
REPUBLIC OF SOUTH AFRICA

EXPLANATORY MEMORANDUM

ON THE

**VARIOUS CLAUSES IN THE FINANCE
BILL, 1979**

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PART I

MATTERS AFFECTING THE STATE REVENUE FUND

CLAUSE ONE

This clause gives effect to a budget proposal made by the Minister of Finance regarding expenditure from the surplus on the State Revenue Account as at 31 March 1979.

CLAUSE TWO

The purpose of this clause is to give effect to a resolution by the House of Assembly that certain expenditure reported as unauthorized by the Auditor-General, shall be charged to the State Revenue Account and the Special Defence Account.

It will be noted that the amount which the Auditor-General reported as unauthorized in paragraph 8 (1) (b) (i) of Part I of his Report for the 1977/78 financial year in respect of the Special Defence Account, differs to an amount of R12 162 from the amount which the Select Committee on Public Accounts, 1979, recommends to be authorized by Parliament.

During the discussion of the cases by the Select Committee on Public Accounts the Treasury declared itself prepared to condone to an amount of R12 162 certain amendments of contracts to the detriment of the State.

CLAUSE THREE

In terms of the provisions of the Exchequer and Audit Proclamation, 1979, which came into force in South-West Africa on 4 May 1979, the Administrator-General may raise loans for the Territory.

In view of the large and increasing need for funds for the provision of public services in the Territory, the need for stabilization measures in the present economic conditions, the desirability to introduce South-West Africa as a new borrower to the South African capital market and the existing low level of interest rates, it has been decided to allow South-West Africa a turn on the domestic loan issue programme in the near future. The loan will be in the form of an issue of stock.

The stock will be issued by a consortium of acceptance banks on behalf of the Administrator-General. The consortium will confer with the Treasury in respect of interest rates, timing of the issue, etc. The consortium requires a guarantee by the South African Government. The clause provides for such a guarantee to be furnished.

CLAUSE FOUR

Where a South African contractor participates in a foreign capital project, such as the erection of a sugar mill, such participation usually takes place under

cover of the Export Credit Re-insurance Scheme established in terms of the Export Credit Re-insurance Act, 1957 (Act 78 of 1957).

The funds which the Industrial Development Corporation (IDC) requires for the financing of this scheme are at present borrowed from the South African commercial banks. However, if due to unforeseen circumstances it should happen at one stage or another that the commercial banks should not be able to make the funds available to the IDC, the latter would inevitably have to turn to the South African Reserve Bank as lender in last resort in order to obtain the funds. The Reserve Bank is prepared to provide export credit financing to the IDC if necessary, provided that the State issues a guarantee to the Reserve Bank to safeguard the latter against possible financial losses.

As it is important that the Export Credit Re-insurance Scheme is not, due to unforeseen events, put under restraint by a possible shortage of funds, the clause provides for the State to issue a guarantee to the Reserve Bank in order to enable the latter to make the necessary funds available to the IDC for purposes of export credit financing.

Owing to the continuous increase in the activities of the IDC under the Export Credit Re-insurance Scheme, provision is made for a maximum guarantee of R250 million.

CLAUSE FIVE

The Soweto Council and the Community Councils for Dobsonville and Diepmeadow to whom the electrification function of their respective areas has been transferred from the West Rand Administration Board, will in the near future have to raise loans in order to commence with the electrification project. In view of the fact that the success of the loans, which will all be raised on the South African capital market, will depend on the availability of Government guarantees, it is considered desirable that the necessary statutory authority be granted to the Minister of Plural Relations and Development to furnish such guarantees.

CLAUSE SIX

The South African Development Corporation for Inventions is financed by means of share capital held by the Council for Scientific and Industrial Research as well as by loans granted by the State. The ratio between capital and loans was about 1:12 by February 1979, which is completely undesirable according to all financial and traditional investment norms.

In the light of this it was decided to increase the share capital of the Corporation in order to improve the ratio between the paid-up capital and the loan capital, thus placing the Corporation in a better position to absorb losses incurred as a result of investments in new technologies. It is necessary for the Corporation's records to reflect a sound financial position in order to inspire trust among business undertakings with which it negotiates.

It has consequently been decided to convert the loan capital of R770 000 into share capital and that these shares be held by the Council for Scientific and Industrial Research in order to strengthen the financial structure of the Corporation.

