Supply-chain management is an integral part of prudent financial management. It introduces internationally accepted best practice principles, while at the same time addressing Government's preferential procurement policy objectives.

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

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

This year the National Treasury intends to issue a series of practice notes in terms of the framework to guide uniformity in practices and procedures across national, provincial and local government. Provincial treasuries and municipal managers will issue further practice notes in a cascading fashion, guiding the more detailed, technical implementation of supply-chain management practice.

Implementation of supply-chain management practice will be phased in over the MTEF because of considerable divergence between current government procurement and provisioning practice and new supply-chain management policies, systems, procedures and processes.

The first step requires that the national and provincial state tender boards, in liaison with the relevant treasuries, delegate their authority to departmental procurement units, so that the latter can begin to build appropriate capacity.

This requires that departments establish supply-chain management units under the responsibility and management of departmental chief financial officers, ensuring that clear lines of authority and accountability, as well as performance criteria contribute towards minimising risk, improving sourcing procedures and processes, and enhancing asset and inventory management.

Departmental accounting officers are responsible for ensuring that their supply-chain management personnel are adequately trained. The National Treasury intends to facilitate this process by engaging several stakeholders, including the South African Management Development Institute and the Institute for Public Finance and Auditing, to develop appropriate supply-chain management training material over the next year.

Step two calls for the repeal of national and provincial state tender-board legislation and the closure of these offices. The National Treasury intends to facilitate the repealing of the State Tender Board Act (86 of 1968) at the national level this year. Provincial treasuries are required to initiate their own legislative processes for the repealing of respective provincial tender-board legislation and structures.

Now that the state tender board machinery is being dismantled, the National Treasury has established a Supply Chain Management Office to assist with management of transversal or general supply contracts on behalf of national Government. The office will also ensure the alignment of Government supply-chain management practice with the requirements of the PFMA.

The *Supply Chain Management* team has also begun to implement a high-level management information system that will enable Government to obtain information about total procurement in Government and to monitor the extent to which procurement reform objectives are being achieved. Minimum reporting requirements will be prescribed for accounting officers/authorities with a view to establishing a reliable database over the next three years. Over the MTEF, the National Treasury, in collaboration with key government stakeholders, such as the Department of Trade and Industry and provincial treasuries, will review and amend the PPPFA and its associated regulations, ensuring that they contribute more effectively towards meeting Government's objectives for black economic empowerment. These interventions are key elements of the process for promulgating the Broad Based Black Economic Empowerment Bill (to be promulgated during 2003) and for implementing its supporting strategy and framework.

Through the activities of the *PFMA* unit, the National Treasury monitors and reports on the implementation of the PFMA across national and provincial departments in respect of the detailed implementation plan that the Cabinet approved in September 2000. The first phase of implementation focuses on critical improvements in departmental financial management and ensuring compliance with the new legislation and its regulations. The second phase is aimed at longer-term qualitative improvements, including the full implementation of generally recognised accounting practices.

The Validation Board, established in November 2001 to accredit training material used in the building of capacity for the implementation of the PFMA, has already accredited 15 courses, ensuring that training initiatives produce the requisite skills. Eight courses were presented between September 2002 and January 2003, including courses in strategic planning and budgeting; internal audit; internal control and risk management; and in-year financial management, monitoring and reporting.

The National Treasury has entered into a service level agreement with the Institute for Public Finance and Auditing for the roll out of a large-scale financial-management training programme over the next three years. The course programme will include modules on government accounting; strategic planning and budgeting; supply-chain management, internal control and fixed-asset management for financial and non financial managers. The arrangement will lead to a joint venture between the Institute for Public Finance and Auditing and the South African Management Development Institute, which is responsible for coordinating public sector training.

The National Treasury submitted progress reports on the implementation of the PFMA to the Cabinet and Parliament in June 2002 and May 2003. A third report is due on 1 September this year. The progress reports suggest, among others, that the quality of financial management is largely determined by the appointment of suitably qualified and competent finance personnel. The 2003 survey of national departments reveals that 91 per cent of departments have appointed a chief financial officer. This represents an 8 per cent improvement over results recorded in the 2001 survey. The 2003 survey also reveals that 86 per cent of departments have aligned their finance components to support implementation of the PFMA – 89 per cent of departments report the appointment of financial accountants and 69 per cent report the appointment of management accountants and supply-chain management practitioners.

