitch International Bank Credit Rating Agency
FMS	Financial Management System
GRAP	General Recognised Accounting Practice
ICN	Item Control Number
IGCC	Intergovernmental Cash Coordination
IT	Information Technology
KPI	Key Performance Indicator
LOGIS	Logistical Information System
LSL	LOGIS Simulation Learning
MEC	Member of the Executive Committee
MTEF	Medium Term Expenditure Framework
NQF	National Qualification Framework
NRF	National Revenue Fund
NT	National Treasury
PAS	Provisioning Administration System
PAWC	Provincial Administration Western Cape
PE	Public Entities
PERSAL	Personnel and Salary Information System
PERSAL	Personnel and Salary Administration System
PFMA	Public Finance Management Act, 1999
PFMA	Public Finance Management Act, 1999
PMG	Paymaster General Account
PRF	Provincial Revenue Fund
PSA	Public Service Act, 1994
PSA	Public Service Act, 1994

PSR	Public Service Regulations
PT	Provincial Treasury
PTI	Provincial Treasury Instructions
SAPS	South African Police Service
SAQA	South African Qualification Authority
SARB	South African Reserve Bank
SCC	System change control
SCoA	Standard Chart of Accounts
SITA	State Information Technology Agency
SMS	Senior Management System
SOCPEN	Social Pensions System
The Constitution	The Constitution of the Republic of South Africa, 1996
TR	Treasury Regulations, 2002
WC	Western Cape
WCEL	Western Cape Exchequer Law

EXECUTIVE SUMMARY

Supply Chain Management

The inefficiencies and fragmented approach towards provincial assets has forced the provincial government to introduce best procurement and asset management practices, to ensure the efficient and effective utilisation thereof. In addition emphasis has also been placed on integrated infrastructure development and the unlocking of government property to contribute to the optimisation of resources.

To this end a new and strategically more powerful concept was pursued namely Supply Chain Management (SCM). SCM can be defined as the collaborative strategy that aims to integrate procurement and provisioning processes, in order 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.

The idea is thus to move away from where we are, being the era of the Tender Board as sole procurer of the Province to SCM that in the spirit of the PFMA accords responsibility for procurement to the Accounting Officers of departments. To this end, the Western Cape Provincial Tender Board Law 1994, and its enabling Regulations will be repealed that in turn would lead to the subsequent repeal of the Procurement Delegations. This phase would set the legislative scene for the implementation of SCM.

The effect is that Departments will now be required to introduce more innovative and planned ways of acquiring goods and services. This approach will also enable suppliers, manufacturers and service providers operating in a specific sector to economically grow and develop to be more efficient and competitive.

The key outcomes of SCM is minimizing procurement cost and serving the end user more effectively. In order to achieve this, the necessary business intellect should be built within the SCM units of all departments, and Procurement strategies must be aligned with departmental strategic plans.

In addition to an effective method or system that deals with procurement and provisioning, what is required to monitor and manage all that, is the establishment of systems and processes to support the preparation of forward asset strategies which should guide the acquisition, use and disposal of assets and managing the related risks and costs over all phases of the asset life cycle.

The challenge to provincial government is to transform the current ways that physical assets are being dealt with in order to increase the efficient use thereof and or dispose thereof in the most economical way possible.

Further developing infrastructure is crucial to alleviate poverty and to promote broad-based empowerment in South Africa by creating wealth and prosperity. Its major impact however is towards economic development as it creates favorable conditions for production and consumption, facilitates economic diversification and provides access for people to services and opportunities, thus promoting growth. Infrastructure investment contributes towards economic growth to the extent that for every 10% increase in public

infrastructure capital, output increases between 2% and 3% (Umrabulo No. 16, August 2002).

The Provincial Government of the Western Cape is keen to foster new types of relationships with the private sector under its PPP programme. As this is a new process, it is in need of development and refinement that only comes with experience. To create this type of partnership approach we need a fundamental shift in thinking - putting focus in outcomes rather than inputs.

Public private partnerships can provide the public sector with better value for money in procuring modern, high quality services and infrastructure from the private sector. It offers policymakers a framework for developing a cost-effective and timely means of financing services and infrastructure

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.

Chapter 2 aims to address all of the above-mentioned issues in detail.

Financial Systems

Financial Management System (FMS)

On account of the high cost of maintaining two financial systems and the non-compliance of FMS with current requirements, the National Treasury has taken a policy decision to migrate all FMS departments/Provinces to BAS by no later than 1 April 2004; to continue, for the interim, with the daily monitoring of the system so as to ensure that the available facilities (e.g. electronic transfers, financial authorities and commitments) are utilised optimally.

Basic Accounting System (BAS)

The Basic Accounting System (BAS) – also cash based – is an online system that caters for government's basic accounting needs. The architecture is more modern than that of current financial systems in use in government and is assessed as being roughly in the middle of its normal systems life cycle.

On 1 April 2003 the System was implemented successfully at the Provincial Treasury and Provincial Parliament. The implementation was done with mainly own resources as opposed to other Provinces which resulted in minimizing the implementation costs.

The Province is currently in the process of migrating the remaining 12 departments from FMS to BAS by 1 April 2004. The Standard Chart of Accounts further necessitates the re-implementation to BAS within the Provincial Treasury and Parliament on a new database.

As its implementation is phased in, migrating from the FMS, the daily monitoring to ensure that the available facilities (e.g. electronic transfers, online enquiry and debtors) are utilised to their maximum potential; to monitor and ensure that interfacing between the various systems (LOGIS, PERSAL, TELKOM, MEDSAS and official banker) occurs properly five days a week; that code files, access control and profiles are maintained. BAS is to be fully implemented in all departments by 1 April 2004.

Personnel and Administrative System (PERSAL)

The daily monitoring of the system to ensure that exception reports and ACB Limits are addressed; the computer-generated identification numbers are allocated only in exceptional cases and then replaced with a valid identification number within 90 days; that access control and profiles are checked on a regular basis; that computer-generated and unique reports are made available for management, budget, cash flow and monitoring purposes. A project will be registered for the verification of PERSAL data in all provincial departments and repeated annually.

Logistical Information System (LOGIS)

In order to assist Accounting Officers to comply with the stipulations of the PFMA the Provincial Treasury has therefore decided to accelerate the implementation of LOGIS in the Western Cape Province.

The Treasury envisages to complete the roll-out of LOGIS during the 2004/05 financial year.

The decision by National Treasury to stop all new enhancements on LOGIS resulted in LOGIS not being able to accommodate the Auditor General's reporting requirements regarding an asset management system.

These shortcomings on the LOGIS system, linked with departmental capacity problems, resulted in the Department of PAWC to go out on tender for the acquisition of an asset management service.

This service includes Bar Coding, inventory control, stock takes, depreciation, age analysis and quarterly updates of the inventories. The departments retain the ownership of the data and only the service is sourced out which will provide assistance with the capacity problems in departments.

The Provincial Treasury has appointed a project team to investigate the possibility to go out on tender for the acquisition of a transversal service for the management of assets in the province.

This decision will empower Accounting Officers to maintain an efficient, effective and transparent system of financial management and to comply with the reporting requirements of the Auditor General.

Functional Financial Training

A key area for the providing of an effective efficient professional HRD service is the availability of suitable and qualified personnel. With the current skills levels of the training facilitators the component is in a position to accommodate current training requirements.

The training facilitators were accredited by various role players in order to present selected courses on their behalf. All the training facilitators were accredited by FASSET as registered assessors, which enable them to drive the assessment process individually.

The vision of the future will however require more highly skilled personnel with a different set of competencies. This would enable the component to register as an accredited learning center and an accredited assessment center.

During 2001/2002 all courses and course material were re-developed into an outcome-based modular format to comply with accreditation requirements from SAQA and the NQF via FASSET.

The training manuals were designed to be user friendly, which includes various practical exercises and workbooks that can be used in the work environment as a reference and guidance tool.

The modules were designed to provide “just in time” training to students in a simulated work environment. Computer courses simulate live systems and work environment and a training database provide the opportunity to work on a simulated live system.

The course material allows various forms of assessments to ensure that the training provided is of a high standard and that the transfer of skills and competencies takes place.

The Way Forward

The provincial system controllers in the Provincial Treasury will represent this Province at the various National Forums, user meetings and workshops. To further enhance the rendering of user support to users of the various systems. Further, to ensure an uptime of at least 95% of all financial administration and management information systems.

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

The Provincial Treasury 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 TCF position paper on a management strategy in respect of an integrated financial management solution. Play a significant role in the planning, development, testing and implementation phases of the project. However, all stakeholders agree that the development, testing and implementation of a new Integrated Financial Management System will be a lengthy one and there is a need to maintain and improve the current

systems in the interim. During October/November 2003 participate in a National workgroup to establish the user requirements for the new Integrated Financial Management System.

The Provincial Treasury is in process of compiling a framework for the further roll-out, development and evolution of Financial Administration and Information Systems in the government of the Western Cape that compile to National and Provincial requirements as well as best practices.

Special attention will also be given to bespoke systems to ascertain their compliance to National and Provincial standards, comparison with best practices as well as their future.

The performance of all transversal systems will be monitored on a daily basis and reported on a monthly basis while an uptime of 95% will be ensured.

Financial Asset Management

Introduction

With effective cash flow management, there are no “tricks of the trade” involved, but simply basic principles to ensure the optimal application of available funds on a daily basis. The responsibility is vested in the PT and functions pertaining to cash flow are executed within the guidelines for financial order as laid down in legislation. It is important to realise that these functions cannot be exercised in a vacuum and the daily interaction between the PT and provincial departments is imperative to ensure success. Uncommitted funds, when available, are invested from the Exchequer Account in accordance with an approved investment policy to mature on predetermined scheduled dates and are only made at reputable financial institutions, taking into account the risk factor and maximum exposure levels to the specific financial institution. Even though the PT is in a position to accurately predict the daily cash flow requirements of the province in excess of 95%, the ideal situation has not been attained and ongoing actions exist to improve cash flow management.

Background

After this country’s first democratic elections in 1994, the new provincial dispensation was constituted. Similarly, the functions pertaining to cash management were devolved to the PT.

On 1 April 1995, a Provincial Exchequer Account and two PMG accounts were opened, viz. the Department of Education and a single account “Other Departments” to service the remainder of the departments within this province.

On 1 July 1999, amendments to the PSA and the PSR, were effected which devolved considerable powers to Executing Authorities (National and Provincial) and established provincial departments as autonomous entities, which provided for the further devolution of financial functions to the departments. The PFMA, applicable with effect from 1 April 2000, which has as its main objective to secure accountability and sound management of the revenue, expenditure, assets and liabilities within government spheres as a whole,

was instrumental in permitting the decentralisation of cash flow management to the various provincial departments.

In terms of this policy of decentralisation, a PMG Account (in effect separate banking accounts) has been opened for each of the thirteen provincial departments, as well as the Provincial Parliament, which has contributed significantly to effective cash flow management within the Province.

Legal Framework

- The Constitution, 1996
- The Public Finance Management Act, 1999 (Act 1 of 1999)
- National Treasury Regulations, May 2001
- Provincial Treasury Instructions, December 2001
- Direct Charges Act, 2000 (Act 6 of 2000)
- Annual Division of Revenue Act

Accruals to the Provincial Revenue Fund

The source of funding to this province originates largely (94%) from the NT by way of the payment of an equitable share and conditional grants whilst the remainder is sourced from provincial own revenues such as motor vehicle licence fees, hospital patient fees, gambling taxes etc. The national share is transferred to the province on a weekly basis by means of an electronic funds transfer into the Provincial Exchequer Account, which is the accredited account of the province, into which all revenue flows. These transfers are credited in terms of a payment schedule, which is made available by the NT prior to the commencement of the financial year and reflects the total allocation originating from the NT.

Basic Accounting System (BAS)

The PRF migrated from a hand system of accounting to BAS with effect from 1 December 2002. This new system facilitates the recording of financial transactions within the PRF and contributes towards the compilation of more accurate AFS.

Transfers from the Provincial Revenue Fund

Each provincial department within the WC provides the PT, prior to the commencement of the financial year, with estimates of revenue and expenditure for the following financial year, which facilitates the cash management process. Each departmental PMG Account is funded on a daily basis from the Provincial Exchequer Account in terms of daily cash flow inputs from the various departments. The cash management system of the provincial banker, to which the province has a direct link, is utilised to perform such electronic transfers. Any moneys, which are not immediately required to defray expenditure, once the daily cash flow has been finalised, is invested to best effect at financial institutions, in terms of an internal investment policy.

Conclusion

The IGCC initiative launched by the NT whereby the CPD will retain all moneys not immediately required to defray daily expenditure, although supported by this province, will definitely impact the interest yield negatively. Furthermore the NT could possibly limit the allocation of funds to provinces in accordance with expenditure trends. This would necessitate a re-alignment of cash flow strategy within the Province and less funds would be available for investment also negatively impacting the interest yield. This has become an important source for infrastructure funding, contributing approximately 23% of the Transport and Public Works department's financing for the 2003/04 financial year.

Consolidated financial statements consisting of an income statement, balance sheet and a cash flow statement are prepared, utilising the cash basis of accounting, for each financial year. These statements, in accordance with a new format prescribed by the NT, provide for an accurate and transparent account of the PRF.

The main function of the investments section is to efficiently utilise interest-bearing instruments to optimise capital accumulation. The investments are placed in terms of a provincial investment policy, which serves as a guideline in minimising the risk factor. The significance of this income generation mechanism is becoming more profound as Province's attempts to address unlimited needs with limited resources.

To ensure effective cash flow management, well-trained and dedicated personnel, are essential. To this end, every endeavour is made to suitably educate the relevant officials to the ultimate benefit of the province as a whole.

Even though this province is currently in a position to accurately predict the daily/monthly cash flow requirements in excess of 95%, the ideal situation has not been attained and ongoing actions exist to improve cash flow management.

INTRODUCTION

1.1 Supply Chain Management

The current systems of Procurement and Provisioning are fragmented owing to the fact that Tender Boards are at present responsible for procurement whilst provisioning is largely underwritten by norms and standards within the the Logis system driven by the National Treasury. The division causes the current systems to be inefficient as far as the method of procurement; logistics management and obsolescence planning are concerned.

Since the advent of the PFMA it has become increasingly important to reassess the aforementioned situation and to develop an integrated approach that largely places the responsibility with the Accounting Officers of departments. With regard to procurement the functions of Tender Boards and their contribution to effective and efficient financial management within government was continuously questioned. Similarly the Logis System as a tool for asset management raised concerns due to the lack of proper handling of movable assets within the government environment

Concurrently more emphasis has been placed on integrated infrastructure development and the unlocking of government property to contribute to the optimisation of resources

The aforementioned situation led the Provincial Treasury, in conjunction with the National Treasury, to over the last year, vigorously embark on a reform initiative to introduce best procurement and asset management practices to ensure the efficient and effective utilisation of provincial assets. To this end a new and strategically more powerful concept was pursued, viz., Supply Chain Management (SCM).

The SCM can be defined as the collaborative strategy that aims to integrate procurement and provisioning processes, in order 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.

Central to the concept of SCM are:

- The abolishment of tender boards
- The elevation of the traditional functions of procurement and provisioning and the placing of the accountability thereof with accounting officers of departments
- Establishment of SCM units in departments; and

- The pursuance of Public Private Partnerships as a means to unlock the property management portfolio

As part of the restructuring of the Provincial Treasury a Directorate Supply Chain Management was established. The structure of the said directorate entailed the housing of the disciplines of procurement, physical asset management and the Public-Private Partnership Units respectively. From a provincial treasury perspective the idea is for the concept of Supply Chain Management to run transversally across the disciplines identified to eventually bring about the necessary efficiency and effectiveness required in the utilisation of provincial assets.

These disciplines shall be discussed individually within chapter 2 of this review.

1.2 Financial Systems

Currently there are four major systems, the Financial Management System (FMS), 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 not as a single integrated systems unit.

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 uncoordinated fashion, following a process of “least resistance”. (Currently, for example, there are more than 200 interfaces with BAS alone).

The legacy systems within the National Treasury were developed as in-house proprietary solutions over a period of many years and in almost an evolutionary fashion.

The Financial Management System (FMS) is a cash-based accounting and batching system that was developed way back in 1973 and is now outdated. After a processing run, the expenditure data in FMSI is carried over to FMSII, where the information is available on an on-line basis. Currently, no enhancements are made to FMS and maintenance and support are only focused on maintaining the system.

The Basic Accounting System (BAS) is a basic accounting system (also cash based) that was developed in 1992 to cater for government's basic accounting needs. The architecture is more modern than that of the other systems and is assessed as being roughly in the middle of its normal system life-cycle. The system is however not a fully-fledged accrual accounting system.

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 Personnel and Salary System (PERSAL) is the central system for the administration of the public service payroll. PERSAL is very stable from a payroll perspective.

Over the years, PERSAL has expanded by increasing the spectrum of data fields to hold part of the information prescribed by national reporting requirements. In this respect, PERSAL offers personnel administration, holds information in a database of approximately 1,1 million employees, and offers standard and ad hoc reporting.

PERSAL was developed in an ad hoc fashion, with developments being mainly driven by legislative requirements rather than a Human Resource Strategy. New developments were therefore not informed by a systems life-cycle approach.

Salary payment and HR requirements are integrated into one system and therefore the database cannot be separated. The user focus is more on the salary than on the HR function. The result is that HR data on PERSAL is neglected and often incomplete and inaccurate.

PERSAL interfaces manually with other systems (both internally and externally) through Magnetic Tape. An on-line interface with Vulindlela and other external systems is also in place.

The Logistical Information System (LOGIS) in its current format was developed in 1998. LOGIS was developed in an evolutionary way to cater for government's provisioning and administration requirements in respect of the control of movable assets and stock.