The clause gives effect to this.

CLAUSE SEVEN

From its inception in 1968 Armscor's capital investments were funded from the Defence vote while working capital requirements were financed by advances on individual projects from the Armaments Board.

With a view to improved control over investment in working capital, production costs and delivery performance, Armscor and the now defunct Armaments Board entered into an agreement, effective from 1 April 1974—

- (a) to vest the responsibility of financing production directly in Armscor and its subsidiaries;
- (b) to produce armaments at predetermined unit prices;
- (c) to cease the practice of individual advances and progress payments, and to adopt a total business plan approach to the financing of the Armscor subsidiaries.

Since the production of armaments necessitates the investment of working capital for 15 to 50 months prior to the commencement of production, substantial funds were required to initiate the above decisions. Financing was required until such time as operating costs could be recovered in unit prices. From 1 April 1974, however, Armscor's production responsibilities increased considerably resulting in an increased demand for working capital. To finance this requirement advances were made from the Special Defence Account. Working capital is, however, continuously required and repayment of previous advances would only result in new demands for working capital which will have to be obtained elsewhere at a higher cost.

It has consequently been decided to convert advances amounting to R111 766 191,26 into Armscor share capital which will contribute to the strengthening of Armscor's capital structure and which will enable the corporation to function more effectively.

CLAUSE EIGHT

Loans amounting to R5 053 000 for the erection of broadcasting facilities in South-West Africa were granted to the South African Broadcasting Corporation by the Treasury.

With the establishment of an independent South-West African Broadcasting Corporation it is necessary for the assets of the South African Broadcasting Corporation in the Territory to be transferred to the South-West African Broadcasting Corporation and the Minister of Finance has approved that it takes place as follows:

Taking over of loan by the South-West African Broadcasting Corporation	R1 855 000
Reduction of the South African Broadcasting Corporation's permanent capital	R3 180 000
	R5 035 000

The clause provides for the South African Broadcasting Corporation to be exempted from its obligation to repay the amount of R1 855 000 to the State and that the obligation be assigned to the South-West African Broadcasting Corporation.

Please also refer to the provisions of clause 17 regarding the reduction of the South African Broadcasting Corporation's permanent capital.

CLAUSE NINE

As a result of a resolution of the Select Committee on Public Accounts, 1977, a Committee of Inquiry was appointed to investigate and report on the activities, way of financing and the continued existence of the National Film

Board. It has, in consequence of the Committee's recommendations, been decided to dissolve the National Film Board and to take appropriate steps in order to bring about the final termination of the Film Board's activities.

The clause gives effect to the decision.

CLAUSES TEN, ELEVEN AND TWELVE

In paragraph 14.484 of the first report of the Commission of Inquiry into alleged Irregularities in the Former Department of Information the Commission recommends, *inter alia*, that accounts relating to secret funds be audited by the Auditor-General. The Government and the House of Assembly by resolution (Hansard column 12 of 7 December 1978) accepted the recommendation and the legislation relating to secret accounts are consequently being suitably amended.

CLAUSE THIRTEEN

This clause will make it possible to review the salary and allowance of a Parliamentary office-bearer at any time, so that it need not necessarily have to coincide with a general adjustment of salaries and allowances in the Public Service, as in the case of members.

CLAUSES FOURTEEN AND FIFTEEN

Section 14 of the Exchequer and Audit Act, 1975, charges an accounting officer with certain duties in respect of the appropriation account of the vote under his control. Section 15 of the said Act determines who shall be accountable for certain votes and financial transactions in the Public Service.

In certain Government Departments organizational units exist with officials in charge on the same salary grading as the heads of the departments concerned. The head of such a unit is in practice fully responsible for the performance of his organization's functions. Nevertheless the head of the department concerned remains, in terms of the existing provisions of section 14, responsible for the preparation of the appropriation account which shows all the amounts expended on his vote, and in terms of section 15 accountable for all receipts and payments made on the vote.

The clauses provide that the Treasury may charge a person other than the head of a department with any or all the powers and duties of an accounting officer in respect of a portion of a vote, in order to vest accountability, as defined in the financial regulations, in the head of such an autonomous organizational unit.