At provincial level, the most significant progress is noted in the tabling of 2003 strategic plans, where strategic and performance plans are based on uniform budget formats for the health, education and social development sectors. Such standardisation attempts to set uniform measurable objectives, performance targets and indicators for each budget programme and subprogramme, facilitating provincial comparisons in service delivery progress.

The existing ("legacy") financial systems in Government, managed by the *Financial Systems* unit, are based on outdated technology and architecture. Significant revisions of governance practices in recent years have had a fundamental impact on public sector management and associated information technology solutions. In particular, the PFMA requires the introduction of generally recognised accounting practice, which, in turn, calls for the introduction of new integrated financial-management solutions to meet the requirements of the public service.

These requirements necessitated comprehensive analysis of the existing financial systems – the Financial Management System (FMS), the Basic Accounting System (BAS), the Logistics Management System (Logis) and the Human Resource Management System (Persal), to determine their suitability. New integrated financial management solutions will need to be phased in over time but, in the interim, existing systems will be maintained and enhanced in certain priority areas.

The priorities over the medium term are:

- Full migration from the FMS to the BAS; implementing a Standard Chart of Accounts as prescribed and approved of by the Accountant General;
- Providing for compliance with PFMA requirements for financial statements, debtors, creditors, and asset management functions; and
- Increased user support and training.

More recently, an Integrated Financial Management Project Office was established on 1 February 2003 to develop a master plan for the integration of Government's financial management systems. The South African Information Technology Agency will perform the task of primary systems integrator in this process. Completed over the next 12 months, the master plan will include options for the replacement and/or enhancement of Government's current financial systems, together with proposed budgets and implementation timeframes relevant to the possible options.

MEASURABLE OBJECTIVES AND MEDIUM TERM OUTPUT TARGETS

Medium-term output targets

Programme 4 Financial Management and Systems

Measurable objective: To regulate and oversee public-sector supply-chain management through policy formulation and improve the quality of financial reporting by ensuring that appropriate policies and procedures are developed and implemented.

Subprogramme	Output	Measure/Indicator	2003 Target/ Milestone	2004 Target/ Milestone	2005 Target Milestone
Supply-Chain Management	Regulating and monitoring supply chain management policy outcomes in Government, and managing transversal term contracts on behalf of Government	Adoption and implementation of consistent legislative and policy framework		Passage through Parliament of revised PPPFA legislation by 30 March 2004	
		Accreditation of national departments to arrange their own contracts	30 May 2003		
		Repeal of the State Tender Board Act and dismantle the State Tender Board	During 2003		
		Develop and maintain supply-chain database	Reports submitted to Cabinet in September	Reports submitted to Cabinet in March and September	Reports submitted to Cabinet in March and September
		Introduce strategic sourcing principles to enhance value for money	Introduce strategic sourcing strategies for 20% of all term contracts	Introduce strategic sourcing strategies for 60% of all term contracts	Introduce strategic sourcing strategies for 100% of all term contracts

Subprogramme	Output	Measure/Indicator	2003 Target/ Milestone	2004 Target/ Milestone	2005 Target Milestone
PFMA Implementation and Coordination	Coordination of the implementation and training initiatives of the National Treasury as well as monitoring implementation of the PFMA in other institutions	Report to Cabinet and Standing Committee on Public Accounts on progress made	30 September 2003	31 March 2004 30 September 2004	31 March 2005 30 September 2005
		Percentage of training material evaluated and accredited relevant to government needs	100%	100%	100%
		Number of courses presented that meet the training needs of Government	10 courses	20 courses	20 courses
Financial Systems	Maintenance and enhancement of existing Financial Management Systems (Persal, Logis, BAS, FMS & Vulindela)	Percentage availability of Financial Management Systems during working hours	98% system availability Monday to Friday from 7:30 to 16:30	98% system availability Monday to Friday from 7:30 to 16:30	98% system availability Monday to Friday from 7:30 to 16:30
	Implementation of Financial Management Systems	Implementation of BAS at national departments and provinces (except North West)		1 April 2004	
	Provision of Integrated Financial Management Systems Solutions	Implementation of the Standard Charts of Accounts on BAS		100% implementation by 1 April 2004 (Pending finalisation by the A-G)	
	Development of Master Plan for integrated financial management systems (IFMS)	Adoption of Master Plan by Budget Council and Cabinet		Approval of Master Plan by Budget Council and Cabinet during March 2004 Detailed phased implementation plan for IFMS will only be available during March 2004	Detailed phased implementation plan for IFMS will only be available during March 2004