Even though LOGIS is not a fully-fledged asset management system, it complies with the provisioning administration processes and procedures and is an integral part of supply chain management.

1.3 Financial Asset Management

In 1994, the new provincial dispensation devolved amongst others, the functions pertaining to cash management to provincial treasuries. Each province was therefore made accountable for their financial position. The Western Cape Exchequer Law (WCEL), 1994 (Law 4 of 1994), was constituted to standardise and control the various aspects of cash flow management within this province.

The WCEL prescribed, that a certain banking account configuration be held at a commercial bank registered within the Republic of South Africa. In terms of this prescribed banking account configuration, a Provincial Exchequer Account and two PMG accounts viz. the Department of Education and a single account "Other Departments" to service the needs of the remainder of the departments within this province were opened at a commercial bank on 1 April 1995.

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

The PFMA supercedes the WCEL. 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.

A further important development, which commenced on 1 August 2000, was the initiative launched by the PT to phase out cheques and convert such payments to Electronic Funds Transfers (EFTs). 95% of all payments generated by this Province were made by means of EFT by 1 April 2003. This was taken further in the current financial year, allowing structured and timed payment cycles to further optimise cash flow management, resulting in all (100%) payments to be EFT generated from 1 July 2003. Apart from significant improvements in cash flow planning, further benefits included the minimising of fraud and a reduction in bank charges within the Province as a whole.

2

SUPPLY CHAIN MANAGEMENT

2.1 Purpose

The purpose of this chapter is to -

- Discuss the current and future approach to procurement;
- Discuss the current and future approach to physical asset management with specific emphasis on property management;
- Provide an holistic approach in incorporating the concept of Black Economic Empowerment within the former as a strive to contribute to the growth in the economy as well as to fulfill the provinces objective to enhance the living standards of the poor in this province, and
- To provide a broad overview of public private partnerships and the benefits it can bring if introduced effectively in the provincial government.

2.2 Legislative framework

It is imperative that we understand the parameters within which we function, and more so the legislative framework that governs supply chain management, inclusive of physical asset management and public private partnerships, and the administration involved in its execution.

However, more important is comprehending the historical background to grasp why we are moving in a different direction and following a different approach. Therefore, a summary of the legislation currently governing procurement and provisioning will be given, as well as an idea of the legislation envisaged to govern supply chain management.

- *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 (Refer to Sections 76 and 38 of this Act respectively)*
- *The Preferential Procurement Policy Framework Act, Act 5 of 2000 and its Regulations 2001*
- *The Western Cape Preferential Procurement Policy*
- *The Western Cape Provincial Tender Board Law, 8 of 1994*
- *The KST 36 Regulations, 2001 (The enabling Regulations of the Western Cape Provincial Tender Board Law)*
- *The Procurement Delegations*
(issued in terms of the Western Cape Provincial Tender Board Law)

To give effect to the spirit and purpose of the PFMA, supply chain management seeks to bridge the gap between traditional methods of procuring goods, services

and property, stock control and obsolescence planning, whilst simultaneously addressing procurement related-matters of strategic importance. The legislative frameworks within which the supply chain management will function or operates are:

- *Supply Chain Management Regulations (Section 76(4)(c) of the PFMA)*
- *Provincial Treasury Instructions*
- *Accounting Officers System (Section 38(1)(a)(iii) of the Public Finance Management Act)*
- *Western Cape Land Administration Act*
- *National Treasury Regulation 16 pertaining to Public Private Partnerships*

2.3 Procurement

2.3.1 Introduction

The current system of procurement is rule-driven and limits procurement personnel in coming up with innovative procurement practices. The rule-driven approach stems from the fear of unfair practices and the introduction of punitive measures where such rules have been broken. As such it has created a procurement environment in which emphasis is placed on the adherence to rules and minimising possible irregularities instead of encouraging smarter and better procuring and having a more entrepreneurial approach to buying.

Procurement personnel in the government are performing procurement administrative functions rather than buying functions. The current system of procurement also has the following inherent risks:

The different markets and their specific requirements are not fully understood.

Needs/Requirements of departments are not properly addressed and therefore not clearly defined and specified, bid/tender documents are not prepared and proper cost and benefit analyses are not being done.

The knowledge of procurement personnel is mainly confined to legislation issued by the Western Cape Provincial Tender Board. Limited contract management skills exist, creating unnecessary budgetary pressures due to the inability to deal adequately with contract price adjustments and rates of exchange claims. Limited knowledge of the legality of contracts also extensively increases the Province's risk of possible litigations arising from the conclusion of contracts.

The only remedy for the aforementioned situation is the transfer of responsibility of procurement to accounting officers of departments. A decision was therefore taken to abolish the Western Cape Tender Board with effect from 31 December 2003.

Provincial departments will therefore be responsible for the executing of all procurement related functions as from 1 January 2004 with the provincial treasury being responsible for the following functions:

- In conjunction with departments developing sourcing and procurement strategies which are in line with any provincial developmental objectives
- Developing of accurate and valid market research methodologies aimed at reducing procurement costs.
- Exploiting economies of scales by arranging of transversal contracts to provide for crosscutting procurement of goods and services.
- Initiating, co-ordinating and provide technical assistance and training for BEE companies and departments.
- Provision of assistance and advisory services to departments
- Monitoring of departments performances

2.3.2 Implementation of Procurement reform

Acknowledgment of the importance of good governance and institutional restructuring to capacitate departments over time, to adequately deal with procurement reform, lead to a decision by the Provincial Treasury in conjunction with the Western Cape Provincial tender board, that procurement reform be implemented in phases.

The first phase was the introduction of the Western Cape Preferential Procurement Policy with effect from the 1 January 2002 and the subsequent compilation of departmental preferential procurement plans to achieve the target set by the Minister of Finance and Economic Development that 40% of contracts be awarded to historically disadvantaged (HDI) companies for the 2002/03 financial year. The figures for the 2002/03 financial year reflected an amount of R345m or 48% of provincial contracts awarded to HDI's. From these contracts, 358 were awarded to 183 HDI companies

The second phase was the devolving of greater procurement powers to departments that deals with the accountability of accounting officers,. The aim was to create a culture of responsibility and accountability for procurement that would ultimately vest in Accounting Officers and Chief Financial Officers and their designated staff. The devolving of powers to departments on 1 October 2002 was seen as a preparation phase to empower departments individually and independently to deal with procurement (take ownership) in advance of the introduction of the supply chain management system. Simultaneously, this phase was used to elevate procurement and provisioning to its rightful place in the financial management environment.

The third phase of procurement reform entailed the full-blown introduction of the concept of supply chain management that inherently gives effect to the spirit of the PFMA and envisages the abolishment of the Western Cape Provincial Tender Board on 31 December 2003. This requires the following responsibilities to be executed by the role players as indicated below:

- **Provincial departments** - Drafting and implementation of an Accounting Officer's System (in terms of Section 38 of the PFMA) and its accompanying Accounting Officer's SCM delegations
- **The Provincial Treasury** - Drafting and issuing of Provincial Treasury Instructions supplementary to the legislation enacted by the National Treasury
- Drafting and issuing of SCM Practice Notes to guide empower and skill departments in the intricacies of supply chain management.
- **The National Treasury** - Drafting and promulgating the supply chain management prescripts in terms of Section 76(4)(c) of the PFMA.
Drafting and issuing Practice Notes on SCM.

Whilst this is in process, the Western Cape Provincial Tender Board Law, 1994, and its enabling Regulations have to be repealed and ultimately this would lead to the subsequent repeal of the Procurement Delegations. It is clear from the above that this phase would set the legislative scene or framework for the implementation of SCM.

2.3.3 Western Cape Supplier Database

Concurrently with the introduction of SCM, departments had to be provided with all the mechanisms necessary to enable effective, efficient and proper service delivery, whilst at the same time complying with their socio-economic obligations. The Provincial Government of the Western Cape embarked upon a joint initiative with the City of Cape Town to develop a Western Cape Supplier Database that enables departments to register and actively manage suppliers and also to monitor the preferential procurement objectives. Features inherent to this database are:

- Accurate, up to date source of information on suppliers
- Validation of supplier information and particulars
- Updating and maintenance of the database for evaluation of suppliers
- Electronic assistance with tender adjudication
- Linkages with the Source Link Electronic Purchasing System and generating reports tracking the awarding of contracts to HDI's
- Keeps record of contracts & official tender documents.

2.3.4 Electronic Purchasing System

In terms of using government resources to its optimum, the Provincial Treasury also employed an Electronic Purchasing System (EPS). The EPS is an electronic mechanism that enables departments to electronically source quotations and send enquiries to a broad base of suppliers. The web-based EPS integrate with the Supplier Database to automatically calculate preferences based on the quotes received through the EPS. It further provides detailed information on suppliers with a strong focus on reporting around preference percentages. By 31 March 2003, 68 Provincial Department sites were connected to the system. This electronic system has a database of 1896 suppliers/companies and 6 non-governmental organisations (NGOs) in the Western Cape linked to it.

2.3.5 Tender Website

In an ongoing effort to make information accessible to the public, the tenders website was opened to the general public on 31 March 2003 and can be viewed at www.westerncape.gov.za/tenders. Apart from having all provincial tenders advertised on this website, it hosts the following information: procurement legislation (ie. Preferential Procurement Policy), departmental contact details (officials at departments who deal with procurement related matters), enquiries e-mail address (any tender related enquiries can be lodged at this address); information on how to tender and where to get assistance when tendering for the Provincial Government of the Western Cape (PGWC) (list of Tender Advice Centres with contact details) and the successful tenderers and their status.

2.3.6 Requirements for strategic procurement strategies

The introduction of SCM will require that departments introduce more innovative and planned ways of acquiring goods and services. This approach will also enable suppliers, manufacturers and service providers operating in a specific sector to economically grow and develop to be more efficient and competitive.

Procurement expenditure forms a substantial part of the provincial budget. It is also one of the few areas of considerable discretion whether to spend and on what. As such it is a high-focus area for sustainable development for the participation and growth of Black Economic Empowerment (BEE) companies. This is evident if the following amounts spent by the Western Cape government in the 2001/02 financial year through the procurement process is taken into account:

Department	Amount R'000
Premier, Director-General and Corporate Services (PAWC)	180 756
Finance	10 519
Community Safety	20 668
Education	271 397
Health	861 483
Social Services	87 023
Planning, Local Government and Housing	13 814
Environmental Affairs and Cultural Affairs and Sport	39 573
Economic Affairs, Agriculture and Tourism	862 444
Grand Total	R2 347 677

Key outcomes of SCM will be minimizing procurement cost, serving the end user more effectively and economic growth and development. Unless there is a clear understanding of the market we are operating in, we shall not be able to achieve the outcomes of SCM. It is thus required that the necessary business intellect is build within the SCM units of all departments to establish the relevant supply market by commodity group and its related competitive dynamics, address characteristics such as supplier capacity constraints, understanding the BEE initiatives and how best to address it in the relevant industry.

The aforementioned inherently forces each department with the development of SCM/procurement strategies that must be aligned with departmental strategic plans. These strategies should include:

- Understanding future needs;
- Identifying critical delivery dates;
- The frequency of need;
- Linking the requirement to the budget;
- Doing an expenditure analysis (based on past experience);
- Determining the specification;
- Doing a commodity analysis (checking for alternatives), and
- Doing an industry analysis

Key to minimising procurement related cost is the assessment of the total cost involved in the procurement of any specific good or service (total cost of ownership). Total cost of ownership (TCO) is an assessment of all costs, direct and indirect, involved with an item over its useful life. It is important to note that the quoted purchase price is not the only cost involved in obtaining and using an item. Inclusion of all other known cost factors allows a more complete picture to emerge, thus enabling the purchaser to make an informed decision, which as a matter of fact goes a long way in creating a culture of responsible purchasing within the department. Many cost factors are known to end-users or to others in the department and may not be known to Supply Chain officials. A complete picture of the TCO can be compiled through a team effort that includes at least, end users, technical experts, supply chain management and legal representatives in order to obtain a useful result.

2.4 Physical Asset Management

2.4.1 Defining Physical Assets

Physical assets can be classified into current and non-current assets. Current assets normally have an expected short life due either to an inherent feature (perishable goods for example) and can be consumed or converted into something else within the next twelve months, whilst non-current (fixed) assets have an extended useful life greater than one year.

2.4.2 Status of Physical Asset Management

Although numerous mechanisms have been put in place to address inefficiencies pertaining to the management of assets, these mechanisms have proved to be insufficient. These mechanisms do not meet the requirements of the Auditor-General and more specifically international best practice.. This is mainly due to the incoherent approach towards Asset Management within the Public Service.

The challenge within the provincial government will be to transform the current ways that physical assets are being dealt in order to increase the efficient use thereof and or dispose thereof in the most economical way possible.

The Provincial Treasury is in the process of addressing this particular problem, hence the establishment of a Physical Asset Management component within the Directorate: Supply Chain Management. This component is tasked with the following functions:

- To ensure the development of efficient systems for inventory and stock control and management.
- To ensure the development of efficient systems for asset management and control.
- To ensure the development of transparent and economic practices to deal with asset disposals.
- To ensure the implementation of economic life cycle and value for money asset management.

In executing these functions the component needs to take cognisance of current practices involving the management of assets (current and non-current) within the provincial government, as well as developments on this particular field on a national level.

2.4.3 Classification of assets

Movable Assets - Assets vary considerably in their size and nature and it is useful to classify them into logical groupings for management control and financial treatment. To have a clear understanding of the impact a thorough and effective asset management strategy will have on the growth of the economy, as well as empowerment of the inhabitants of a province, one needs to analyze the types of assets individually; their current status within the provinces and whether or not a credible system is in place to account for these assets in order to ensure their optimal usage.

Under the Public Finance Management Act 1 of 1999, accounting officers must compile a balance sheet. Departmental assets must be reflected within a balance sheet, the management of which is currently covered by Treasury Instructions that are highly prescriptive in terms of both record keeping and procedure. The current system of procuring goods for departmental use, storing it, accounting for it and providing it to end users, can be best described as cumbersome. A computerized mainframe-based logistic system(LOGIS) has been developed by

the National Treasury over the last decade to try to provide a form of store administration, to monitor stock levels and generate procurement needs, and to provide asset management that is compliant with current Treasury Instructions. However, certain shortcomings of LOGIS were identified, namely

- Not an asset management system
- Not a financial budget control system
- Does not interface up to minor item level
- No BAR coding functioning
- No BAS interface

However in the absence of any reputable system addressing movable assets the Provincial Treasury made a decision to rollout the LOGIS system in certain departments. LOGIS is discussed in more detail under chapter 3. To deal with the incapacity of departments to properly account for their movable assets the provincial treasury will allow departments to outsource this function to the private sector to establish a sound foundation in anticipation of the implementation of a transversal system by National Treasury.

Immovable Assets: Properties -The management and administration of the immovable property is concerned with the property portfolio of the Western Cape Provincial Government. Because of the strategic nature of property it will be discussed separately under the heading property management

Addressing the problem

The effective and efficient utilisation of assets requires the establishment of systems and processes to support the preparation of forward asset strategies and it further involves guiding the acquisition, use and disposal of assets and managing the related risks and costs over all phases of the asset life cycle. To be effective, asset management needs to be considered as a comprehensive and multi-disciplinary activity. An asset strategy provides the basis for the acquisition, operation, maintenance, refurbishment, and disposal of assets, and enables an entity to provide to quantity, type and standard of assets needed to deliver its outputs. Effective planning also assesses alternatives to the acquisition of new assets, including “non-asset solutions” and the enhanced performance of existing assets. Concerning non-asset solutions one can distinguish between three types namely

- Redesigning the service to reduce the need for assets (eg. Home-based medical care)
- Increasing the utilisation of existing assets(the conduct of evening courses in school buildings) so that acquisition of a new asset can be avoided
- Using private sector contractors to provide parts or all of the services

The illustration depicted above reflects the ideal and the vision for managing physical assets in the Province. It is thus the intention of the Provincial Treasury to progressively, guide departments in the stated direction. Reality however dictates that such a reform would require a lot of cohesion and corporation

between the respective treasuries and provincial departments. In developing an asset strategy or preparing a capital investment plan, the following needs to take into account:

- Managing output demands
- Identifying non-asset solutions
- Ranking asset acquisition proposals
- Conducting a feasibility study
- Undertaking life-cycle costing
- Preparing a financing plan
- Preparing an output submission.
- Preparing and implementing a risk management plan.
- Meeting insurance requirements

2.5 Property Management

Property management is concerned with the management and administration of the immovable property portfolio of the Western Cape Provincial Government. The Department of Transport and Public Works fulfil the role as custodian to manage the immovable property portfolio of the Provincial Government of the Western Cape. The Branch: Public Works within the department is entrusted to manage the portfolio on behalf of the provinces. The Branch therefore plays varying roles, in that it ensures that the accommodation needs of all provincial departments are integrated and provided for and ensures that properties are not separately dealt with.

It is therefore possible to manage the portfolio in a more responsive role and not in isolation. The Interim Constitution Act 200 of 1993 provides that land that are registered in the name of the Republic of South Africa and either used by provincial departments or reserved for such uses, should be registered in the name of the provincial government. Once an item 28(1) certificate has been issued by the Ministry of Land Affairs, in terms of the Constitution of South Africa, Act 108 of 1996, the said property is registered in the name of the provincial government. All provincial land are managed in terms of the Western Cape Land Administration Act, Act 6 of 1998 and the regulations promulgated in terms of the Act, as well as the PFMA Act 1 of 1999 and the regulations issued in terms of said Act. All information on these properties, whether own by the province or by National, kept in a central immovable property register. This register also contains information on improvements, (land and buildings) as well as servitudes in favour of the Provincial Government, bequests and properties reverting back to the Province.