CLAUSE SIXTEEN

The practice, prior to and after the commencement of the Exchequer and Audit Act, 1975, has always been to determine a uniform interest rate in respect of debts owing to the State other than debts resulting from loans granted out of the State Revenue Fund. According to a recent legal opinion section 26 (6) of the Exchequer and Audit Act, 1975, does not empower the Minister of Finance to determine such a uniform interest rate, but requires that an interest rate in respect of each debt be determined. As a result of the large variety of debts affected such an arrangement is not practicable in view of the large volume of administrative work attached thereto. The clause authorizes the procedure followed in the past, and makes it possible to determine another interest rate in respect of certain categories of debts.

CLAUSE SEVENTEEN

Please refer to the explanation under clause eight.

This clause provides for the South African Broadcasting Corporation's permanent capital to be reduced by writing off the amount of R3 180 000.

CLAUSE EIGHTEEN

Further to its recommendation in respect of the auditing of accounts relating to secret funds, the Commission of Inquiry into alleged Irregularities in the Former Department of Information further recommends in paragraph 14.484 of its first report that the Auditor-General first submit his report to the Minister of Finance who, after consultation with the Prime Minister and the Auditor-General, shall decide which findings the Auditor-General is to disclose to Parliament in his report.

The clause gives effect to this recommendation of the Commission which has been accepted by the Government and by the House of Assembly by resolution (Hansard column 12 of 7 December 1978).

CLAUSE NINETEEN

Mainly as a result of low prices which have been realised for a considerable time on the international sugar market, on which market South Africa is dependent for approximately fifty per cent of its production, the local sugar industry finds itself in a position where its income for the 1978/79 and 1979/80 seasons will be insufficient to cover its production costs.

The South African Sugar Association has, with the Government's approval, decided to finance these deficits with loan funds until such time as market and price conditions improve. Such loans can be negotiated locally and overseas on condition that the repayment thereof is guaranteed by the State. For this purpose it is necessary to adjust the existing legislation to provide that loans negotiated by the South African Sugar Association can be guaranteed by the Minister of Economic Affairs and that the Minister's present powers be extended by increasing the maximum amount for which State guarantees may be given from R16 000 000 to R50 000 000, as proposed in the clause.

CLAUSE TWENTY

. Please refer to the explanation under clause ten.

PART II

MATTERS AFFECTING THE RAILWAY AND HARBOUR FUND

CLAUSE TWENTY ONE

This measure is to enable the surplus revenue for the financial year ended 31 March 1979 to be credited to the Rates Equalization Fund.

CLAUSE TWENTY TWO

Five servicemen attached to the Western Province Regiment were killed and 71 injured in the train accident at Keetmanshoop on 25 March 1977.

The accident was due to negligence on the part of employees of the Administration and consequently the Administration is legally obliged, in terms of the provisions of the Railways and Harbours Control and Management (Consolidation) Act, 1957, to accept liability for the deaths and injuries involved.

On the strength of this fact compensation of R15 500 was paid on 1 June 1978 to one of the injured, Mr. Stanley Marcus, and on 17 July 1978, R50 000 was paid to Mrs. I. Uys, widow of Mr. H. J. Uys.

During negotiations thereafter, with the legal representatives of the rest of the claimants, the provisions of the Military Pensions Act, 1976 (Act 84 of 1976) came to notice. Clause 20 of this Act stipulates that no action of law shall lie against the State to recover damages in respect of the disablement or death of

a member. The claimants have no other right of recovery against the Administration and consequently, the Administration has decided that all claims resulting from the Keetmanshoop train accident shall be settled on an ex gratia basis.

In terms of the provisions of Resolution No. 1 of the Select Committee on Railways and Harbours for 1970, the prior authority of Parliament shall be obtained for ex gratia payments of R5 000 and over by way of specifying the item in the Estimates of Expenditure.

At the time when it was decided that the claims should be settled on an ex gratia basis, those of Mr. Marcus and Mrs. Uys had already been settled in terms of section 8 of the Railways and Harbours Control and Management (Consolidation) Act and likewise the Additional Estimates of Expenditure of the Railways and Harbours for 1978/79, which includes financial provision therefor, had already been finalised for presentation to Parliament. At that stage it was therefore not possible to comply with the provisions of the Select Committee resolution.

Validation for the settlement of the two claims on an ex gratia basis is thus required in order to comply with the requirements of Resolution No. 1 of the Select Committee on Railways and Harbours for 1970.