RESOURCE PLAN

Expenditure estimates

Table 5: Financial Management and Systems

Subprogramme R thousand	Adjusted appropriation 2002/03	Medium-term expenditure estimate 2003/04	2004/05	2005/06
Management	947	1 123	1 150	1 221
Supply-Chain Management	23 945	26 716	28 534	30 538
PFMA Implementation and Coordination	8 549	15 626	15 752	16 599
Financial Systems	280 143	314 251	342 037	366 833
Total	**313 584**	**357 716**	**387 473**	**415 191**
Change to 2002 Budget Estimate	69 414	107 085	136 557	
Economic classification				
Current	311 815	353 940	384 371	412 065
Personnel	27 907	41 827	43 679	46 364
Transfer payments	–	–	–	–
Other current	283 908	312 113	340 692	365 701
Capital	1 769	3 776	3 102	3 126
Transfer payments	–	–	–	–
Acquisition of capital assets	1 769	3 776	3 102	3 126
Total	**313 584**	**357 716**	**387 473**	**415 191**
Standard items of expenditure				
Personnel	27 907	41 827	43 679	46 364
Administrative	4 831	9 662	10 652	11 805
Inventories	1 521	2 494	2 702	2 910
Equipment	2 788	4 154	3 512	3 584
Land and buildings	–	–	–	–
Professional and special services	276 537	299 579	326 928	350 528
Transfer payments	–	–	–	–
Miscellaneous	–	–	–	–
Total	**313 584**	**357 716**	**387 473**	**415 191**

Expenditure trends

The budget for this programme will grow at about the same rate as the budget of the Department as a whole over the medium term - about 10 per cent a year. Increases in the budget over the medium term for *PFMA Implementation* and *Coordination and Supply-Chain Management* reflect the intention to roll out training and capacity-building initiatives related to implementing the PFMA. Provision is also made for establishing the Supply Chain Management Office to manage transversal or general supply contracts on behalf of national government and align government supply-chain management with the requirements of the PFMA. Increasing expenditure on *Financial Systems* – which consumes over 88 per cent of the programme budget – reflects the expected roll out of the Basic Accounting System.

Professional and special services consume more than 85 per cent of the budget, as much of the management of Government's financial systems is handled by the State Information Technology Agency and other contracted resources.

PROGRAMME 5: FINANCIAL ACCOUNTING AND REPORTING

Purpose: *Financial Accounting and Reporting programme* intends to develop new and enhance existing accounting policies and practices to ensure compliance with Generally Recognised Accounting Practices (GRAP) accounting standards to be issued by the Accounting Standards Board, enabling a transition from the cash basis to an accrual basis of accounting. It also endeavours to improve the timeliness, accuracy and efficiency of financial reporting; and to provide mechanisms for improved financial accountability in the public sector.

Measurable objective: The programme aims to improve the quality of financial accounting and reporting by ensuring that appropriate accounting policies and financial practices are developed for improved disclosure.

The Office of the Accountant-General has undergone considerable restructuring and now consists of the following subprogrammes:

- *Financial Reporting for National Accounts* is responsible for the accounting of the National Revenue and Reconstruction and Development Programme Fund, banking services for national Government, developing and implementing accounting policies, and preparing consolidated financial statements.
- *Financial Management Improvement* incorporates the improvement of financial management and training as well as internal audit services. It also provides assistance to the Institute for Public Finance and Auditing.
- *Service Charges* provides for bank service charges for the deposit accounts of all departments.
- *Audit* provides for compensation for shortfalls of statutory bodies and municipalities in certain instances in terms of the Auditor General Act (12 of 1995).