2.5.1 Current status on the Property Portfolio

The Department of Transport and Public Works identified 6 567 erven which should be vested in the name of the provincial government of the Western Cape. In terms of Section 239 of the Interim Constitution Act 200 of 1993, all

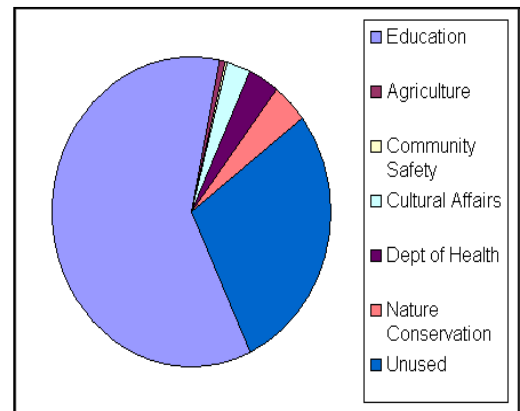
State-owned assets are divided between the National Government and Provincial Government based on functional areas as specified in Schedule 6 of the Constitution. Whereas the Final Constitution Act 108 of 1996 requires the issuing of a certificate called the Item 28(1) authorising the Registrar of Deeds to endorse an immovable asset in a particular government.

Apart from immovable properties that have been acquired by the National or Provincial Government since 27 April 1994, the vesting of immovable State-owned properties took place on the date of the commencement of the Interim Constitution. The Item 28(1) certificates will only be issued to the province once it is proved that the immovable property was utilised or was earmarked to be utilised for or concerning the administration of a particular law. Therefore, properties were unbundled by means of the issuing of a s.28 (1) and thereafter properties were endorsed (declare one public approval) at the transfer deeds office.

The use of these properties by the respective departments is reflected hereunder:

Western Cape Provincial Property Portfolio

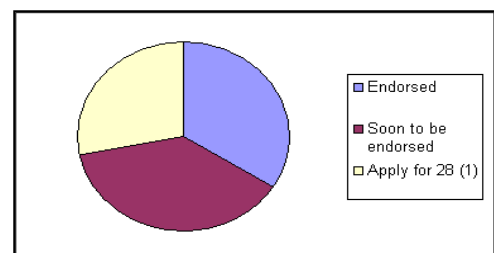
Education	3,912
Agriculture	48
Community Safety	4
Cultural Affairs	184
Dept of Health	234
Nature Conservation	284
Unused	1,834
Total	6,500



The Department of Transport and Public Works manage the balance of the portfolio not allocated to any user department. Some erven are being rented out (rental status) to private entities on the short term until such time that a decision is made on their future need. The status of the 6 567 erven (including vacant land) that should vest in the name of the Provincial Government of the Western Cape is reflected hereunder:

Ownership of Property in WC

Endorsed	2,209
Soon to be endorsed	2,442
Apply for 28 (1)	1,849
Total	6,500



For the 1 849 erven identified, which is currently vested in the name of the Republic, there must still be applications made for Item 28(1) certificates, declaring that the property vest in the name of the Provincial Government. These item 28(1) certificates must be submitted together with an application for endorsement, to the Deeds Office.

The replacement value of the buildings that vest in the name of the Provincial Government is valued at R12,7 billion (this excludes the maintenance of leased properties) while the market value of the 6 500 erven, which includes those not yet registered in the name of the Western Cape Province, is valued at R2,77 billion. The backlog in maintenance from annual condition assessment of the properties, is valued at R1,3 billion. This includes the acquisition of 300 erven (R100 million) that have been leased, from private entities as well as local government, without being purchased by the Provincial Government.

The Provincial Government also leases 420 buildings to complement the Provincial Property Portfolio for the use of offices as well as farm and church schools. 661 non-designated properties (not allocated to any department) are rented to individuals and other Non Governmental Organisation((NGO'S) and institutions for an estimated income of R10 million per year. In turn the income that is generated through leasing are utilised for maintenance of buildings and the balance transferred into the Property Portfolio budget to utilise for acquisition purposes.

During the period 1999 – 2003, 87 properties were purchased for an amount of R46,22 million (274,194 ha). This included the Eerste River Hospital that was purchased for R12,55 million as well as the Philippi Hostel complex for an amount of R7,98 million. 27 properties have already been transferred (through sales) into the name of the Provincial Government while a further 60 properties is awaiting transferal from the Provincial Housing and Development Board. 28 properties have been disposed of since 1998, of which 8 has been transferred to the private sphere and in some instances to local authorities and generated income of R11 685 million. A further 20 properties must still be transferred to the Provincial government during the financial year for an estimate income of R11 051million.

The following projects are being redeveloped by Property Management to ensure highest and best use as well as socio-economic spin-offs for the Provincial Government:

Location	Description
George– Die Bult	Disposal of 69 single residential erven as well as two group housing sites; R10 million
De Novo	The replanning of the farm for the optimal utilisation of the property for the use of residential development of farm workers as well as small farm development;-socio-economic
Somerset/City Hospital sites	To normalise the property ownership of the City Hospital and to replan both properties for optimal utilisation;combination of monies and socio-economic benefits
Valkenberg East	Finalisation of the rezoning of the property to comply with the structure plan of the Black River Urban Park; combination
Porter Estate	Development plan has been finalised and Task Team has been appointed and commented on the disposal and development of the property-combined
Nelspoort	The upgrading of the external and internal services and to transfer the properties to the municipality and the individual beneficiaries;socio-economic
Karatara	The transfer of the property to the municipality for redevelopment and transfer of the properties to the beneficiariessocio-economic
Conradie Hospital	The rezoning of the property for highest and best use and the disposal thereof after the Conradie Health Care Unit has been transferred to Lentegeur Hospital-combined

2.5.2 Infrastructure Management

Developing infrastructure is crucial to alleviate poverty and to promote broad-based empowerment in South Africa by creating wealth and prosperity. Its major impact however is towards economic development as it creates favourable conditions for production and consumption, facilitates economic diversification and provides access for people to services and opportunities, thus promoting growth. Infrastructure investment contributes towards economic growth to the extent that for every 10% increase in public infrastructure capital, output increases between 2% and 3% (Umrabulo No. 16, August 2002).

Both the processes and the products of provincial property services contributes 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 Institution for Municipal Engineers in Southern Africa (IMESA) is currently busy developing a South African Infrastructure Management Manual that will lay down a structured approach and methodology to Infrastructure Management. This is based on work done in Australia and New Zealand for their specific Infrastructure Management Manuals, which is viewed by the World Bank as the standard against which other manuals of this type can be measured. This manual is divided into sections that will form a guideline for Infrastructure Management and will include issues such as implementing Asset Management, Implementation Techniques, Asset Management Information Systems and Country Specific Information.

The programme for completion of this project is as follows:

This initiative will greatly assist technical personnel and decision makers in optimising the management of infrastructure.(The IMESA Initiative to Develop the Proposed South African Infrastructure Management Manual)

The process of providing accommodation and acquiring, developing, maintaining and disposing of provincial properties has the objective of maximising employment opportunities for emerging role players (See PPP's). Such an approach will include buying locally produced goods to stimulate local economic development.

2.5.3 Utilisation of Space

In the utilisation of property, space should obviously be utilised optimally in order to minimise development and maintenance costs. The potential of each property in general and surplus space in particular for correcting the remaining spatial divisions and asset poverty of the city and region that cause economic development impediments should be explored.

The accommodation needs of the Province far outstrip supply and therefore provision should be prioritised and scheduled. This is been done by means of a Provincial Strategic Accommodation and Infrastructure Plan (PSAIP). The PSAIP is compiled and continuously upgraded from the inputs of User Departments, who derive their accommodation requirements from their strategic objectives. All the provincial departments are directly responsible for the delivery of services to society and they need appropriate accommodation, equipment and stock to do so. In this regard the property services function provides a resource supply service in support of these functions.

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.

The optimal utilisation of the Provincial property portfolio could potentially make a significant contribution to economic growth, through the release of redundant provincial property for development. The release of surplus property will be for purposes ranging from revenue generation to land restitution, creation of dignified public spaces and other social programs.

Revenue generation will occur by determining the highest and best usage of properties, ensuring a balance between financial return and socio-economic potential of a property. The revenue generating from this source will be utilised to accelerate the delivery and maintenance of infrastructure for Educational, Health and other social services.

2.5.4 Asset Poverty

Although the Western Cape Province can be considered fortunate for having one of the best property infrastructures of all the provinces there are still Infrastructure backlogs which is being addressed. Serious forms of asset poverty threaten sustainable service delivery in the Province. Asset poverty refers to deficiencies in assets required for accommodating public services. Manifestations of asset poverty vary from the following:

- Properties not adhering to general or specific user requirements (such as not providing access to the disabled)
- Poorly maintained properties
- Properties not suitable for human habitation
- The total absence of certain services in areas where they are the most needed due to the unavailability of suitable accommodation.

Current functions that the department concentrate on however are limited

- to eradicate the backlog in rehabilitating and maintaining existing Provincial properties,
- to eradicate the backlog in capital infrastructure investment requirements of the Province.
- to comply with the Occupational Health and Safety Act, 1993 (Act 85 of 1993), and to comply with the Public Finance Management Act of 1999)

In order to widen the activities to fully address asset poverty funding is needed. The Province however is facing severe budgetary constraints and alternative ways need to be explored to provide for any backlog and new accommodation needs. These needs can partially be addressed by reallocation of other property in the portfolio, leasing or buying property or buying and developing new property. The appropriate option should be determined by the duration requirement, the location, price, supply, functionality and procurement policy.

2.5.5 Strategic use of the Provincial Property Portfolio

The Provincial Property portfolio needs to be unlocked and optimised. The usage of provincial properties (land and buildings) needs reviewing in order to ascertain whether the properties are in fact being utilised to their optimum.

Activities relating to the management and administration of the immovable property portfolio, acquisition, development, maintenance, utilisation and disposal of properties should make a contribution in the response to the massive challenge facing Governments. The Provincial Government of the Western Cape has the responsibility to interpret the particular circumstances in the Province. This must be done, not only by providing and maintaining the required accommodation for Provincial services, but, especially in the particular business of property services, by creating opportunities for socio-economic development through employment, by redefining and redesigning public space and through economic empowerment.

The Provincial Government is in the process of finalising a White Paper on the Management properties. This strategy document will also include policies regarding the management, acquisition, development, maintenance, utilisation and disposal of the said properties. The responsibilities revolve around the qualitative performance of property, ensuring the most efficient, effective and economic utilisation of space, and the timely and effective reporting and accounting of income and expenditure. Government immovable properties are valuable assets that were divisively utilised in the past. These assets should be optimally utilised to undo the negative legacies and create an integrated society within which every individual is empowered to live and participate on an equal footing.

2.6 Public Private Partnerships (PPP)

2.6.1 Defining a PPP

A Public-Private Partnership is a new way for Government to deliver efficient yet cost-effective service to the public. It is defined as:

“A contractual arrangement whereby a private party performs part of a Government’ organization’s service delivery or administrative functions, and assumes the associated risks. In return the private party receives a fee according to predefined performance criteria”.

There are three essential drivers for the use of Public-private partnerships namely affordability, value-for money and appropriate risks transfer.

2.6.2 Rationale for using PPP’s

In April 1997, the Cabinet approved the establishment of an interdepartmental task team (IDTT), chaired by the Department of Finance, to explore how PPP’s could improve infrastructure and service delivery efficiency. The IDTT was

mandated to develop a national public-private partnership programme, the key objectives of which were to identify the major constraints to the successful implementation of PPP's and to develop a package of cross-sectoral and intergovernmental policy and legislative and regulatory reform.

Subsequently the PPP service delivery option was introduced through which the public sector can improve value for money in partnership with the private sector. It was launched in 2000 with the aim to improve infrastructure and service delivery efficiency; promote economic growth and regeneration. This led to the establishment of a PPP Unit at National Treasury in 2000. Their core function is spearheading the conclusion of PPPs at a National level and granting approvals to provinces at the different levels of negotiations involved in a PPP.

2.6.3 PPP Unit in the Provincial Treasury

The PPP Unit in the Western Cape was established in May 2003 with the Restructuring of the Western Cape Department of Finance. Their role with regard to the thirteen departments in the PAWC is guidance and advisory in nature. Further to this, this Unit also forms part of the Western Cape Provincial Treasury that gives direction in terms of the budget. The PPP Unit is also tasked to:

- Elicit and ensure the effective and efficient implementation of public-private partnership projects in the province.
- Promote and support projects, which generate significant private sector capital investment to replace/enhance existing assets, as well as projects, which are, to a large extent, contracts for services.
- Assess new public-private partnership projects from a budgetary perspective
- Monitor public-private partnership
- Enforce compliance with measures/regulations imposed

2.6.4 Legislative environment for PPP's

The legislative context for PPP's is dictated by the Public Finance Management Act (PFMA) and specifically chapter 16 of National Treasury Regulation.¹ In terms of the latter the following three distinct Treasury approvals need to be obtained:

- *Treasury Approval 1* (TA1) – requires the submission of a feasibility study report on aspect relating to the affordability, an initial indication of how value for money will be achieved and appropriate technical, operational and financial risk transfer (Treasury Regulation 16.4.2).
- *Treasury Approval IIA* (TA IIA) – treasury approval of the procurement documentation and draft contracts - including at least the main terms of the PPP agreement, the aspects of affordability, value for money and risk transfer

¹ Section 16 of Treasury Regulations gazetted in government Gazette 222219 – 9 April 2001 (as amended) issued in terms of the Public Finance Management Act 1999.

- *Treasury Approval II (TAIIIB)* – prior to entering into negotiations with any preferred bidder, National Treasury must approve the means by which affordability, quantification of Value for Money, appropriate technical, operational and financial risk transfer was established in determining the preferred bidder (Treasury Regulation 16.6.5).
- *Treasury Approval III (TA III)* – prior to entering into the PPP agreement, National Treasury must approve that the actual PPP agreement contains the affordability, value for money and appropriate technical, operational and risk transfer contemplated under TA1, and that the institutions management plan explains the capacity of the institution to effectively enforce the PPP Agreement (Treasury Regulation 16.7.1).

2.6.5 Current developments

Only one deal within the Provincial Government has been concluded under the PPP regulations namely Chapman's Peak Drive. This project took the form of a 30 year design, finance, build, operate, transfer of assets back to the Western Cape government agreement involving R450 million in form of capital works and operations.

The following are further PPP projects currently pursued within the Western Cape government. These projects are in various phases of the PPP project life cycle and includes public private partnerships projects currently out on tender. It is subject to further work by the departments and its advisors

Provincial Departments

	Project	Status	Preferred bidder	Transaction advisors
Western Cape Department of Health	Hermanus hospital co-location project	Negotiations	Mediclinic holdings	Ignis
	Swellendam hospital co-location project	Feasibility study completed and Treasury Approval 1 application submitted April 2003	Afrox Healthcare	Ignis
	Eerste River Hospital Facility Management	Feasibility study completed and Treasury Approval 1 application submitted April 2003	Not yet appointed	Ignis; EC Harris; PHI attorneys
	Conradie Hospital Replacement	Transaction advisor appointed and feasibility study underway	Not yet appointed	KPMG; Africon; Denyes Reitz

Public Entities

	Project	Status	Preferred Bidder	Transaction Advisors
Western Cape Nature Conservation Board	SMALL OPPORTUNITIES DeHoop- Melkkamer Koppie Alleen Potberg Goukamma- Groenvlei Robberg Salmonsdam Vrojlikheid	Request for Proposals Evaluation Report Phase 1 And Value for Money Report Treasury Approval 2B Treasury Approval II(A) – February 2003. Bids due: small & medium sites June 2003. Large sites July 2003.	To be appointed	Dynacon Technologies: Bell, Dewar & Hill; Busico
	MEDIUM OPPORTUNITY Matjiesrivier	Request for Proposals Evaluation Report Phase 1 And Value for Money Report Treasury Approval 2B	To be appointed	
	LARGE OPPORTUNITIES De Hoop Goukamma Keurbooms River	Request for proposals for the development and management of ecotourism facilities in WCNCB nature reserves	To be appointed	

2.6.6 Promoting PPP's in the provincial government

The provincial government intends to extend the partnership approach to an ever-widening range of public sector activities. The Provincial Government of the Western Cape is keen to foster new types of relationships with the private sector under its PPP programme. This is a new process in need of development and refinement that only comes with experience.

To create this new partnership approach we need a fundamental shift in thinking - putting focus in outcomes rather than inputs.

As stated by Minister of Finance, Trevor Manuel at the private sector launch of the Standardised PPP provisions, Pretoria, 6 May 2003, “ *We want our PPPs to produce high standards at affordable cost; we want to see impetus given to black economic empowerment; we want to see local economic development spin-offs for small and medium businesses; we want to see skills transfer; and we want to see job creation. All of these “add value” in increasingly complex and qualitative ways.*

Public private partnerships can provide the public sector with better value for money in procuring modern, high quality services and infrastructure from the private sector. It offers policymakers a framework for developing a cost-effective and timely means of financing services and infrastructure.

A Public-private partnership is a multi faceted function with many areas of expertise required. The provincial government took action to enhance Public private partnerships by creating a Public private partnerships unit within its Provincial Treasury.

The intention is that the Unit capacitate itself with the functional and technical ability to ultimately become more educated in public-private partnership and procurement deals, so that these deals are structured to transfer risk to the party best able to manage it and to deliver best value for money.

As the unit grows it will move from organisational and management issues to policy direction and funding. Looking forward, over the next 3 (three) years we expect this unit to be fully functional and accredited by the National Treasury. It would provide departments a central source of procurements skills and would set the strategic framework within which departments would operate. The Unit is geared to provide services that promote faster and more efficient services in the interaction between the public sector and the private sector.

