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REPUBLIC OF SOUTH AFRICA

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**EXPLANATORY MEMORANDUM**

ON THE

**VARIOUS CLAUSES IN THE FINANCE  
BILL, 1984**

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CLAUSE ONE

The Minister of Finance indicated in his Budget Speech that the expected surplus for the 1983-84 financial year will amount to R3 million. Although the cash balance in the State Revenue Account on 31 March 1984 was kept to the absolute minimum, the eventual surplus at the final closing of the books will be considerably higher due to revenue in transit on 31 March and surrenderings by departments.

With regard to clause 1 (a), an amount of R200 million was shown for the 1983-84 financial year as estimated under-expenditure on the Vote: Defence in terms of section 1A of the Defence Special Account Act, 1974. In terms of the quoted section 1A, the Minister of Finance approved that commitments not exceeding R60 million be entered into by the Defence Force. In order to comply with the requirement of the said section that any commitment thus entered into be appropriated as soon as possible, it is proposed in this subclause that a portion of the expected surplus be utilized for this purpose.

In view of Defence Force's unique cost escalation problems, it is further proposed in clause 1 (b) that the balance of the final surplus, after the amount of R60 million has been covered, also be credited to the Special Defence Account.

CLAUSE TWO

The purpose of this clause is to give effect to a resolution of the Select Committee on Public Accounts, 1984, that certain expenditure reported as unauthorised by the Auditor-General be charged to the State Revenue Fund.

CLAUSE THREE

The National Supplies Procurement Fund (NSPF) which is controlled by the Department of Industries and Commerce has up to now been financed largely by means of advances from the Stabilization Account. In practice the financing requirements of the NSPF have, over the past few years, run at a level of approximately R2 000 million.

The purpose of the clause is to effect a more permanent arrangement in respect of the major part of the NSPF's requirements to facilitate administration and control of the Fund. The amounts appropriated and deemed to have been appropriated will become permanent working capital to be augmented in future by advances only when the NSPF's financing requirements exceed R2 000 million.

CLAUSE FOUR

The South African Inventions Development Corporation if financed, *inter alia*, by means of share capital provided by the Council for Scientific

and Industrial Research and loans granted by the State. The Corporation's loan facilities have recently been increased to R15,53 million which will eventually bring the ratio of share capital to loans to approximately 1:16 which is undesirable in terms of accepted financial and investment norms.

In the circumstances it has been decided further to increase the Corporation's issued share capital to R5 million (at present it amounts to R970 000) in order to improve the ratio between the paid-up share capital and loan capital, thus placing the Corporation in a better position to absorb losses it may incur as a result of investments in new technologies. It will also result in the Corporation's annual statements reflecting a healthier financial position and ensure greater confidence among the businesses with whom the Corporation deals.

The clause converts loan capital of R4 030 000 into share capital and provides that these shares shall be held by the Council for Scientific and Industrial Research.

#### CLAUSE FIVE

In terms of section 2 of the Small Business Development Act, 1981, the assets and liabilities of the old Development and Finance Corporation and the Indian Industrial Development Corporation were taken over by the Small Business Development Corporation (SBDC) at an audited net asset value of R63,94 million on 1 December 1981. This amount was reduced by approximately R0,55 million as a result of losses provided for in the audited transfer balance statements as provisional liabilities.

On 23 March 1982 the Cabinet decided, *inter alia*, that the SBDC could be compensated for the difference between the cost of capital and income derived from rental on infrastructure, such as business premises in underdeveloped business districts made available to first-time and other small business undertakings on an agency basis from own or loan funds. Provision has already been made in the 1983-84 budget to compensate the SBDC in respect of those projects which were, at the time of the take-over, in varying stages of completion and have since been completed.

As regards the completed projects taken over by the SBDC from its predecessors, it is recommended that the net asset value at which the relevant assets were acquired by the SBDC be so reduced as to ensure a return of 15 per cent (original base rate of the SBDC).

The prevailing return on the relevant assets is estimated by the SBDC at 6 per cent, on average, before tax. The implication of this recommendation is that the State's contribution to the share and loan capital of the SBDC (excluding the State contribution of R10 million in cash and the assets of the small industries section of the IDC) be reduced from R63 391 536 by R17 189 767 to R46 201 769. The rental income derived from the relevant properties will therefore not have to be subsidised by the State, effecting an estimated saving of R2,6 million per annum. The effective saving from 1 December 1981 to date is estimated at R6,28 million.

#### CLAUSES SIX, SEVEN AND EIGHT

These clauses give effect to the amending measures to the Gold Mines Assistance Act, 1968, which the Minister of Finance announced in his budget speech last year and have become necessary to curtail the cost to the Exchequer of the assistance scheme until such time as more comprehensive legislation can be introduced.

In terms of section 6 of the quoted Act capital expenditure approved by the Government Mining Engineer qualifies for assistance by reducing, within certain limits, the mining income taken into consideration for the calculation of total assistance. To obviate capital expenditure increasing unduly the assistance payable in any one year, such expenditure is now further limited to a maximum of 10 per cent of mining income per annum. At the same time, the amendment has the effect of placing greater responsibility for the *interim* financing of capital expenditure on the mines themselves.