Policy Developments

Over the past year, the *Financial Reporting on National Accounts* unit improved the formats for financial reporting for national and provincial governments. This caters for improved disclosure of fixed assets and investments in the Annual Financial Statement for 2002/03. In addition, disclosure is required on gifts, donations and sponsorships to the state. The process is part of the migration plan to comply with Generally Recognised Accounting Practice (GRAP) in terms of Section 216 of the Constitution. The team also set earlier ledger-closure dates and introduced an in-year monitoring system to facilitate timeous monthly, quarterly and annual reporting. This process facilitates the capturing of forecasted expenditure and reasons for deviation thereof. The collated data is then made available for varied time series analyses.

Over the next three years, the unit will develop a comprehensive set of financial policies that will provide the foundation for moving to a full accrual basis of accounting based on the standards set by the Accounting Standards Board. These policies will be developed based on the GRAP Framework – that is in respect of GRAP accounting standards on the treatment of revenue, expenditure, assets, liabilities and equity. In addition, a consultation paper will be drafted to provide Cabinet and various stakeholders with the relevant information pertaining to the impact of GRAP in Government. It is also the intention to monitor the effectiveness of these policies, as well as to provide guidance to internal audit units on internal controls and risk management.

During 2002, the Office of the Accountant General established the Accounting Standards Board in terms of the requirement of the Public Finance Management Act (1 of 1999). The Board, among others, will be responsible for the development of GRAP standards over the next few years.

The Minister of Finance approved the members of the Accounting Standards Board during February 2002 and its plan and budget during October 2002. The Board has already determined its work plan and formulated the Framework for GRAP Standards. That is, the Board has determined the order, timing of the formulation of the GRAP standards and the effective dates of implementation, taking into account the proposed timelines to meet the requirements of financial statement consolidation in 2003/04. The Board will concentrate on formulating those GRAP standards that are critical to Government's requirements first. These are property, plant and equipment (assets), inventory, employee benefits, accruals and provisions.

The formulation of GRAP standards will enable the Office of the Accountant General, more specifically the *Financial Management Improvement Programme* team, to develop new, and enhance existing, accounting policies and practices, enabling a transition from the cash basis of accounting to an accrual basis. These policies would be subject to periodic review to ensure that they are consistent with accounting and GRAP standards over time, as determined by the Accounting Standards Board.

Cash accounting is beneficial in that it is a simple, objective system that assesses compliance with cash budgets. However, the system generates limited information on Government's financial and economic position. More specifically, lack of a double-entry system prevents an easy statement of Government’s financial position, economic results – that is, whether Government is incurring a saving or dissaving – were not disclosed, and no information on input cost or output performance was available.

GRAP standards therefore need to address these shortcomings of cash accounting and ensure that there is improved disclosure and enhanced accountability in public sector financial reporting.

GRAP requires that all public sector entities maintain complete records of revenue, expenditure, assets, liabilities and equity. Reporting on a GRAP basis shows how Government finances its activities and meets its cash flow requirements. It also allows users to evaluate Government’s ability to meet its liabilities and commitments. At the entity level, GRAP provides critical management information regarding the feasibility of financing the optimum level of services, future funding requirements for asset maintenance and replacement, and repayment requirements for existing liabilities.

Financial statements prepared on the basis of GRAP will provide comprehensive information on current and projected cash flows, including cash flows associated with debtors and creditors. This will enhance cash management and assist in the preparation of more accurate cash flows.

GRAP also provides a consistent framework for the identification of existing liabilities as well as potential or contingent liabilities. This compels Government to acknowledge and plan for the repayment of all recognised liabilities, not just borrowings, and provides sufficient information on the effect of existing liabilities on future resources.