2.7 Black Economic Empowerment

2.7.1 Introduction to BEE

A lot has been said about addressing the inequalities of an era that has not only crippled South Africa as a nation, but also caused a setback of decades to the South African Economy. Redressing the economic and social challenges of South Africa is about more than redistribution of wealth, or giving an opportunity. Its about understanding the challenges/obstacles in the way of equality and fairness. It is about comprehending our past whilst focusing on the future we envisage, utilizing everything to our disposal to get there.

The introduction of the concept of Black Economic Empowerment is one mechanism to address the problem facing South Africa. Black Economic Empowerment is defined by government in its strategy for BEE as: “*an integrated and coherend socio-economic process that directly contributes to the economic*

transformation of SA with the aim of bringing about significant increases in the numbers of black people that manage, own and control the country's economy, as well as significant decreases in income inequalities."

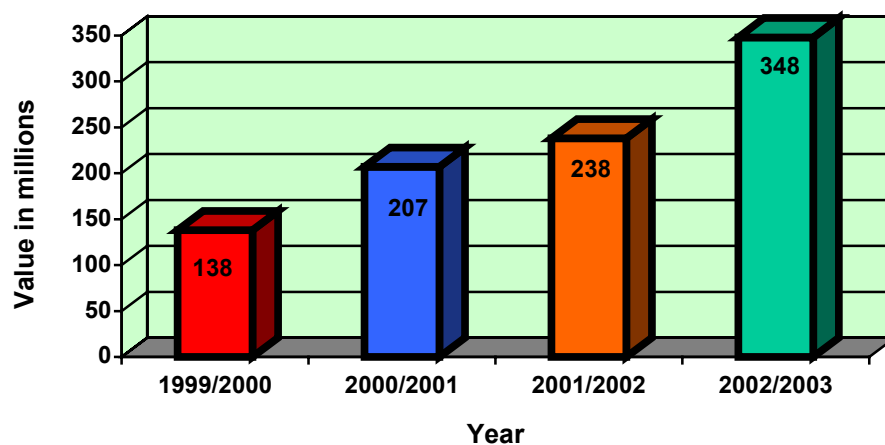
Clearly BEE is an integration of components such as: human resource development, employment equity, enterprise development, preferred procurement and investment and ownership & control of enterprises and economic assets.

The ultimate goal with the concept of BEE is not taking from the previously advantaged and placing into the hands of the marginalized majority, but about providing an equal opportunity for the common good. In order to understand where we are going it is of paramount importance to understand the country's socio-economic background, and moreover the dire effects it had.

2.7.2 Strategic use of BEE in procurement

Government procurement has long been identified as a strategic tool to ensure that certain socio-economic goals are attained. The estimated R60 billion spent by the local, provincial and national spheres of government has therefore over the last couple of years been targeted to a large extent to increase the participation of black businesses in government contracts. Unfortunately no meaningful data exists to establish the contribution of these spheres of government.

The Western Cape government's overall expenditure on procurement is R2,7 billion, and although it is relatively small in the national context, one should not underestimate the value that it can add to black economic empowerment. However, it is imperative that one should have a deeper understanding of the Western Cape economy to identify its dynamics, backward and forward linkages, constraints, enabling factors and skill requirements to promote black economic empowerment. The following figure reflects the amount of contracts awarded by the provincial government to black business since 1999:



The Western Cape government procurement budget is not significant enough to change 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 reallocation of expenditure to BEE companies will have a significant impact on stimulating growth and job creation. The provincial government will therefore pursue to constantly improve on the target of 40% of the provincial contracts to be awarded to BEE companies

2.7.3 Strategic use of Property to promote BEE

Developing infrastructure is crucial to alleviate poverty and to promote broad-based empowerment in South Africa by creating wealth and prosperity. Its major impact however is towards economic development as it creates favorable conditions for production and consumption, facilitates economic diversification and provides access for people to services and opportunities, thus promoting growth.

In responding to the massive development challenges, by providing and maintaining the required accommodation creating opportunities for empowerment, capacity building and self-enhancement of living standards should be some of the major objectives.

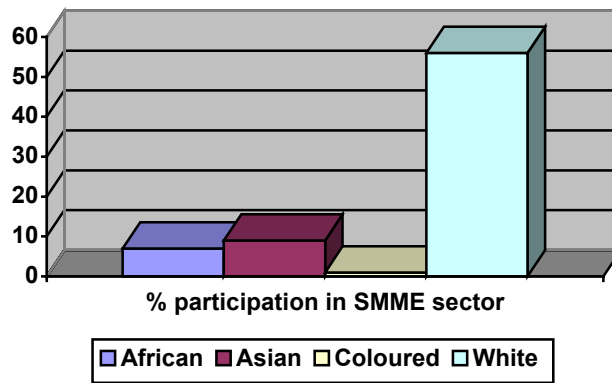
2.7.4 Provision of assistance to BEE companies

Creating opportunities for BEE companies will, however, not be enough. The provincial government will need to decide to what extent it will provide additional support, which will include hand-holding and access to finance, to BEE companies to ensure that they play a meaningful role in the Western Cape economy.

The issue of BEE in real terms deal with the issue of economic development in SA. The introduction of the R10b by the Minister of Finance to stimulate BEE is an investment to streamline economic development in SA which will bring about the necessary growth and development so much deliberated in the RDP as well as the GEAR (GEAR).

To contribute to BEE we need entrepreneurs and specifically black entrepreneurs. There are enough of them around, however they face many constraints like access to finance and entry to markets mostly controlled by white businessmen.

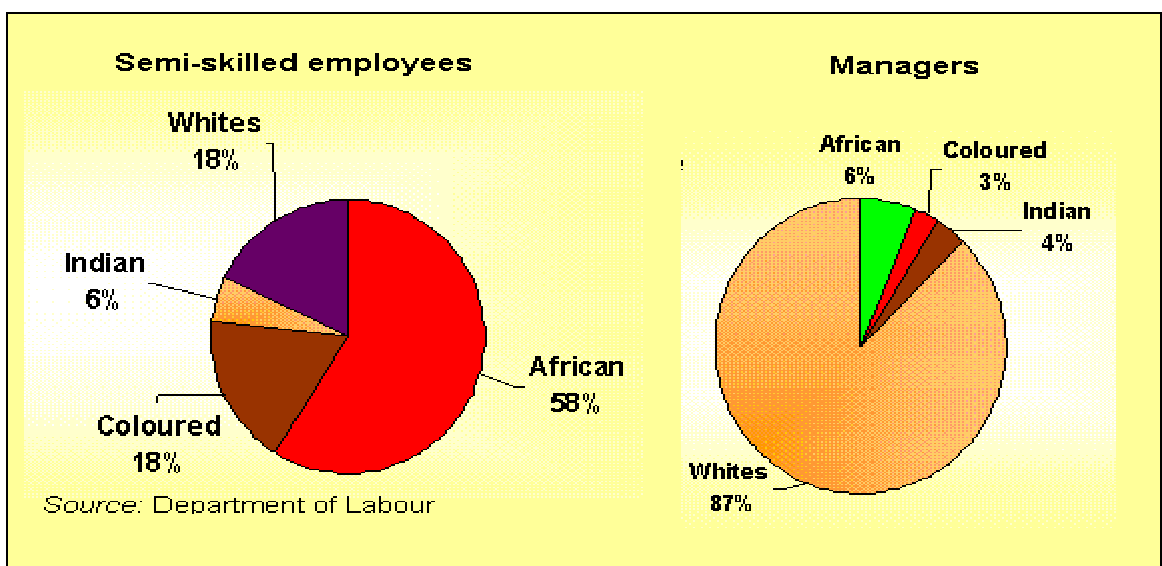
The under mentioned graph is an illustration of the % of participation by black people in the SMME sector.



Clearly there is a huge problem with regard to black participation which need to be addressed. Currently there are organizations like Ntsika and Business advice centers which operate under the auspices of the DTI (Department of Trade and Industry) to fill the gap. Although the efforts of these organizations are appreciated it is not sufficient to create sustainable development of black businesses. These organizations concentrate more on the quantity and not the quality of support. It is no use providing only once-off support or funding to businesses. Mentoring and monitoring programs need to be put in place to track the performance and growth of these companies assisted. Emerging and small entrepreneurs do not necessary understand the dynamics of their markets and might be fooled by initial success. Complacency might also derail them from their original area of focus.

Another reason why business development and support is necessary for small black business is the number of jobs that can be created by these companies once growth is taking place. It is a well known fact that small companies employ the most people in an economy. It therefore makes economical sense that government invest in small business development and support.

The under mentioned graph gives an indication of the limited role that ethnic blacks play on a decision making level in enterprises. Black Economic Empowerment is not only about ownership but also about decision making power and giving direction in terms of how things should be done. Unless the 13% black involvement is substantially increased BEE will only stay a vision.



It must be accepted that there is still a disparity on how the traditional white and black businesses are treated if it comes to financing. Confidence in a particular business and guaranteed rate of return investment are critical areas taken into account by banks before deals are financed. Experience has taught that most black businesses do not yet instil that confidence in banks and although business deals seem profitable commercial financing might not be made available as a result of the aforementioned factors..

It is incumbent on government to finance deals where black empowerment companies are involved if they are serious in promoting BEE. Government however need to accept that promoting BEE will entail taking certain risks. These risks should be identified and quantified before providing the necessary funding to finance them.

This kind of funding mechanisms are extremely important in those areas where it is difficult for BEE companies to enter and government need to make a policy decision that BEE in these areas are important to eradicate disparities in a particular market. These areas are normally your high tech areas, which as part of the legacy of apartheid excluded representation by black people.

Further it is important to ensure that those risks identified be managed properly. Mentoring and monitoring need to be essential ingredients of any financing agreement between the government and the respective black companies.

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Financing Black Economic Empowerment Groups by Eric Lilford, Director Resource Finance, Investic Back Limited.

FINANCIAL SYSTEMS

3.1 Legislative framework

- The Constitution, 1999
- 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

3.2 The Financial Management System (FMS)

3.2.1 Introduction

On 1 April 1992 the Financial Management System (FMS) was implemented on a centralised basis in the then Cape Provincial Administration (CPA). With the establishment of the province of the Western Cape on 1 July 1994, the centralised financial functions, including the administration of the systems, continued for all provincial departments, with the exception of the Department of Education, which managed its own financial functions.

As early as 1994 the devolution of financial functions to provincial departments to improve the quality of financial management and building capacity in provincial departments was identified as a priority by the Provincial Treasury.

However, it was not before the Public Service Act, 1994 (PSA) and the Public Service Regulations issued on 1 July 1999, whereby a provincial department was established as an autonomous entity, that the necessary impetus was provided to proceed with the devolution of financial functions. A further factor necessitating the devolution of financial functions to the departments was that the Provincial Treasury could no longer be responsible for the day-to-day operation of the

various systems on behalf of provincial departments and at the same time oversee the integrity of the systems (dichotomy).

To ensure that provincial departments would have ample time to create the necessary structures and capacity to manage their own financial functions, the implementation and decentralisation of the FMS commenced during the 1999/2000 financial year and was completed on 1 April 2002 in respect of the then ten provincial departments. The departmentalisation model, which was approved in June 2002, necessitated the further decentralization of FMS to a further three provincial departments with effect from 1 August 2002. The implementation and decentralisation of the FMS progressed as follows:

Financial year	Department	Implementation date
1999/2000	Transport and Public Works	1 April 2000
	Health	
2000/2001	Housing	1 April 2001
	Provincial Treasury	
	Social Services and Poverty Alleviation	
2001/2002	Environmental Affairs and Development and Planning	1 April 2002
	Community Safety	
	Provincial Administration Western Cape	
	Agriculture	
2002/2003	Cultural Affairs and Sport	1 August 2002
	Local Government	
	Economic Development and Tourism	

3.2.2 Functionalities

FMS I

A cash-based system
 Accounting transactions
 Payments
 Receipts
 Debtors
 Manual bank reconciliation
 Detailed miscellaneous and accounting reports

FMS II

Maintenance of code files

Budget capturing tool

Various management reports (monthly and up to date)

3.2.3 Enhancements:

FMS I

Electronic fund transfers

Month close information available in electronic format

Enhanced debtors system – interest calculation, ageing

Electronic downloading of various reports

User manuals available on Treasury's website

Metanet was made available to most field offices which then meant being able to speedily capture and process accounting related data. For this reason data capturing tools became necessary.

EFT payments scheduled weekly to enhance cash flow management

Metanet data capturing programs adjusted to prevent computer/machine cheques

FMS II

User code/password revoke function

Operating system upgraded to improve response time

Identification of conditional grant objectives

Batch/payments processed enquiries

Cheque release functionality

Virement function

3.2.4 Advantages

Improvement on old budgetary system

Users have a number of different accounting functions.

Automated reports to manage cash (EFT's and cheques)

Detailed accounting transactions and miscellaneous reports available

A budget capturing tool

A variety of expenditure reports available

Metanet Capture software can be utilised to download reports

Password changes enforced on a monthly basis

User revoked after 3rd unsuccessful attempt to gain access

Project, Cost and Function codes to augment lower level objective codes (posting level)

Allocation codes to split expenditure in % between objectives

User access controlled by System controller to relevant functions

3.2.5 Disadvantages

FMS is a batch driven system (not on line)

The budget can be exceeded without prior warning

Large reports are only available the next day (24 hour lag)

Hard copies resulted in need of storage space

Implementation of a Standard Chart of accounts limited due to a limitation on the number of levels (structures)

The creditors commitment system, is somewhat complex and difficult to maintain. FMS is a cash based system and cannot be enhanced to accommodate the generally recognised accounting practices (GRAP).

3.2.6 Migration from FMS to BAS

Currently 12 departments with the exception of the Provincial Treasury and Provincial Parliament are utilising the FMS. All 12 departments will be migrating from FMS to BAS by 1 April 2004. Indications are that the National Treasury will shut down FMS by the end of December 2004, thus giving departments the opportunity to close down the 2003/2004 financial year and transfer all outstanding balances from FMS to BAS.

3.3 The Basic Accounting System (BAS)

3.3.1 Introduction

The Basic Accounting System (BAS) – also cash based – is an online system that caters for government's basic accounting needs. The architecture is more modern than that of current financial systems in use in government and is assessed as being roughly in the middle of its normal systems life cycle.

On 1 April 2003 the System was implemented successfully at the Provincial Treasury and Provincial Parliament. The implementation was done with mainly own resources as opposed to other Provinces which resulted in minimising the implementation costs. The successful implementation can be contributed to:

Management involvement

Ownership acceptance

Dedication of all role-players

Thorough training

Leading role of National and Provincial Treasury

3.3.2 Functionalities

Business Module

Period opening and closing

Receipts

Travel and subsistence

Debt

Journal entry processing

Disbursements

Bank services interface

Banking services

Allocations

Entity maintenance

- Budgeting
- Interfaces
- Conversion
- Central Statistics
- Transport
- Creditor management
- Creditor payments
- Debit Orders

Configuration Module

- Code structure
- Parameter maintenance
- Security
- Processing rules
- On-line enquiries

Reporting Module

- Report log
- Financial report templates
- Other reports
- Enquiries
- Outstanding transactions
- Auditing request reports
- Management information support
- Report prioritisation

Utility Module

- View error log

Controller Module

- Batch Archiving
- Printing Management
- Infrastructure management

Support Module

- How to use BAS
- Training
- Policies
- Latest updates on BAS

Additional Functionalities

- Projections
- Commitments
- Standard chart of accounts
- Open interfaces for payments, receipts and journals from other systems
- A web enabled procurement integration from Logis
- Other interfaces: Bank/ACB, Persal, Medsas and Telkom.
- GG Transport
- Order maintenance
- Budget Blocking

3.3.3 Advantages

An online system

Direct on-line query facility to handle all queries from creditors

Security – various levels of users as well as sign-on codes and authorisation by a second official – possibility of using fingerprint control – BIOMETRIC ACCESS CONTROL Automatic bank reconciliation – can be performed on a daily basis enhancing cash flow requirement calculations

Budget blocking functionality built in

All orders are committed automatically

Less paper wastage than the FMS

Various types of financial statements – pre-programmed – e.g. besides a Trial balance also an Income Statement and Balance Sheet

Debtors module more user friendly

Windows based user-friendly system

Standard chart of accounts

User can be limited to their specific codes that restrict erroneous allocations

Reports can be viewed online, printed and downloaded (excel format)

Availability of manuals on the website

More flexible code structures than FMS

Open Interfaces from other systems available

3.3.4 Disadvantages

BAS is still a cash-based system and not a fully-fledged accrual accounting system.

Being an online system the processing costs are naturally higher than the old FMS (batch system).

Higher specification hardware is required to operate the system.

Users must be computer literate.

The possibility exists that the system will be phased-out in 4 to 5 years time and replaced by a new Integrated Financial Management System.

3.3.5 Migration from FMS to BAS

The Province is currently in the process of migrating the remaining 12 departments from the FMS to BAS by 1 April 2004. The Standard Chart of Accounts further necessitates the re-implementation of BAS within the Provincial Treasury and Parliament on a new database.

The roll-out of BAS is a mammoth project, needless to say with many risks. In co-operation with the Chief Directorate Information Technology, six dedicated IT persons were appointed to assist with the technical support. On recommendation of IT, 2 terminal servers were purchased. To further enhance the processing speed, the existing servers are being upgraded and an additional server was purchased. These servers have the capacity to accommodate 1200 users simultaneously.

The following strategy will be followed:

Strategy prior to 1 April 2004

1 or 2 System controllers per Department required and trained as from 1 August 2003

System controllers to identify users and profiles, during September 2003

User profile details will be utilised to identify training and hardware needs

Establishment of an operational room where system controllers will capture static data (code files etc.)