The clause ensures furthermore that assisted mines will no longer be eligible for assistance to a degree making possible the conversion of a mining loss into a mining profit. The mines concerned will therefore be assisted only in respect of actual mining losses up to the break-even point.

In keeping with this principle, the amendments will also have the effect that net non-mining after-tax income, such as that derived from the forward selling of gold, will henceforth be subtracted from State assistance.

#### CLAUSE NINE

Section 4 (1) of the State Tender Board Act, 1968, empowers the Board to procure supplies and services for the State, to arrange the hiring or letting of anything or the acquisition or granting of any right for or on behalf of the State and to dispose of movable State property. For this purpose the Board may exercise certain other powers as determined in subparagraphs (a) to (h) of the relevant section, *inter alia* to conclude agreements.

It is essential that supplies and services offered in the execution of agreements be inspected and tested. In addition it is also essential that if the conditions of an agreement are not complied with, the Board may rescind or suspend such agreements. It has always been the viewpoint that these actions could be taken by the Board on strength of the power vested in it to conclude agreements and in practice the Board acted accordingly. A legal opinion holds that this viewpoint is incorrect and that the Board has only those powers specifically granted to it by statute.

The proposed amendments are, therefore, necessary to legalise the functions in regard to inspection, testing and rescinding from agreements and thereby to confirm the *status quo*.

#### CLAUSE TEN

Since the 1982-83 financial year the proceeds of sales of armaments which were initially purchased out of the Special Defence Account have been paid into that Account for re-utilization in the acquisition of new arms and ammunition. According to a legal opinion there is doubt as to whether the proceeds of such sales qualify as income for the Special Defence Account as contemplated in section 1 of the Defence Special Account Act, 1974. The purpose of the clause is to remove such doubt.

#### CLAUSES ELEVEN, FOURTEEN, SEVENTEEN AND NINETEEN

As an *interim* measure provision was made in section 1 of the Financial Arrangements with Transkei, Bophuthatswana, Venda and Ciskei Acts for the payment of certain amounts to those countries in respect of specific financial years following on their respective achievements of independence. Since the relevant financial years have in all cases already lapsed, the respective sections of each of the four acts are now obsolete and can be repealed.

## CLAUSES TWELVE, FIFTEEN, EIGHTEEN AND TWENTY

The harmonization of income tax payable by members of all population groups in the Republic was effected by the Income Tax Amendment Act, 1984 (Act No. 30 of 1984). The Black Taxation Act, 1969, was at the same time repealed and the consequential amendment of section 2 (1) (a) of the Financial Arrangements with Transkei, Bophuthatswana, Venda and Ciskei Acts is necessary.

## CLAUSE THIRTEEN

The International Development Association, an affiliate of the International Bank for Reconstruction and Development, was established during 1960 to further economic development in the less-developed countries, by extending credits to them on terms which bear less heavily on their balance of payments than do conventional loans.

The Republic's initial contribution to the funds of the Association amounted to \$10,09 million. Arrangements were subsequently made for a second to a sixth replenishment of the funds of the Association which brought the Republic's total contributions to \$49,08 million.

The Republic has been called upon to make a further contribution of \$13,19 million to the replenishment of the Association's resources. The purpose of this clause is to authorise the Minister of Finance to enter into a commitment to the Association for the payment of the contribution by means of the issue to the South African Reserve Bank, as depository, of notes or similar obligations which shall be non-negotiable, non-interest-bearing and payable at their par value on demand to the account of the Association in substitution for a payment in the Republic's currency.

The proposed amendment merely brings the handling of contributions to the International Development Association into line with the procedure already authorised by Parliament in the Finance and Financial Adjustments Acts Consolidation Act, 1977, in respect of the International Monetary Fund and the International Bank for Reconstruction and Development.

## CLAUSE SIXTEEN

Section 6 of the Finance Act, 1978, empowers the Government to act as reinsurer in respect of insurance against loss of or damage to property caused by persons intending to change or violently disrupt the existing political, social or economic order.

Consequently the South Africa Special Risks Insurance Association (SASRIA) was established as a joint undertaking between the Government and the short term insurance industry to grant cover in this regard.

A need has now arisen to make provision for an agreement to be entered into with SASRIA for the covering of its policy-holders against consequential losses. The clause empowers the Minister of Finance to enter into such an agreement with SASRIA.

In a limited and volatile market locally and overseas, large policy-holders may at times be able to secure the same coverage SASRIA is offering at prices which are lower than those of SASRIA. The effect is that such policy-holders can be selective at the cost of SASRIA.

One of the effects of this is that SASRIA often has to forego support of the lower risks and to underwrite higher risk business. In the light of the fact that the solvency of SASRIA, which is rendering a key service, is in the final analysis guaranteed by the taxpayer, such anti-selection is obviously not in the public interest. SASRIA and the short term insurance industry have also pointed out that anti-selection is not in the best interest of the local industry because foreign underwriters frequently insist that the underlying fire insurance policy must also be underwritten by them as a condition for the provision of SASRIA-type cover. Provision is therefore now being made that it will be an offence to offer or obtain cover elsewhere if cover is available from SASRIA. If the insured, however, requires cover in excess of that which is available from SASRIA, he will still be free to seek such excess cover elsewhere.