Implementing GRAP carries significant risks as regards capacity. Most importantly, it demands that national and provincial departments obtain the necessary technical and managerial skills to manage the introduction of new systems and processes and to comply with additional reporting and reconciliation requirements. The GRAP Implementation Timeline therefore phases in the required dates for implementation over the next three to five years.

The team has identified certain risks in implementation of GRAP through the use of departmental surveys regarding current accounting policies and practices. Survey results will aid in developing effective and relevant accounting policies and practices that are GRAP compliant. Complementary in-depth research will ensure that policies and practices developed are harmonised with best practices locally and internationally.

Once the survey results and research analyses are complete, the team will begin formulation of accounting policies and practice. Accounting policies can best be described as the specific principles, bases, conventions, rules and practices that government adopts in preparing and presenting its financial statements. It clarifies the relevant accounting standard issued by the Accounting Standards Board to individual transactions and balances.

As the accounting policies and practices are developed and approved, the financial accounting and reporting system of Government will migrate from a cash basis to an accrual basis of accounting. There are two interim stages before full accrual accounting is realised. From a cash basis, the system will migrate to modified cash accounting where the majority of policies used for the preparation of the accounting records are cash accounting policies supplemented by certain accrual accounting policies. The second migration is to a modified accrual system where the majority of policies used are accrual accounting policies, supplemented by certain cash accounting policies. Full accrual accounting is achieved where all the policies used for preparation of accounting records are accrual accounting policies.

The *Financial Management Improvement Programme* team has circulated six critical accounting policies for comment. These are the investment, financial instruments, inventory, fixed assets, investment property and leases policies. These policies will be finalised and circulated by July 2003 for implementation.

The team has also initiated and completed a process to draft formats for annual financial statements, ensuring that there is greater uniformity in reporting across national and provincial departments. The team has engaged national and provincial departments in extensive consultation and training on the formats, enhancing the implementation process. As new policies are developed over the next few years, the annual financial statements will be revised on a yearly basis to reflect these categories resulting in improved disclosure and recognition.

In respect of internal audit policies, the Internal Audit Framework was benchmarked against the King II Report and the necessary revisions incorporated into the framework. The revised framework has been circulated for comment to, among others, the Heads of Internal Audit Forum, the Auditor General and the Institute of Internal Auditors. The team has also circulated for comment quick reference guides or handbooks on the internal audit function, audit committees, internal controls, risk management and fraud prevention. By distributing the handbooks, the team aims to raise public sector awareness of the internal audit function and facilitate its implementation. The Auditor General's report provides the team with additional insight into the areas of weakness within departments and provinces. This information is used to enhance existing frameworks, policies and practices, as well as developing new policies and practices to ensure that the highlighted weaknesses are addressed. One of the key weaknesses identified is the ability of departments to implement policy due to capacity constraints.

In addition to the development of policies and practices, the team has determined that successful implementation demands further assistance and detailed guidance. Over the next year, it will develop a more comprehensive and detailed set of government financial procedures and guidelines. It is hoped that this will reduce the timeline for the successful implementation of accounting policies on an operational level and improve the accuracy of financial information. The detailed guidelines will be supported by an early warning system on improved financial management and compliance. The latter will alert national and provincial departments to those areas or categories that may result in a qualification in their respective audit reports. One area already highlighted as problematic is the ability of departments to respond to draft standards issued by the Accounting Standards Board, as well as draft policies and practices. This, as indicated previously, is due to capacity constraints within departments.

MEASURABLE OBJECTIVES AND MEDIUM-TERM OUTPUT TARGETS

Medium-term output targets

Programme 5 Financial Accounting and Reporting

Measurable objective: To improve the quality of financial reporting by ensuring that appropriate policies and procedures are developed and implemented.