A Steering committee to monitor progress (Including Treasury, Departments & IT)

Project plans per department will be compiled in co- operation with departments and IT

Creation of database and organisational arrangements

Static data completed by 5 December 2003

Training

6 Training venues to be established throughout the Province:

Cape Town (2), Claremont, George, Parow, Worcester

Departments to allocate officials to Provincial Treasury to be trained as trainers from 2nd week of August 2003

Training of users will commence no later than 3 – 10 November 2003

System Controllers to be exposed to all training modules

Only core group to be trained according to profiles

After training, the test database will be made available to users

Remainder of personnel to be trained after 1 April 2004

A separate training session for PERSAL/LOGIS users will be arranged during February/March 2004

Strategy – Post 1 April 2004

A Help desk will be established at the training venues and will be facilitated by at least 1 System controller, 1 Trainer and 1 IT resource person

As from 1 May 2004 the Provincial Treasury help desk will assist System controllers with the day to day user support

3.4 The Personnel and Salary Administrative System (PERSAL)

3.4.1 Introduction

The system is currently in use by all the National and Provincial departments, PERSAL has been in a production environment since 1990, when it was implemented at the Office of the President. Since then, programmatic data transfers took place from twenty former salary systems that presented data in a non-standardised format.

On 1 April 1992 the Personnel and Salary Administrative System (PERSAL) was implemented on a centralised basis in the then Cape Provincial Administration (CPA). With the establishment of the province of the Western Cape on 1 July 1994, the centralised functions, including the administration of the systems, continued for all provincial departments, with the exception of the Department of Education, which managed its own system.

As was the case with FMS, this function devolved to the various departments over the same period of time.

Being a dynamic system, Persal nationally caters for 30 different natures of appointments and constitutes 43 different pay groups that are diversified over five bureaus with six production environments. The system is totally decentralised, ensuring printing facilities at the various bureaus. The operation of the mainframes is the responsibility of the State Information Technology Agency (SITA).

Bureau Statistics as at 31 August 2003

Total for all bureaus:

Personnel	1 037 357
Organisations	141
Active Users	28 344
Pay groups	43
Normal salary processing runs per year	191
Supplementary payments for the month	710 330
Transactions advised for the month	2 584 031

Bureau Western Cape (Sinergis): WC only

Personnel	+/- 70 000
Organisations	14
Active Users	1560
Pay groups	12
Normal salary processing runs per year	43
Supplementary payments per month	48 637
Transactions advised for the month	361 465

3.4.2 Functionalities

Utilities
Human Resource Planning
Personnel Administration
Salary Administration
Supporting Sub-systems
Management information

3.4.3 Enhancements

Persal took advantage of the information medium Internet, by providing a customised Intranet web page specifically for Persal users.

The Persal reporting facility has been amended to not only allow for hard copies of reports, but reports can also be downloaded in text files format.

Persal has always tested for duplicate identity numbers – although never between bureaus. To avoid duplicate appointments between bureaus, the software packages ENTIRE NETWORK and ENTIRE BROKER have been installed on the various mainframes to validate Persal numbers as well as identity numbers across bureaus.

The system has further been enhanced to facilitate the administration and payment of subsistence and transport (S&T).

Function 3.2.19 (MATRIX for personnel expenses) was developed on request of the Western Cape Government. This function makes use of the matrix principle, putting control of establishment rules and validations in the hands of the end user.

Although an employees information would always be transferred with him/her to a new organisation on Persal, this facility did not exist in the case of transfers between bureaus. The system has now also been adapted to allow the end user to have control over the complete transfer of data between bureaus.

Links have been established with the Department of Home Affairs allowing for the identification of possible ghost appointments on Persal.

On request of Provincial Treasury, supplementary runs have been reduced to one run per week (on Mondays) to enhance cash flow management.

The Provincial Treasury further initiated a project in co-operation with Provincial departments to ensure that the bank details of all employees are obtained, enabling the electronic transfer of salaries.

Major changes took place on Persal during the implementation of the Code of Remuneration (CORE).

A new Senior Management System (SMS) was developed and implemented on PERSAL.

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

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

Persal was further changed to facilitate the new leave dispensation.

On-line functionality was developed for reporting on financial liabilities e.g. monetary value of leave, service bonus and state guarantees.

3.4.4 Advantages

Persal is a stable and reliable integrated Personnel and Salary system.

Persal has the ability to accommodate large volumes of transactions.

Persal has the ability to be implemented and managed on a decentralised basis.

Persal has the ability to accommodate and process backdated transactions.

Persal has the ability to accumulate large volumes of history (since 1990), which are accessible to the end user.

Persal makes numerous online validations to enforce the business rules, assisting the end user and thereby ensuring effective service delivery to our employees.

The system is standardised for all National and provincial departments.

Menus are set up dynamically according to the access security profile of the user.

Online help is available for all functions.

The system provides full audit trail facilities.

The system has interfaces with other systems (internal and external).

Persal is an open-ended system allowing for changes in accordance with the dynamics of the Public Service. Maintenance and change requests on the system are controlled and monitored through the System Change Control system (SCC).

The system provides automatic transfer of all personnel detail when an official is being transferred from one department to another (National or Provincial).

All officials have a unique Persal number, which remains unchanged whilst being employed. Upon re-appointment the same Persal number will be re-activated.

The system offers a basic human resources planning facility.

The system handles salary advices and related data with retroactive effect.

The system uses the concept of exception reports, to highlight errors or exceptions.

3.4.5 Disadvantages

Persal has a relative slow response / extraction time due to the large volumes of data.

The old and outdated graphics of the Persal front-end prevents a user-friendly system.

Persal does not cater for the latest advanced recruiting, skills development and other personnel facilities.

No on-line interaction with other systems, e.g. BAS, Home Affairs, Pensions, exist.

Persal lacks a comprehensive Enterprise Data warehousing facility.

No user-friendly report writing facility, exists.

Persal lacks an easy interface with scanning facilities, making the capturing of bulk information e.g. leave forms, returned control pay sheets a very difficult and timeous process.

Persal is not WEB-enabled.

3.5 The Logistical Information System (LOGIS)

3.5.1 Introduction

The Manual Provisioning Administration System (PAS) was approved and developed by National Treasury and implemented in 1979 at the Department of Correctional Services. The system was largely tailor-made for the Department of Correctional Services and did not necessarily address the provisioning administration procedures and processes followed by the rest of Government.

During the period 1979 to 1996, the system underwent major changes and enhancements, progressing from a manual system to a standalone computerised system and later managed on different platforms.

In 1995 the National Logistical Forum was established, on which National Departments and Provinces had representation. The main objective of the Forum

was to address the procurement and provisioning needs of the Government as a whole and not Department specific, as was the case up to then.

The National Logistical Forum came to the conclusion that the computerised version of PAS, was not adequate and that a new mainframe system should be developed, addressing the procurement and provisioning needs of Government as a whole.

A decision was taken to migrate the PAS 3.0 application to a central IBM mainframe for cost reduction and greater control.

The functional specifications were completely re-written and development started in 1996 on the Logistical Information System (LOGIS). LOGIS met 97% of the policy requirements of the National and Provincial Exchequer Acts and operates on a central mainframe.

LOGIS enables Departments to control and regulate stock levels and moveable assets, while at the same time satisfying internal user demand, resulting in optimised logistical management.

In order to enhance financial management and service delivery to Departments, the Provincial Treasury took a policy decision in 1998 to pilot LOGIS at the Department of Agriculture.

3.5.2 Functionalities

- Control of inventories (moveable assets)
- Control of non inventory items (consumables)
- Provisioning Control
- Procurement Control
- Supplier Control
- Financial Control
- Data integrity and security
- Management information (Balanced Scorecard)

3.5.3 Enhancements

National Treasury approved the following enhancements on LOGIS since the initial development of the system due to user and legislative requirements:

Development of a LOGIS Simulation Learning (LSL) tool

Development of an Assessment Module for LSL

Development of a Web-based LOGIS Balanced Scorecard to provide a comprehensive overview of the performance of a store and department

The implementation of the LOGIK Call Centre to provide a high quality user support and improved customer services

Development of a LOGIK-based Training Scheduling tool handling training administration

Produce a LOGIS web to reflect photographic images of items

Development and implementation of the LOGIS/FMS interface functionality to ensure timely and accurate payments

Online Integration with the Basic Accounting System (BAS)

Online, real-time, seamless integration with the Basic Accounting System (BAS) for operating accounts will enable commitment of funds, budget checking and blocking, automated payments and general expense control.

Development of an asset management guideline in conjunction with the Auditor General to assist asset managers in Government.

3.5.4 Advantages

- Enhance personnel skills and competencies
- Automation of provisioning environment
- Inventories are automated
- Interface with FMS and BAS
- Maximum and minimum stock levels
- Improved cash flow management
- Reduced warehouse space
- Organisation of warehouse
- On-line authorisation of transactions
- Access controlled by store number
- Full audit trail
- Automated year-end procedures
- Balanced scorecard
- Reports

3.5.5 Disadvantages

- LOGIS is not tailor-made for a specific environment.
- LOGIS is not a fully flexed asset management system with regard to depreciation.
- Barcoding is not available.
- No linkage to a central database of contract's and tenders.
- No further enhancements are made to the system.
- Only moveable assets are addressed by LOGIS, not fixed assets.

3.5.6 System Implementation

In 1998 LOGIS was piloted in this province at the Department of Agriculture and currently LOGIS is rolled out to 43 provincial institutions where 1831 users including chief user controls R1,064bn worth of assets.

The implementation of LOGIS is currently managed by a project manager responsible for six(6) project teams, each team consisting of a team leader and four(4) contract workers.

The roll-out of LOGIS can be broken down into 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

- Assessment
- Data preparation
- Data implementation
- Post implementation

Additional benefits

The focus of the project teams and training material is to capacitate the provisioning and procurement staff in order to optimise the following:

- Warehouse optimisation
- Storage
- Disposals

3.5.7 Current situation

The Provincial Treasury, unlike other Province's where the implementation is solely managed and controlled by National Treasury in conjunction with a project house, manages the roll-out of LOGIS in the Western Cape Province to a large extent by themselves.

Valuable lessons were learnt during the roll-out of LOGIS by the Provincial Treasury. Practical solutions were developed to empower the Provincial Treasury to act as a change agent. The implementation processes and training modules were adapted to suite the specific requirements of the sites in the Western Cape.

The experience's with the roll-out of LOGIS at the majority of the institutions in the province, have been the following:

- Stock levels sometimes exceed the required maximum levels.
- No or inadequate records of stock descriptions and stock on hand.
- No means of determining which items should be on stock and which not.
- No or outdated inventories.
- No commitment of orders for goods and services.
- Prescripts are not always complied with.
- Poor IT infrastructure.
- Provisioning staff not computer literate.
- Insufficient knowledge of warehouse management, controlling stock levels and delivery periods.

- Resistance to change.

The practical experience gained resulted in a new implementation strategy specifically to address the resistance to change as follows:

- **Pre-implementation visit**

The purpose of the pre-implementation visit is to inform management and the staff of the sites in advance of what will be expected of them and ensure that they already prepare their personnel structure, inventories, stock and stores for implementation.

A step by step to do list linked to certain timeframes is given to each site to ensure the readiness of the site for implementation.

These visits were held almost a year before implementation was set to start at the site in order to allow enough time for the site to schedule the work to be done.

- **Pre-implementation CD**

A pre-implementation CD was developed for distribution to the sites that were earmarked for implementation during the next financial year consisting of a LOGIS Management Matrix, a pre-implementation to do list, an electronic photo catalogue and the ledger input toolkit.

- **The Management Matrix**

The management Matrix was developed to empower the management of institutions regarding the new system by giving them an indication of the impact that the roll-out will have on the site.

The management matrix focuses on the functionalities of LOGIS, the phases of implementation, the proposed personnel structures necessary to operate the system and the training programme.

- **Communication Strategy**

A need was identified to standardise communication to the various users. Quarterly user workshops were introduced to communicate information on new releases and enhancements on the system.

An E-mail communication network was also established whereby important messages and standardised information could immediately be distributed to all the managers and users of the system.

An electronic newsletter is compiled every three months in a PowerPoint format. This newsletter contains information about the implementation, the Minicat updates, general information etc.

- **Electronic ICN catalogue**

A system (MiniCat) is currently under development whereby photos and descriptions of all items will be available in an electronic format to assist personnel with the ordering and identification of items.

This catalogue contains a picture of different inventory and store items. Each picture has a description and the Item Control Number (ICN), which is used by LOGIS. The catalogue will assist the user requesting items and the user ordering the items in choosing the correct item.

The ICN catalogue is structured under the following main headings:

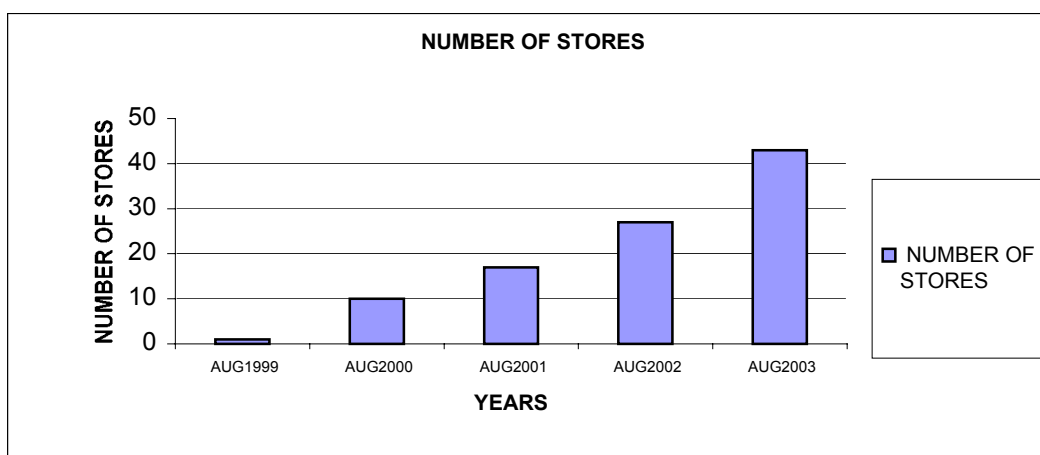
- Government printing works
- Hospital equipment and furniture
- Kitchen equipment and utensils
- Medical equipment
- Office equipment
- Store items.

Each of these six main headings has various other sub-sections within them and provide a photograph, full description and ICN number of the particular item. Currently this catalogue contains almost 7 000 different items.

3.5.8 Key successes

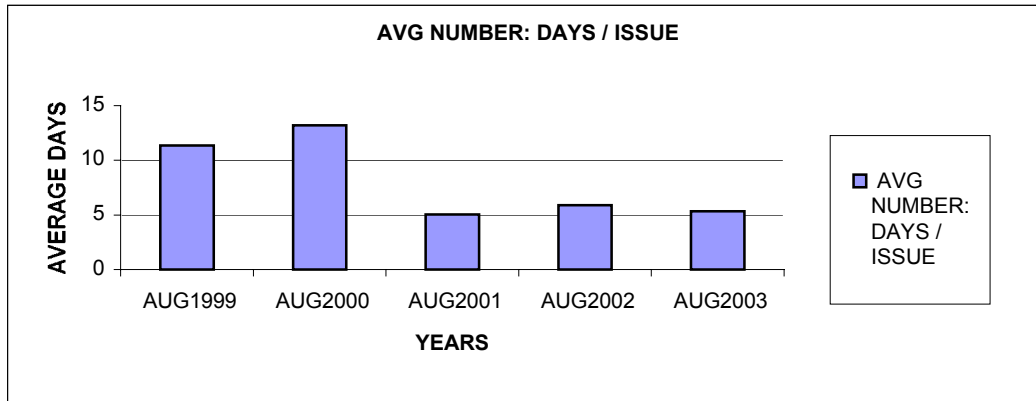
The progress and successes that have been achieved with the roll-out and performance of the live sites, as reflected in the Balanced Scorecard, are indicated in the following graphs.

This graph gives an indication of the progress that has been made with the roll-out of LOGIS since 1999.



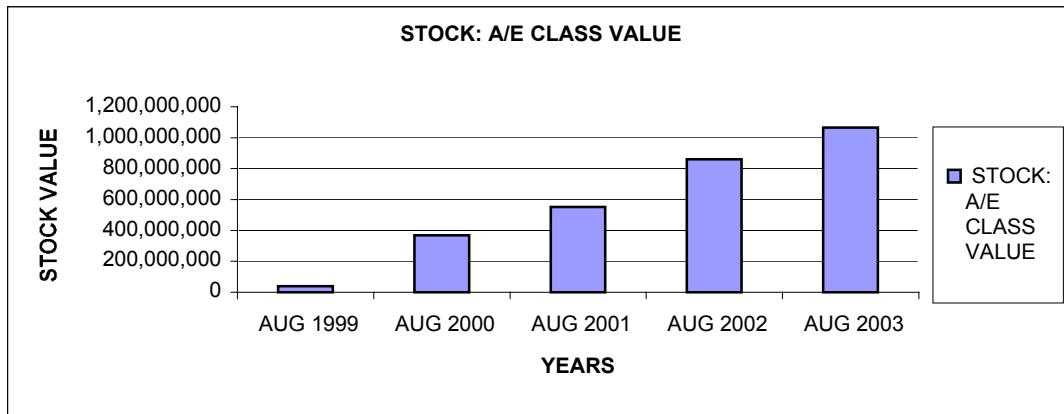
	AUG 1999	AUG 2000	AUG 2001	AUG 2002	AUG 2003
NUMBER OF STORES	1	10	17	27	43

This is an indication of the average number of days to distribute an issue to the users during the month of August of the various years as indicated.