Subprogramme	Output	Measure/Indicator	2003/04 Target/ Milestone	2004/05 Target/ Milestone	2005/06 Target Milestone
Financial Reporting for National Accounts	Monthly expenditure and consolidation reports	Timely publishing of accurate reports	30 days after month end	30 days after month end	30 days after month end
	Completion of formats for annual financial statements to 31 March 2004	Completed formats for annual financial statements	31 January 2004	31 December 2005	30 November 2006
	Development of policies and formats for consolidated financial statements for 31 March 2004	Formats and policies defined	28 February 2004	28 February 2005	28 February 2006
Financial Management Improvement	Implementation of GRAP as determined by the Accounting Standards Board	Percentage of GRAP standards implemented	70% of approved policies by 31 March 2004	80% of approved policies by 31 March 2005	85% of approved policies by 31 March 2006
	Continuation of development and enhancement of accounting policies and practices and implementation	Timely issuing of accounting policies and practices, as well as their alignment, based on the approved standards of the Accounting Standards Board	30 September 2003	31 August 2004	31 August 2005
	Ensure compliance with internal framework	Development of standards for benchmarks to measure internal audit units	30 November 2003	30 November 2004	30 November 2005

RESOURCE PLAN

Expenditure estimates

Table 6: Financial Accounting and Reporting

Subprogramme	Adjusted appropriation	Medium-term expenditure estimate		
R thousand	2002/03	2003/04	2004/05	2005/06
Financial Reporting for National Accounts	26 396	35 526	38 353	41 382
Financial Management Improvement	12 568	13 647	16 658	17 964
Investment of Public Monies	1	1	1	1
Service Charges (Commercial Banks)	5 532	5 781	6 128	6 496
Audit (Auditor General)	11 697	8 252	8 623	9 140
Contingent Liabilities: Reinsurance Liabilities	1	1	1	1
Total	**56 195**	**63 208**	**69 764**	**74 984**
Change to 2002 Budget Estimate	(89 897)	(91 475)	(94 069)	
Economic classification				
Current	53 149	62 737	69 231	74 419
Personnel	8 862	14 591	17 597	19 687
Transfer payments	11 698	11 953	12 524	13 275
Other current	32 589	36 193	39 110	41 457
Capital	3 046	471	533	565
Transfer payments	–	–	–	–
Acquisition of capital assets	3 046	471	533	565
Total	**56 195**	**63 208**	**69 764**	**74 984**
Standard items of expenditure				
Personnel	8 862	14 591	17 597	19 687
Administrative	11 399	10 448	11 193	11 865
Inventories	693	544	571	605
Equipment	3 632	741	821	870
Land and buildings	–	–	–	–
Professional and special services	14 378	19 149	20 929	22 185
Transfer payments	11 698	11 953	12 524	13 275
Miscellaneous	5 533	5 782	6 129	6 497
Total	**56 195**	**63 208**	**69 764**	**74 984**
Transfer payments per subprogramme				
Financial Reporting for National Accounts				
Accounting Standards Board	–	3 700	3 900	4 134
Financial Management Improvement				
Institute for Public Finance and Auditing	–	–	–	–
Financial and Personnel Systems	–	–	–	–
Audit				
Auditor General	11 698	8 253	8 624	9 141
Total	**11 698**	**11 953**	**12 524**	**13 275**

Expenditure trends

The phasing out of transfers for the *Financial Management Improvement* subprogramme in 2001/02 is the largest structural change to the budget of the programme between 2001/02 and 2003/04. Excluding all transfers, the budget for the *Financial Accounting and Reporting* programme will grow at about 11 per cent a year over the medium term.

The budgets for two subprogrammes allocated to this programme in the 2002 Budget – Integrated Financial Systems and Management Information Systems: Vulindlela – have been transferred to *Financial Management and Systems* in Programme Four.

PROGRAMME 6: PROVINCIAL AND LOCAL GOVERNMENT TRANSFERS

Purpose: The *Provincial and Local Government Transfers* programme is responsible for managing those conditional grants to the provincial and local spheres of government.

Measurable objective: To enhance the pace and quality of provincial infrastructure investment and maintenance of assets, and to promote financial management reform and restructuring of service delivery by municipalities.

The grant, for which the National Treasury is directly responsible, is divided into two subprogrammes:

- *Provincial Infrastructure Grant* provides for the transfer and monitoring of the Provincial Infrastructure Grant. The grant supplements the provinces' infrastructure budgets, accelerating the building and maintenance of social and economic infrastructure such as hospitals, clinics, schools and provincial roads.
- *Local Government Financial Management and Restructuring Grant* provides for the transfer and monitoring of funds for local government financial management reforms, and assists in restructuring initiatives for modernising the delivery of services in the larger municipalities

Policy Developments

This programme focuses on two specific conditional grants – one for provinces and one for local government – administered by the National Treasury itself. It does not cover the R154 billion equitable share transfer to provincial and local governments, or the conditional grants administered by other national departments.

The *Provincial Infrastructure Grant* was introduced in 2000/01 with an allocation of R300 million to address the backlogs in provincial infrastructure and to boost infrastructure spending in general. The grant was increased to R800 million in 2001/02 and rose further to R1,5 billion in 2002/03. It is expected to rise to R3 billion in 2005/06.

The allocations for 2002/03 and 2003/04 include amounts of R400 million and R200 million respectively, earmarked for the rehabilitation of provincial infrastructure damaged by floods in 1999 and 2000. This grant is provided to provinces in accordance with the annual Division of Revenue Act. Provinces' accounting officers are accountable for the spending of the grant.

The grant has contributed to a near doubling of provincial infrastructure, which rose from about R7 billion (or approximately 6 per cent of total provincial spending) in 2000/01 to just over R11 billion in 2001/02. After a period of sluggish performance, provinces are now increasing their capital spending rapidly. In the first nine months of 2002/03, provinces spent R2,7 billion more on infrastructure than during the first nine months of 2001/02. Increased spending capacity enables provinces to increase their capital budgets to around R14 billion in 2003/04, rising to about R18 billion in 2005/06. The discipline and due-diligence brought into the process by following public-private partnership principles have also been a catalyst in enhanced spending.

The ongoing evolution of the intergovernmental system will see the rationalisation of grants to ensure that there are fewer and better-administered grants. With the turnaround in provincial infrastructure investment, it is envisaged that the *Provincial Infrastructure Grant* will be phased into the equitable share by the 2006/07 financial year.

Experience from financial management reforms in selected municipalities indicates that proper preparation of budgets is critical for reforming operational systems and improving service delivery. The *Local Government Financial Management Reform* programme has been expanded from the initial seven municipalities in 2000 to more than 39 municipalities in 2003. More than 18 municipalities have had first attempts at tabling multi-year budgets and implementing plans to improve financial management practices.

In 2003/04 the allocation for the grant increases to R212 million. This will enable a further 23 municipalities to be added to the pilot programme, bringing the total number to 62, offering the opportunity for more than 200 internships.

Government has also entered into an agreement with the International Bank for Reconstruction and Development to provide technical assistance in implementing municipal financial management reforms. The programme is modelled on the spirit of municipal finance management reforms. The first phase has commenced with the placement of international advisers in nine municipalities. Roll-out of the programme will be fast-tracked over the MTEF.

Promulgation of the Municipal Finance Management Act is expected shortly. A framework for the implementation of the Act will be issued after the formal adoption process. Implementation of the Act, to be completed by mid-2007, will take cognisance of the uneven capacities of municipalities to implement financial reforms. More specifically, the National Treasury intends expanding its capacity-building programme, developing further training material, guidelines and manuals, and issuing guiding regulations to facilitate the implementation of the Act.

Large cities have a significant impact on the regional and national economy. It is important that cities operate in an effective and efficient manner, and are able to generate sufficient revenues to deliver and extend services in their areas. The *Local Government Financial Management Restructuring Grant* assists municipalities with large budgets with their restructuring process. Funding will be targeted towards the larger cities to enhance macroeconomic growth, revenue management, local economic development, effective and efficient service delivery and long-term sustainability.

The grant is demand driven, with municipalities providing benchmarks and conditions against which they will be measured. Disbursements are based on achieving those outputs. Current recipients, including the City of Johannesburg, have used the grant to improve their organisational, financial, administrative and operational processes, translating into effective service delivery. Negotiations with Mangaung and Msunduzi municipalities are at an advanced stage. Mangaung municipality, based in Bloemfontein, has begun to implement an innovative, service-orientated restructure exercise that promises to provide best practice to local government in South Africa.