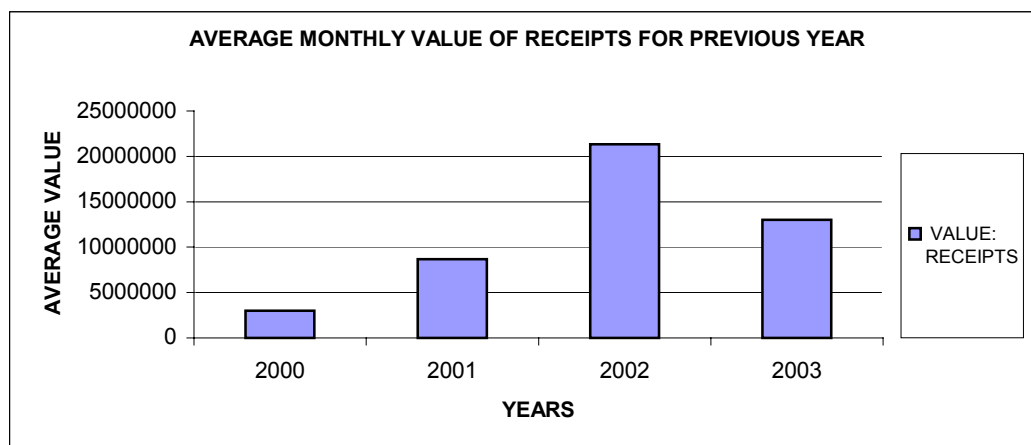
	AUG 1999	AUG 2000	AUG 2001	AUG 2002	AUG 2003
AVG NUMBER: DAYS / ISSUE	11.36	13.2	5.06	5.91	5.33

This is an indication of the total balance of all items in the store and on inventory.



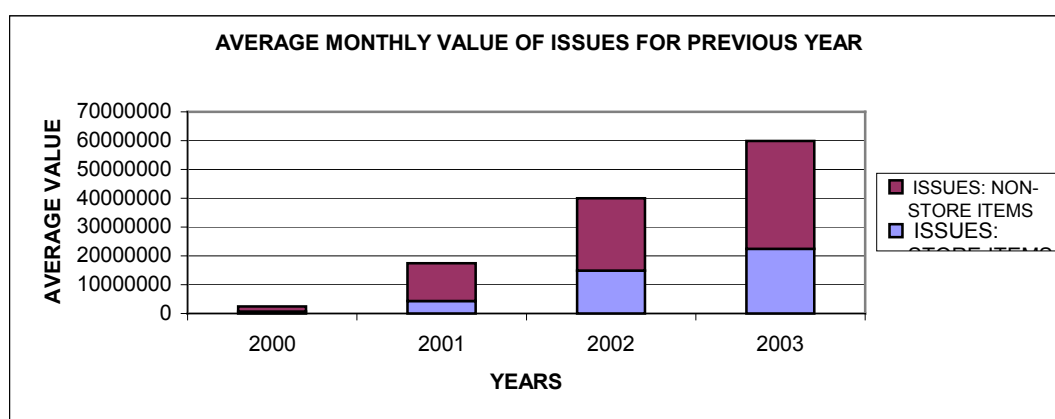
	AUG 1999	AUG 2000	AUG 2001	AUG 2002	AUG 2003
STOCK: A/E CLASS VALUE	40,112,579.20	368,795,940.80	553,370,297.94	859,699,869.54	1,064,726,890.41

This is the average monthly values of receipts, which represents external acquisitions for the department's consumption for the particular year.



	2000	2001	2002	2003
VALUE OF RECEIPTS	2987487	8681319	21347238	13013601

This is the average monthly values of issues of all store stock and inventory items for that particular year in the Western Cape Province.



	2000	2001	2002	2003
ISSUES: STORE ITEMS	686881	1484258	14848646	22458527
ISSUES: NON-STORE ITEMS	1780757	13155628	25195706	37448309

This is the average monthly values of issues of all store stock and inventory items for that particular year in the Western Cape Province.

3.5.9 Monthly Winners on the Balanced Scorecard – appointed by National Treasury

The National Treasury, in order to give recognition for good performance amongst all live sites in the country, nominate a monthly National winner and runner-up amongst the 276 live sites.

The provincial sites in the Western Cape have performed exceptional well during the previous 24 months. They were winners on 14 occasions and came second on 19 occasions. In total they took 33 out of a possible 48 positions.

The following table is an indication of the Western Cape's performance in this competition.

NATIONAL LOGIS Balanced Scorecard Performers					
Year	Month	Western Cape site	Performer	Western Cape site	1st Runner-up
2000	July		Agriculture Eisenburg	Yes	PAWC Government Moter Vehicle Cape Town
	August	Yes	PAWC Government Motor Vehicle Cape Town	Yes	PAWC District Roads Engineer Paarl
	September		Public Works Kimberley	Yes	PAWC District Roads Engineer Ceres
	October		FPG Boitumelo Hospital	Yes	PAWC District Roads Engineer Oudtshoorn
	November		Labour Witbank		Justice - Mmabatho
	December		Provincial & Local Government		Water Affairs Worcester
2001	January		Housing HQ		Agriculture HQ
	February		Public Works Bloemfontein		Agriculture HQ
	March		FPG Northern Region Agriculture		Agriculture HQ Pretoria
	April		ECP Livingstone Hospital		Environmental Affairs HQ Pretoria
	May	Yes	PAWC Government Garage Cape Town		Parliament of South Africa
	June		Water Affairs and Forestry Worcester	Yes	PAWC Dist Roads Engineer Ceres
	July		Agriculture HQ Pretoria		Labour Kimberley
	August	Yes	PAWC Dist Roads Engineer Ceres		Water Affairs and Forestry Worcester
	September	Yes	PAWC Dist Roads Engineer Ceres	Yes	PAWC Government Garage Cape Town
	October	Yes	PAWC Government Garage Cape Town	Yes	PAWC Dist Roads Engineer Ceres
	November		ECP Livingstone Hospital	Yes	PAWC Dist Roads Engineer Ceres
	December		ECP Livingstone Hospital	Yes	PAWC Dist Roads Engineer Oudtshoorn
2002	January		ECP Livingstone Hospital	Yes	PAWC Dist Roads Engineer Oudtshoorn
	February	Yes	PAWC Dist Roads Engineer Oudtshoorn		Agriculture HQ Pretoria
	March	Yes	PAWC Dist Roads Engineer Ceres		National Agriculture Plant & Quality Service
	April	Yes	PAWC Dist Roads Engineer Oudtshoorn	Yes	PAWC Dist Roads Engineer Ceres

NATIONAL LOGIS Balanced Scorecard Performers					
Year	Month	Western Cape site	Performer	Western Cape site	1st Runner-up
	May	Yes	PAWC Transport HQ Cape Town	Yes	PAWC Dist Roads Engineer Ceres
	June	Yes	PAWC Dist Roads Engineer Oudtshoorn		National Agriculture Plant & Quality Service
	July		National Agriculture Plant & Quality Service	Yes	PAWC Transport HQ Cape Town
	August	Yes	Department of Finance, Business Promotions & Tourism		Agriculture: Plant and Quality Service Stellenbosch
	September	Yes	PAWC Dist Roads Engineer Oudtshoorn	Yes	PAWC Transport HQ Cape Town
	October		Agriculture: Plant and Quality Service Stellenbosch	Yes	PAWC Dist Roads Engineer Oudtshoorn
	November	Yes	PAWC Dist Roads Engineer Ceres	Yes	PAWC Government Garage Cape Town
	December		MP Finance & Economic Affairs HQ Nelspruit	Yes	Dept. of Finance Business Promotion & Tourism
2003	January		Agriculture: Plant and Quality Service Stellenbosch	Yes	PAWC Dist Roads Engineer Oudtshoorn
	February	Yes	PAWC Dist Roads Engineer Ceres	Yes	PAWC Government Garage Cape Town
	March		Agriculture: Plant and Quality Service Stellenbosch	Yes	PAWC Government Garage Cape Town
	April	Yes	PAWC Dist Roads Engineer Oudtshoorn	Yes	PAWC Health Swartland Hospital
	May		National Treasury	Yes	PAWC Dist Roads Engineer Ceres
	June	Yes	PAWC Health Swartland Hospital	Yes	PAWC Dist Roads Engineer Oudtshoorn
	July		ECP Livingstone Hospital	Yes	PAWC Government Garage Cape Town
	August	Yes	PAWC Health Swartland Hospital	Yes	PAWC Dist Roads Engineer Oudtshoorn

3.6 Conclusion (FMS, BAS, PERSAL, LOGIS)

There is a need to further enhance the rendering of user support to users of the various systems, and furthermore to ensure an uptime of at least 95% of all financial administration and management information systems.

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

The Provincial Treasury will, once assessed, issue the necessary Treasury Circulars, System Circulars/Notices regarding the effective, efficient and economical utilization of the system in all provincial departments.

The Provincial Treasury is in the process of compiling a framework for the further roll-out, development and evolution of Financial Administration and Information Systems in the government of the Western Cape that complies with National and Provincial requirements as well as best practices.

Special attention will also be given to bespoke systems to ascertain their compliance to National and Provincial standards, comparison with best practices as well as their future.

The performance of all transversal systems will be monitored on a daily basis and reported on a monthly basis while an uptime of 95% will be ensured.

The Provincial Treasury forms part of the Technical Committee on Finance (TCF) working group, a sub-committee of the Budget Council, which will actively participate in finalising the TCF position paper on a management strategy in respect of an integrated financial management solution. However, all stakeholders agree that the development, testing and implementation of a new Integrated Financial Management System will be a lengthy one and there is a need to maintain and improve the current systems in the interim. During October/November 2003 the Provincial Treasury participate in a National Work group to establish the user requirements for the new integrated financial management system.

3.7 Functional Financial Training

3.7.1 Introduction

The implementation of the Public Finance Management Act (PFMA) brought about a fundamental change in the approach to the handling of public finances, as the emphasis was shifted away from a highly centralised system of expenditure control by treasuries to the accountability for resources used in delivering a service to communities.

The Provincial Government: Western Cape realised that in order to be successful and improve their service delivery, they would have to adapt to the ever-changing work environment and made a commitment to human resource development.

A formal financial training component was established during 1995 with a vision to supply functional financial training in a professional manner to ensure excellence in financial-, personnel- and provisioning administration.

The training component was started with the presentation of 5 courses.

3.7.2 Growth in training needs

The research, development, presentation and evaluation of all training interventions were aimed to reach a specific target market with a goal to develop the skills and competencies of all new and existing financial and provisioning administration personnel at all levels.

Since 1995 a total of 13909 officials were nominated to attend courses/practical seminars/information sessions.

The aggressive marketing, regular updating of training material with the latest Acts, prescripts, best practices, the development of new courses to satisfy user demands and the professional ethos of the training component resulted in the explosion of the demand for training.

The pace of legislated transformation, the issuing of severance packages and other related issues had such an impact, that the number of suitably and qualified individuals were no longer sufficient to provide for medium and long term needs of the public sector.

During 1996/1997 the courses presented were increased to twelve (12) and comprised of the following modules:

- × Financial Procedures
- × FMS: Reports
- × FMS: Structures, Document completion and Reports
- × FMS: Document completion and Delegations
- × FMS: Document completion and Batch Control
- × FMS: General emphasis on income
- × Petty cash
- × FMS I: Report requisitioning
- × FMS I: Clearing of reports
- × Requisitioning of FMS II reports
- × Fin 448
- × "Telkom" integration

Per financial year as indicated the following additional courses were developed and presented:

1997/1998

- × Introduction to the Invitation of Tenders
- × Introduction to Accounting
- × Batch Control
- × Government Transport
- × Cheques
- × Opening and Distribution of post
- × Face-value and Potential Face-value forms
- × Cashiers
- × FMS I

- × FMS II
- × Financial Procedures
- × Supervision
- × PAS
- × PERSAL: Interface
- × PERSAL: Functions
- × PERSAL/FMS Interface
- × Management

1998/1999

- × Debt
- × Persal Reports
- × FMS I: Reports
- × Loss Control
- × LOGIS: Chief User's
- × LOGIS
- × LOGIS Policy and Procedure
- × LOGIS: Focus training: LOGIS literacy (Computerised)
- × LOGIS: Focus training: Posting- and Automated Transit Clerk (Computerised)
- × LOGIS: Focus training: Payment Clerk (Computerised)
- × LOGIS: Focus training: Inventory Clerk (Computerised)
- × LOGIS: Focus training: Warehouse (Computerised)
- × LOGIS: Focus training: Chief User & Chief User Clerk (Computerised)
- × LOGIS: Focus training: Management Reports (Computerised)
- × LOGIS: Focus training: System Controller (Computerised)
- × LOGIS: (Computerised PAS)
- × Introduction to Government Accounting

1999/2000

- × Internal Control
- × Budgeting
- × Information Session for Implementation of LOGIS
- × LOGIS: Implementation
- × LOGIS: Focus training: LOGIS Simulation Learning (Computerised)

During 2000/2001 the Skills Development Act gave rise to numerous discussions and negotiations with various accreditation bodies. Accreditation according to the stipulations of the South African Qualifications Authority Act would in the future be provided in terms of "unit standards" obtained.

Unit standards would consist out of different skills programs, which in turn would consist of different modules.

All of these new developments led to a total metamorphosis of courses and course material that was presented by this component. Courses are provided in modular format, which will eventually lead to the obtaining of a specific skills program and at the end of the day to a unit standard. The following was a result thereof.

- ✘ Introduction to Persal
- ✘ Personnel Provisioning
- ✘ Personnel Utilisation
- ✘ Salary Administration Module I
- ✘ Salary Administration Module II
- ✘ Service Termination
- ✘ Persal Estimates & Establishment
- ✘ Persal Housing/State Guarantees
- ✘ Persal Bursaries
- ✘ Persal System Controllers
- ✘ Persal Management Information Systems
- ✘ Leave
- ✘ Persal Reports
- ✘ LOGIS: Module I
- ✘ LOGIS: Module II
- ✘ LOGIS: Module III
- ✘ LOGIS: Module VI
- ✘ LOGIS: Warehousing (Non-Computerised)
- ✘ LOGIS: Chief User & chief User Clerk (Computerised & Non-Computerised)
- ✘ LOGIS: Management Reports (Non-Computerised)
- ✘ Orientation in Finance
- ✘ Financial Management System Structures
- ✘ Batch Control
- ✘ Cashier
- ✘ Opening and Despatching of post
- ✘ Expenditure
- ✘ Face value forms and other forms with potential value
- ✘ Financial Management Systems I – Reports
- ✘ Financial Management Systems II (Computerised Course)

A Policy and Procedure manual with regard to Provisioning Administration was also developed as guidance tool for all Departments. This manual was the first of its kind in the Western Cape and also in the rest of the Country.

3.7.3 Current Resources

The training facilities consist of three state of the art computer rooms accommodating 15 students each, which are situated at 4 Dorp Street, Cape Town.

In addition to the above facilities, two computer rooms accommodating 12 students each are also available at Kromme Rhee, one each in George, Claremont, Parow and Worcester.

The facilities in the training component were also upgraded to such a level that the latest technology is being utilised. The following equipment is available:

- ✘ Colour Printer
- ✘ Laser Printers

- × Scanner
- × Laminator
- × PC Viewers
- × Lap Top

3.7.4 Personnel

A key area for the providing of an effective efficient professional HRD service is the availability of suitable and qualified personnel. With the current skills levels of the training facilitators the component is in a position to accommodate current training requirements.

The training facilitators were accredited by various roll-players in order to present selected courses on their behalf. All the training facilitators were accredited by FASSET as registered assessors, which enable them to drive the assessment process individually.

The vision of the future will however require more highly skilled personnel with a different set of competencies. This enables the component to register as an accredited learning centre and an accredited assessment centre.

3.7.5 Course material

During 2001/02 all courses and course material were re-developed into an outcome-based modular format to comply with accreditation requirements from SAQA and the NQF via FASSET.

The training manuals were designed to be user friendly, which included various practical exercises and workbooks that could be used in the work environment as a reference and guidance tool.

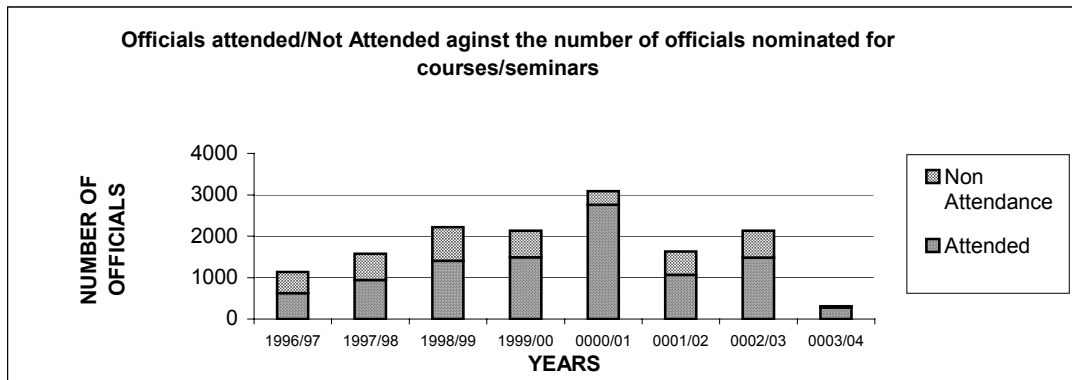
The modules were designed to provide 'just in time' training to students in a simulated work environment. Computer courses simulate live systems and work environment and training databases provide the opportunity to work on a simulated live system.

The course material allows various forms of assessments to ensure that the training provided is of a high standard and that the transfer of skills and competencies take place.

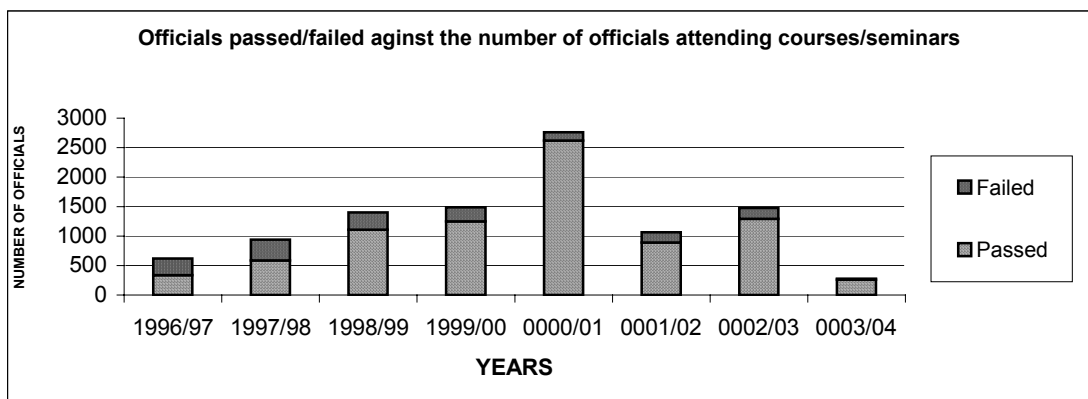
3.7.6 Performance of the Training Component

The following graphs are an indication of the performance of the training component during the period 1996 to March 2003.

Statistics with regard to the training achievements gained since the start of the component:

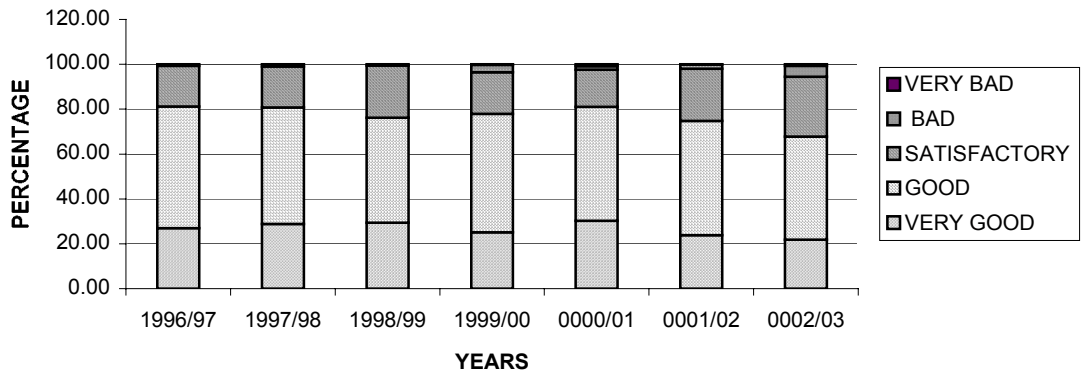


	Nominated	Attended	Non Attendance
1996/97	1135	622	513
1997/98	1572	939	633
1998/99	2219	1403	816
1999/00	2135	1491	644
0000/01	3087	2760	327
0001/02	1629	1067	562
0002/03	2132	1480	652
0003/04	307	280	27



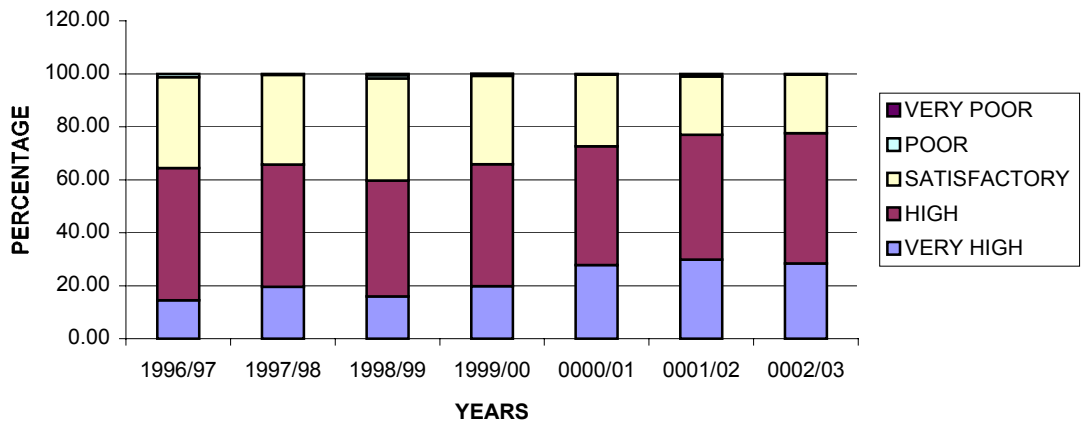
	Officials attended Course/Seminar	Passed	Failed
1996/97	622	338	284
1997/98	939	589	350
1998/99	1403	1109	294
1999/00	1491	1250	241
0000/01	2760	2618	142
0001/02	1067	889	178
0002/03	1480	1295	185
¾	278	259	19

WHAT IS YOUR GENERAL IMPRESSION OF THE LECTURE ROOM?

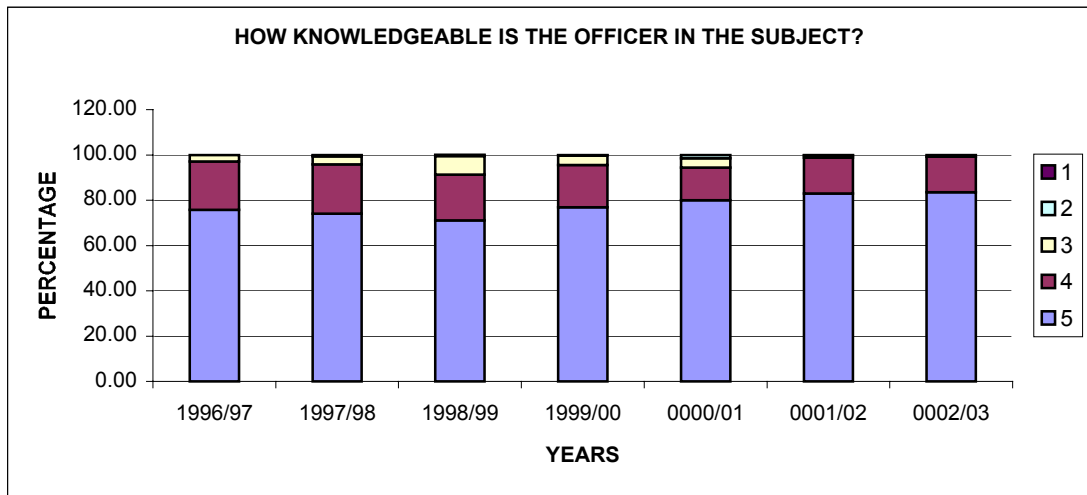


	1996/97	1997/98	1998/99	1999/00	0000/01	0001/02	0002/03
VERY GOOD	26.90	28.84	29.38	25.18	30.28	25.85	27.85
GOOD	54.29	51.94	46.8	52.68	50.8	50.77	46.12
SATISFACTORY	18.15	18.24	23.23	18.63	16.49	23.38	26.03
BAD	0.66	0.98	0.59	3.21	1.53	0	0
VERY BAD	0	0	0	0.3	0.9	0	0

WHAT DO YOU THINK OF THE QUALITY OF THE TRAINING AIDS?



	1996/97	1997/98	1998/99	1999/00	0000/01	0001/02	0002/03
VERY HIGH	14.45	19.55	15.99	19.85	27.75	29.90	28.44
HIGH	49.92	46.25	43.76	46.05	44.85	47.10	49.18
SATISFACTORY	34.32	33.80	38.50	33.30	27.09	22.00	22.08
POOR	1.31	0.40	1.25	0.65	0.26	0.90	0.25
VERY POOR	0	0	0.50	0.15	0.05	0.10	0.05



	VERY KNOWLEDGEABLE						SUPERFICIAL
	5	4	3	2	1		
	1996/97	1997/98	1998/99	1999/00	0000/01	0001/02	0002/03
5	75.78	74.00	71.14	76.90	80.00	82.96	83.50
4	21.34	21.89	20.10	18.66	14.41	15.81	15.70
3	2.80	3.41	8.22	4.19	4.14	1.07	0.80
2	0.08	0.30	0.20	0.17	1.40	0.06	0
1	0	0.40	0.34	0.08	0.05	0.10	0

3.8 The Way Forward

3.8.1 Financial Management System (FMS)

On account of the high cost of maintaining two financial systems and the non-compliance of FMS with current requirements, the National Treasury has taken a policy decision to migrate all FMS departments/Provinces to BAS by no later than 1 April 2004; to continue, for the interim, with the daily monitoring of the system so as to ensure that the available facilities (e.g. electronic transfers, financial authorities and commitments) are fully utilised.

3.8.2 Basic Accounting System (BAS)

As its implementation is phased in, migrating from the FMS, the daily monitoring to ensure that the available facilities (e.g. electronic transfers, online enquiry and debtors) are utilised to their maximum potential; to monitor and ensure that interfacing between the various systems (LOGIS, PERSAL, TELKOM, MEDSAS and official banker) occurs properly five days a week; that code files, access control and profiles are maintained. BAS is to be fully implemented in all departments by 1 April 2004.

3.8.3 Personnel and Administrative System (PERSAL)

The daily monitoring of the system to ensure that exception reports and ACB Limits are addressed; the computer-generated identification numbers are allocated only in exceptional cases and then replaced with a valid identification number within 90 days; that access control and profiles are checked on a regular basis; that computer-generated and unique reports are made available for management, budget, cash flow and monitoring purposes. A project will be registered for the verification of PERSAL data in all provincial departments and repeated annually.

3.8.4 Logistical Information System (LOGIS)

In order to assist Accounting Officers to comply to the stipulations of the PFMA the Provincial Treasury has decided to accelerate the implementation of LOGIS in the Western Cape Province.

The Treasury envisages to complete the roll-out of LOGIS during the next financial year.

The decision by National Treasury to stop all new enhancements on LOGIS resulted in LOGIS not being able to accommodate the Auditor General's reporting requirements regarding an asset management system.

These shortcomings on the LOGIS system, linked with departmental capacity problems, resulted in the Department of PAWC going out on tender for the acquisition of an asset management service.

This service includes Bar Coding, inventory control, stock takes, depreciation, age analysis and quarterly updates of the inventories. The department retains the ownership of the data and only the service is sourced out which will provide assistance with the capacity problems in departments.

The Provincial Treasury has appointed a project team to investigate the possibility to go out on tender for the acquisition of a transversal service for the management of assets in the province.

This decision will empower Accounting Officers to maintain an efficient, effective and transparent system of financial management and to comply with the reporting requirements of the Auditor General.

FINANCIAL ASSET MANAGEMENT

4.1 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 appropriates the funds to be received by provinces and which accrues to the PRF.

4.2 Cash Flow Management

4.2.1 Introduction

Section 21(1) of the PFMA stipulates that the PT is in charge of that Province's 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.

4.2.2 Cash Flow Forecasting

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. Departments must inform and obtain the necessary authority from the PT in order to deviate from their original revenue and expenditure projections for the financial year.

The variances between the actual and projected expenditure for the 2002/2003 financial year are as follows:

Variance in Actual Budget transferred and Projected Budget 2002/03

	ENVIR AFF			COMMUNITY			PAWC			HOUSING			FINANCE		
	EXP/REV	TRANS	%	EXP/REV	TRANS	%	EXP/REV	TRANS	%	EXP/REV	TRANS	%	EXP/REV	TRANS	%
APRIL'02	31 590	11 600	8	10 346	5 959	5	46 783	37 450	9	30 249	21 100	4	5 119	3 100	4
MAY'02	12 539	13 250	9	9 361	6 891	6	26 682	26 300	7	30 402	64 034	13	5 134	0	0
JUNE'02	10 323	14 400	10	9 514	6 650	6	26 500	19 177	5	39 926	42 150	9	5 219	2 356	3
JULY'02	11 008	13 760	10	9 607	11 610	10	30 480	23 683	6	47 280	29 635	6	5 407	5 320	8
AUG'02	23 891	12 780	9	10 029	9 050	8	28 567	20 040	5	50 075	25 065	5	5 370	4 440	6
SEP'02	13 206	7 360	5	9 802	6 030	5	27 839	22 361	6	57 077	57 380	12	5 403	3 340	5
OCT'02	11 165	8 240	6	9 975	4 030	3	29 171	35 850	9	48 817	35 690	7	5 428	6 351	9
NOV'02	22 672	11 410	8	10 347	9 120	8	29 270	32 490	8	58 305	24 990	5	4 661	4 680	7
DEC'02	10 282	7 275	5	9 375	9 560	8	34 623	21 220	5	59 734	71 210	15	4 630	(6 455)	-9
JAN'03	10 712	14 210	10	9 697	8 410	7	29 167	17 600	4	22 789	9 900	2	4 631	14 974	22
FEB'03	19 729	11 440	8	10 125	12 590	11	29 027	21 090	5	31 198	20 330	4	4 626	3 121	4
MRC'03	10 332	15 476	11	10 046	29 059	24	29 816	123 560	31	37 866	82 397	17	4 607	28 357	41
Adjustment	(46 248)			735			32 896			(29 837)			9 349		
	141 201	141 201	100	118 959	118 959	100	400 821	400 821	100	483 881	483 881	100	69 584	69 584	100

	SOC SERV			EDUCATION			HEALTH			TRANSPORT			AGRICULTURE		
	EXP/REV	TRANS	%	EXP/REV	TRANS	%	EXP/REV	TRANS	%	EXP/REV	TRANS	%	EXP/REV	TRANS	%
APRIL'02	234 205	241 000	8	395 000	345 500	7	330 102	324 200	8	83 443	43 479	3	19 277	13 500	8
MAY'02	223 301	292 400	9	345 000	308 601	7	301 209	156 718	4	87 021	63 928	5	18 002	12 200	7
JUNE'02	223 700	251 200	8	355 000	358 500	8	300 063	256 700	7	83 039	62 250	5	21 322	16 550	10
JULY'02	225 642	278 835	9	351 000	394 700	8	315 640	373 619	10	145 405	149 299	11	23 201	23 310	14
AUG'02	225 931	256 340	8	375 000	393 950	8	318 042	317 150	8	87 811	35 640	3	25 031	9 500	6
SEP'02	226 402	258 730	8	363 000	383 850	8	307 364	340 650	9	87 150	82 550	6	25 270	8 571	5
OCT'02	226 968	270 790	8	385 000	395 600	8	316 504	336 700	9	130 741	98 020	7	22 993	10 259	6
NOV'02	227 940	270 885	8	395 000	409 700	9	315 125	310 390	8	104 927	124 700	9	23 039	11 050	7
DEC'02	228 162	287 990	9	405 000	444 550	10	307 918	313 960	8	105 041	80 290	6	24 111	12 040	7
JAN'03	229 562	256 920	8	375 000	364 800	8	310 580	319 800	8	107 594	124 950	9	23 707	9 030	5
FEB'03	230 855	258 955	8	370 000	386 700	8	307 558	307 661	8	98 001	37 994	3	20 291	13 710	8
MRC'03	219 547	288 825	9	418 963	491 798	11	310 989	514 088	13	141 667	476 686	35	13 682	25 697	16
Soc grant	175 508														
Adjustment	315 147			145 286			130 542			117 946			(94 509)		
	3 212 870	3 212 870	100	4 678 249	4 678 249	100	3 871 636	3 871 636	100	1 379 786	1 379 786	100	165 417	165 417	100

	CULTURAL AFF			LOCAL GOVERN			ECONOMIC DEV			PROV PARLIAMENT		
	EXP/REV	TRANS	%	EXP/REV	TRANS	%	EXP/REV	TRANS	%	EXP/REV	TRANS	%
APRIL'02										2 600	7	
MAY'02										1 600	4	
JUNE'02										3 200	9	
JULY'02										2 768	7	
AUG'02		5 020	6		1 300	2		21 220	18	2 456	7	
SEP'02		13 750	16		2 940	5		22 970	20	3 000	8	
OCT'02		11 030	13		2 920	5		10 540	9	4 426	12	
NOV'02		9 920	12		4 790	9		9 810	8	2 800	8	
DEC'02		10 340	12		5 090	9		10 545	9	2 400	6	
JAN'03		12 340	15		3 540	6		9 980	9	2 850	8	
FEB'03		10 310	12		2 210	4		13 760	12	3 500	9	
MRC'03		11 988	14		32 800	59		18 218	16	5 382	15	
Adjustment	84 698			55 590			117 043					
	84 698	84 698	100	55 590	55 590	100	117 043	117 043	100	36 982	36 982	100

Percentage spent to date of total budget

14 522 404	14 522 404	100
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Challenges

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

- Closer co-operation between the PT and the various departments is therefore imperative in order to eliminate the deviation between actual and projected expenditure on a daily basis. The PT must therefore ensure that provincial departments develop a more evenly spread expenditure pattern over a financial year.
- Provincial cash flow trends have to be monitored and constantly reassessed 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.

4.2.3 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, in consultation with the PT, compiles a provincial payment schedule in terms of the stipulations of the aforementioned Act. This payment schedule provides for the amounts and dates on which the funds will be deposited into the Provincial Exchequer Account.

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.

The payment schedule forms the basis of cash flow planning for the Province and the NT cannot, without the approval of the PT, deviate from its stipulations as this would lead to a possible overdrawn situation of the Provincial Exchequer Account.

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.

The following table reflects the initial estimated total of accruals to the Province's PRF for the 2003/2004 financial year:

Estimated Revenue available for the financial year ending 31 March 2004

Summary of Provincial Revenue	2003/2004 R'000	%
Provincially Sourced Revenue	1 015 670	6.30
Drawings from National Revenue Account	14 963 624	93.64
Total Revenue	15 979 294	100.00

Summary of Provincial Revenue	2003/2004 R'000	%
Less: Current Outlays	10 752 470	67.30
Capital Outlays	869 860	5.40
Transfer Payments	4 791 482	30.00
Total Expenditure	16 413 812	102.70
Surplus / (Deficit)	(434 518)	(2.70)

Financing of deficit	2003/2004 R'000
Deficit	(434 518)
Financed through:	
Capital accumulation:	307 715
Surplus Funds Current Outlays	215 906
Surrenders 2002/03	91 809
Liquidity management and bridging finance	126 803
Nett	0

Challenges

The following represents the main factors, which will impact adversely or positively on accruals to the PRF:

Adversely:

- The various provincial departments may not realise the appropriated amount in respect of own revenue.
- In pursuit of net benefits, the PT intends to adjust the overall cash flow strategies and in particular, better reassess the individual departments cash flow projections over various periods.

Positively:

- Further refinement of the structured payment system introduced from 1 April 2003, to make payments only on the exact due dates and not before.
- Improvements in cash flow projections and cash flow utilization by departments, including better management of transfer payments.

4.2.4 Cash Flow Planning

Scheduling of Payments and Investment Maturities

The cash flow requirements for the Province are planned initially in April for the entire financial year. More detailed planning for 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, old age pensions etc. are provided for beforehand by means of investments, which are planned to mature on the day that the funds are to be expensed.

Payment runs were previously generated on a daily basis but the PT, in pursuit of more effective cash management, amended the payment cycle to once per week with effect from 01 April 2003. This payment cycle is unique to the WC and permitted an initial investment of R315 million for a period of 12 months due to the temporary accumulation of funds experienced while transforming from daily to weekly runs. Provision must be made for this single payment run, which is currently in excess of R100 million. This means that the various departments are able to capture payments on a daily basis, as in the past, but the cash movement only takes place on a Thursday.

A further measure to facilitate the scheduling of payments was the withdrawal of all facilities for the generation of cheques and the conversion thereof to EFT. This practice was gradually introduced with effect from August 2000 and completed by 01 July 2003. This represents 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.

On a Wednesday of each week, with the exception of the third Wednesday of each month, when the equitable share is received from the NT, the following weeks' expenditure is provided for as the first priority, with the remaining funds, if any, being utilised for any future scheduled expenditure.

Challenges

The ever present challenge with regard to cash flow management is the continual striving for improvement and refinement of the various planning and work procedures utilised to perform the tasks related to this important function which will culminate in the enhancement of effective cash flow management in the province.

4.2.5 Cash Flow Procedures

Daily Cash Flow Reconciliation

Each individual PMG 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 Saturday) before 10am. The cash flow requirement for each Friday includes the provision for a Saturday. The inputs are verified by the PT and queried where necessary. These inputs are then consolidated into a single daily cash flow reconciliation.

In the absence of cheque payments, the PT has arranged with the provincial banker to roll out an online electronic payment facility to each department to effect electronic real time payments exclusively for urgent cases only. These payments must be authorised by the PT prior to the payments being made for inclusion in that department's daily funding requirements.

Once this process has been completed, the various banking accounts are funded electronically by means of the on line cash management system of the provincial banker. The PT therefore has electronic access to each departmental banking account within the Province.

The PT can therefore withdraw and fund any amount, which it regards as necessary to ensure that funds are utilised optimally. The Provincial Parliament operates outside the PRF but is funded there from on a weekly basis, once a request for funds is received.

Challenges

The following considerations, once achieved, will significantly contribute to the refining of cash flow procedures but remain as current challenges:

- The training of the relevant officials within the provincial departments in order that they provide the PT with accurate cash flow information on a daily basis is a high priority. Increased accuracy equates to a significant increase in the efficiency levels of the overall provincial cash management process.
- The ultimate challenge however is to ensure that the various banking accounts within the PRF remain minimally cash positive and that no overdrawn situation occurs at any time.

4.2.6 Technical Assistance and Training

Liaison with Provincial Banker and Departments

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

Provincial departments who encounter any problems with regard to forwarding 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.

Challenges

The task of educating the relevant officials within the various provincial departments with regard to cash flow policy and strategy represents a significant challenge and is a high priority as this will further assist in refining cash management within the Province.

4.2.7 Banking Arrangements/Agreements

Using the usual, albeit increasingly sophisticated tender process, the PT has appointed a new provincial banker from 1 April 2002, to provide for the commercial banking needs of this Province. This tender is valid for a period of five years with the option of renewal for a further period of one year if deemed necessary.

The provincial PE's listed in schedule three (3) of the PFMA do not have to conform to this tender but can participate therein if so desired. A number of these public entities have chosen to participate in the tender as the Province has negotiated favourable interest rates on the various current accounts and minimal service fee charges.

The provincial banker's system has to accommodate and compliment the Province's cash flow management in providing for the following:

- Daily interface of debit and credit transactions to the Province's Financial System.
- Real time transactions.
- Intragroup transfers between accounts.
- Transfers to nominated accounts.
- Daily on-line bank statements.
- Sweeping facility.

- Transaction history.
- On line search facility.

Further to the above, the departments approach the PT if any problems are encountered with the day to day functioning of the banking accounts as well as matters which are not stipulated within the ambit of the tender. The PT will then negotiate on behalf of the department/province in order to reach an amicable solution to further improve on banking and cash flow arrangements.

4.2.8 Recording of Financial Transactions

The PRF migrated from a hand system of accounting to BAS with effect from 1 December 2002. Each transaction processed in the Provincial Exchequer Account is captured on BAS.

BAS is a windows based accounting system which permits the automatic calculation and tabulation of an income statement, trial balance, banking reconciliation and balance sheet. Financial information such as the total of funding and the withdrawal of own revenue from the various provincial departments is readily available which provides an excellent tool for management to make effective decisions with regard to provincial revenue and expenditure.

4.2.9 Standard Chart of Accounts

The new SCoA to be implemented from 1 April 2004 to internationally required standards within the PRF is in the process of being finalised by the NT in conjunction with the various provinces and national departments.

Currently, the SCoA pertains only to the NRF. Once it is available in its new version, the PRF will have to be re-implemented and re-configured on BAS, which will facilitate the compiling of annual financial statements in terms of a nationally uniform item list.

4.2.10 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.

The AFS are prepared in accordance with the following policies, which are applied consistently in all material respects:

- **Reporting entity**

All money raised or received by the Provincial Government that has been paid, except money reasonably excluded by an Act of Parliament, into the PRF. So too monies that have been withdrawn from the PRF in terms of an appropriation act made or as a direct charge against the PRF.

- **Basis of preparation**

The financial statements are currently still being prepared on a cash basis. All amounts are rounded to the nearest one thousand rand and are expressed in South African rand.

- **Revenue**

Funds collected by departments are surrendered to the PRF when the cash is received, in accordance with a cash management framework. Voted funds are the amounts appropriated to a revenue fund in accordance with the final budget known as the adjusted estimates of provincial expenditure. Interest is recognised in the income statement as it accrues, based on the effective rates of interest. Conditional grants are recognised on receipt of the cash.

- **Expenditure**

Expenditure is recognised when the payment is made. Conditional grants, including Reconstruction and Development Plan funds made to departments are recognised when the payment is made. Appropriations to departments are made in accordance with the final budget known as the adjusted estimate of provincial expenditure and are recognised regardless of whether or not the payment has been made to the department.

Appropriations not utilised by year-end and unauthorised expenditure must be surrendered to the PRF and are accrued by the PRF at year-end. Interest paid is recognised when the payment is made.

- **Assets**

No physical assets (fixed assets, movable assets and inventories) exist in the books of the PRF. Physical assets are purchased by departments and accounted for in their financial statements. Proceeds on sale of any physical assets by departments are surrendered to the PRF.

- **Investments**

Only fixed deposits are made according to an approved Investment Policy.

- **Receivables and payables**

Receivables arise from unspent appropriations of departments to be surrendered at year-end or conditional grants to be received. Payables arise from daily funding to departments in terms of their appropriations and the

repayment of funds, which are temporarily withdrawn from departmental banking accounts for investment purposes and subsequently repaid.

Debts are written off when identified as irrecoverable. No general provision is made for irrecoverable amounts.

- **Financial instruments**

Only fixed deposits are utilised.

The financial statements pertaining to the PRF are prepared and forwarded to the A-G by no later than 31 August following the closure of the financial year. These statements contain all the relevant information regarding the cash flow of the province for that particular year.

4.2.11 Cash Flow Process

The cash flow cycle commences in February of each year and concludes five months after the financial year closes in the following year. The cash flow timetable for a financial year is indicated below:

DATE	REPORTING CYCLE
28 February	Departments must provide PT with projected revenue and expenditure for the following financial year.
15 March	PT to submit consolidated projected revenue and expenditure of departments to NT.
31 March	PT receive approved payment schedule for the following financial year from NT.
31 March	Compile a Provincial planning schedule of receipts and scheduled payments for the following financial year.
Every Wednesday except 3 rd Wednesday of the month	Receive equitable share from NT.
In terms of payment schedule	Receive Conditional grants
Daily	Receive cash flow requirements from departments.
Daily	Fund the various PMG accounts according to requirements.
Scheduled dates	Funding for: ACB SOCPEN Salary Payments All Pay Teachers Salaries Month End Payments
3 rd Last working day of a month	Receive own revenue from departments

DATE	REPORTING CYCLE
End of month	Receive bank reconciliation from departments in respect of previous month.
10 th of each month	Receive IYM from departments for verification.
31 May	Submit Provisional AFS
31 August	Submit Final AFS to A-G
Month End	Submit interest figure for the month to the CFO of PT
Month End	Provide departments with schedule/copies of transfers, to PMG accounts, made during the month.
Fridays	Submit cash flow report to Head of Department
10 th of the Month	Submit compiled PRF report to various role players.
Month End	Submit PRF balances to SARB.

4.3 Investments

4.3.1 Introduction

The main function of the investments section is to efficiently utilise interest-bearing instruments to optimise capital accumulation. The significance of this income generation mechanism is becoming more profound as Province's 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.

4.3.2 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.

The main thrust of the investment policy is that the funds, which are to be invested, are public moneys and that investments that expose such moneys to undue risk cannot be condoned. It stands to reason therefore that a sound investment policy must exist to achieve this goal. Investments must only be placed at those financial institutions, which have the highest capacity for repayment of capital and interest, albeit at the best possible returns.

4.3.3 **Rating of financial institutions**

All financial institutions within the Republic are rated in accordance with an internationally recognised rating system. The Provincial Government of the Western Cape utilises the credit rating services of Fitch IBCA, who are considered by the international banking industry to be one of the market leaders in this field, and to whom all the major banks, the NT and the CPD subscribe.

The South African financial sector has, in the past number of years, seen the demise of a number of financial institutions which has emphasised the need to spread the funds under management, amongst the various financial institutions, to reduce any negative impact on the cash flow of the Provincial Government of the Western Cape, if for any reason, a financial institution finds itself without the capacity to repay capital and interest on investments. This arrangement also spreads risk between the different financial institutions, further minimising the threat to the Provincial Government of the Western Cape of non-performance by a bank, although it could possibly lead to minimal reduction in interest earnings. However, if consideration is given to the fact that the potential loss of capital is greatly reduced, it is a sound investment approach.

Fitch IBCA focuses on three main factors in order to rate financial institutions, i.e. a short-term rating, a long-term rating and a support rating. A short-term rating is afforded to a financial institution in terms of their capacity for timely repayment in a period less than 12 months, while a long term rating is for a period exceeding 12 months. A support rating does not assess the quality of a bank but rather whether the financial institution would receive Central Bank or financial support, should it prove to be necessary.

4.3.4 **Interest-bearing instruments**

Due to the fact that the nature of the PT's investment portfolio is such that mainly short-term investments are placed into the market, the short-term credit ratings of financial institutions are used to determine maximum exposure. The capital and reserves of a financial institution are normally regarded as the accepted industry norm by which a financial institution can be measured in the short-term. The maximum exposure is therefore calculated as a percentage of the capital and reserves of a bank.

4.3.5 **Minimise risk**

One of the means of minimising risk is to limit the Province's investment exposure to the different financial institutions. It is considered sound corporate governance that a maximum exposure level to approved financial institutions is determined in order to limit large single exposures to a financial institution at any given time. The Province's investment policy thus outlines the maximum exposure to the different financial institutions.

History has shown that it takes approximately forty to fifty days for investors' funds to be frozen from the time that the first negative reports concerning a

financial institution are made known. Recent events in the financial services sector have however indicated that investors' funds can be frozen within a matter of days. It is therefore of paramount importance that the term of the investment has a direct bearing on the credit rating of the financial institution with whom the funds are placed. In order to minimise the risk of default by financial institutions, the Province's investment policy outlines the maximum periods at which to invest at the different financial institutions. In essence the lower the default risk of the financial institution the longer the term of the investment.

In a nutshell, to minimise risk the following factors have to be taken into account when investments are made:

- Which financial institutions meet the criteria for the placing of investments;
- The maximum exposure to these individual financial institutions and/or group;
- The maximum period of investment per financial institution, and
- A high capacity for timely repayment of capital and interest on investments and the support, which will be forthcoming for such institutions should liquidity problems, be encountered.

4.3.6 Interest earned on investments

Table: Annual interest earned on investments

	2000/01 Actual R'000	2001/02 Actual R'000	% Change	2002/03 Actual R'000	% Change	2003/04 Projected R'000	% Change	2004/05 Projected R'000	% Change	2005/06 Projected R'000	% Change
Interest on investments	147 709	182 206	23.4	244 717	34.3	106 577	-56.5	60 372	-43.4	24 400	-59.6
Interest on current account	2 013	2 620	30.2	5 377	105.2	1 500	-72.1	1 200	-20.0	1 200	0.0
Total interest earned	149 722	184 826	23.5	250 094	35.3	108 077	-72.1	61 572	-43.0	25 600	-58.4

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 outcome of the first three financial years is in total contrast to the projections of the last three financial years in the table where the total interest earned for the first three years amounted to R584 642 000, while the projection for the last three years amount to R195 249 000. The first three financial year's total interest earned increased by 23.5% in 2001/02 and by 35.3% in 2002/03. The projections for the total interest earned, however, decreases by 72.1, 43.0 and 58.4% in 2003/04, 2004/05 and 2005/06 respectively. These decreases in interest earned projections are due to a number of prevailing factors in the last three financial years.

When one budgets for interest earned on investments one tends to be cautious. This is especially true in the environment in which the Province invests, in that the amounts invested depends upon the cash flow requirements of the thirteen departments as well as the Provincial Parliament. Another reason for caution

when projecting interest earned is the fluctuation in the interest rate/repo rate for the financial year. This is evident in the current 2003/04 financial year, where the interest rate has thus far decreased by 5.5% with an expected extra 2% decrease later in the year. Within an investment environment, the cut in the interest rate means lower interest rates quoted on investments, resulting in less interest earned. The projections for the three outer years were thus based on the lowest interest rate expectation. Lastly, and more importantly, the negative trend on interest revenue projection is also due to less accumulated funds being available for investments when compared to previous financial years. These funds have been used to augment infrastructure spending since the 2002/03 financial year, spread out over the balance of the current MTEF. At this stage, taking all the aforementioned factors into consideration, the negative growth projected for the interest earned is credible.

4.3.7 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 current 2003/04 financial year, as the Sub-directorate: Financial Asset Management has been tasked to generate an additional R126 803 000 in interest on investments in order to address the budget deficit, over and above the budgeted interest of R108 000 000.

The NT has initiated a plan where the equitable share and conditional grants earmarked for Provinces should be credited directly to an account held at the CPD. This mechanism has not been finalised but if fully implemented Provinces will be requested to keep their excess cash that is not immediately required in the CPD accounts. The end result is that the CPD will be investing excess cash on behalf of Provinces. The Province at this stage supports the initiated plan and reserves the right to monitor and evaluate this mechanism with regard to interest earnings prior to the Province's final decision in respect of participation in the system. There is a real risk that the interest earnings will be substantially less than is currently generated. If this risk comes to realisation the Province faces a loss in interest revenue generation and also the loss of a budgetary tool as discussed in the above paragraph.

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 will be negatively affected.

4.3.8 Bridging finance

The Province has arranged a R300 million overdraft facility, which is approximately equal to one week's equitable share portion from the NT, with its current banker as part of its contingency plan and as a means of creating funding options if and when required. To date this funding option has not been exercised.

4.4 Conclusion

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.

The outcome of the implementation of an internally developed cash management framework within the province has led to more efficient spending patterns by provincial departments thereby increasing the service delivery levels to the communities within the WC.

4.5 The Way Forward

Certain new initiatives are planned for the 2003/2004 and 2004/2005 financial years with regard to provincial cash flow management. The PT, for example, plans to conduct a survey within the individual provincial departments with regard to the payment of creditors within 30 days. The aim hereof is to ensure that each payment made is deposited to the creditor's account on the 30th day after date of invoice or at least the previous business day prior to the due date.

This procedure is in sharp contrast to the current practice of immediately processing the payment upon receipt of the invoice. Departments will be required to process payments for inclusion in the last weekly payment run to creditors preceding the expiry period of 30 days. The main result of this policy of payment as opposed to immediate payment will be a temporary accumulation of funds, which can be invested at optimum rates thereby increasing the interest yield for the province. The PT will also approach those departments who make large payments in an endeavour to possibly reschedule such payments. A further important result will be that payments within the various provincial departments will be restructured permitting increased efficiency in cash flow planning.

The IGCC initiative, mentioned previously, which the NT plans to implement, although supported by this province with certain provisos, will definitely have a negative impact on the interest yield of this province. A further possibility is that the NT will limit funds transfers to provinces in accordance with provincial expenditure trends. This will lead to less funds available for investment and as such will also negatively affect the interest yield.

The IGCC initiative, although supported by the province, will however negatively affect the interest yield and the possible limiting of funds in proportion to expenditure trends by the NT are the two main factors, which will affect cash flow management in the province.

The ongoing challenge, despite these new initiatives however is to 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.

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