

Annual Financial Statements

31 March 2006

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Annual Financial Statements

31 March 2006

Introduction

The maintaining of accounting and other records, as well as an effective system of internal control, is the responsibility of the Council's CEO. In the opinion of the Council of the HSRC this requirement has been complied with.

The preparing of financial statements that fairly present the state of affairs of the HSRC as at year-end and the operating results for the year is the responsibility of the Council of the HSRC. The Auditors are expected to report on the Annual Financial Statements. The HSRC's Annual Financial Statements are prepared on the basis of the accounting policies set out therein. These policies have been complied with on a continuous basis.

Approval and post-balance sheet events

The Council of the HSRC approved the 2005/06-Annual Financial Statements set out on pages 118 to 201 on 25 May 2006. In the Council's opinion the Annual Financial Statements fairly reflect the financial position of the HSRC at 31 March 2006 and the results of its operations for the period then ended. No material facts or circumstances have arisen between the date of the balance sheet and the date of approval, which affect the financial position of the HSRC as reflected in these Financial Statements.

The Council is of the opinion that the HSRC is financially sound and operates as a going concern, and it has formally documented the facts and assumptions used in its annual assessment of the organization's status.



Prof. G.J Gerwel
Chairperson: HSRC Council



Dr O. Shisana
President and CEO

Pretoria, **25 May 2006**

REPORT OF THE AUDITOR-GENERAL

to Parliament on the Financial Statements of the Human Sciences Research Council for the period ending 31 March 2006

1. AUDIT ASSIGNMENT

The financial statements as set out on pages 118 to 199, for the year ended 31 March 2006 have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996, read with sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004) and section 13 (3) of the Human Sciences Research Council Act, 1968 (Act No. 23 of 1968). These financial statements are the responsibility of the accounting authority. My responsibility is to express an opinion on these financial statements, based on the audit.

2. SCOPE

The audit was conducted in accordance with the International Standards on Auditing read with General Notice 544 of 2006, issued in Government Gazette no. 28723 of 10 April 2006 and General Notice 808 of 2006, issued in Government Gazette no. 28954 of 23 June 2006. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements
- assessing the accounting principles used and significant estimates made by management
- evaluating the overall financial statement presentation.

I believe that the audit provides a reasonable basis for my opinion.

3. BASIS OF ACCOUNTING

The entity's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as described in the accounting policies to the financial statements.

REPORT OF THE AUDITOR-GENERAL

to Parliament on the Financial Statements of the Human Sciences Research Council for the period ending 31 March 2006 (continued)

4. AUDIT OPINION

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Human Sciences Research Council at 31 March 2006 and the results of its operations and its cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury of South Africa, as described in the accounting policies to the financial statements, and in the manner required by Public Finance Management Act, 1999 (Act No. 1 of 1999)(PFMA).

5. APPRECIATION

The assistance rendered by the staff of the Human Sciences Research Council during the audit is sincerely appreciated.



N. Manik
for Auditor-General

Pretoria

19 July 2006



A U D I T O R - G E N E R A L

COUNCIL'S REPORT

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1. Mandate and objectives of the Human Sciences Research Council

The mandate of the Human Sciences Research Council (HSRC) is derived from the Human Sciences Research Act, 1968 (Act No. 23 of 1968), as amended.

The following summarise some of the main functions of the Council provided in the Act:

- (a) to undertake or cause to be undertaken research on behalf of the State or any person or authority;
- (b) to advise the Minister with respect to the undertaking and promotion of social scientific research and its utilisation for the benefit of the country;
- (c) to effect co-ordination of research;
- (d) to co-operate with departments of State, institutions of higher education, training colleges, schools and other persons and authorities for the promotion and conduct of research;
- (e) to co-operate with persons and authorities in other countries conducting or promoting research in the human sciences; and
- (f) to publish or cause to be published the publication of the results of research.

The Act also mandates the HSRC to undertake contract research on any subject in the field of the human sciences and to charge fees for research conducted or services rendered.

The Council's Report for 2004/05 contains reference to progress made with revising the 1968 Human Sciences Research Act. The Department of Science and Technology (DST) earlier initiated a process for redrafting this Act. A draft Bill prepared by the Department was reviewed by the HSRC, with inputs from the Council and internal and external stakeholders, towards the end of 2004/05. This draft, which draws on the recommendations of the HSRC Institutional Review undertaken in 2003, focuses more specifically on the public purposes of the HSRC and is in keeping with the current legislative framework within which the Council operates. During 2005/06, further consultation related to the draft Bill informed the development of a Shareholder's Compact between the Minister of Science and Technology and the Council of the HSRC. It is expected that the draft Bill will be refined in the course of 2006/07 in preparation for a legislative process.

2. Governance of the HSRC

2.1 The Council

Strictly speaking, "the HSRC" or "Council" refers to the group of up to ten people, including a chairperson, appointed for a period of four years by the Minister of Science and Technology. Appointees have distinguished themselves in the field of the human sciences or possess special qualifications in relation to some aspect of the functions of the Council. The Council appoints the President and Chief Executive Officer (CEO) of the HSRC, on a five-year contract, and she or he serves as a further, *ex officio* member on the Council.

More colloquially, and in this report, "the HSRC" is taken to refer to the wider organisation – including approximately 280

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permanent, and many more short-term, employees in three centres – and "the Council" to the abovementioned group of people, who are the governing body of the wider HSRC.

The Council receives its annual Parliamentary grant through, and also reports to, the DST.

2.2 Members of the Council

In 2004 the Minister of Science and Technology appointed a new Council following due consultation and approval by the South African Cabinet. The four-year term of office of the new Council started on 1 November 2004 and expires on 31 October 2008.

Members of the Council during the 2005/06 period were:

Professor G.J. Gerwel (Chair)
 Ms N. Gasa
 Dr P. Gobodo-Madikizela
 Mr T. Makwetu
 Professor W.E. Morrow
 Mr M.E. Motala
 Mrs P. Ntombela-Nzimande
 Mr S.M. Pityana
 Mr M.V. Sisulu
 Professor E.C. Webster
 Dr F.M. Orkin (*ex officio* as President and CEO of the HSRC, until 31 July 2005)
 Dr O. Shisana (*ex officio* as President and CEO of the HSRC, from 1 August 2005)

The Council met on 26 May 2005, 7 September 2005, 24 November 2005 and 9 February 2006.

2.3 Responsibilities of the Council

2.3.1 General

In terms of the Public Finance Management Act (PFMA), the Council is the accounting authority for the HSRC. The PFMA sets out the fiduciary requirements, corporate governance duties and a range of general responsibilities of the accounting authority.

The Council is responsible *inter alia* for preparing financial statements that accurately reflect the HSRC's position and results at the end of a financial year, which is set at 31 March. The Office of the Auditor-General is responsible for reporting on the financial statements of the organisation.

In the year under review applicable accounting standards were adhered to and adequate accounting records and an effective system of internal control maintained in the organisation. Appropriate accounting policies, supported by

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reasonable and prudent judgements and estimates, were applied on a consistent basis.

The PFMA requires organisations funded with public money to formalise delegations from the accounting authority to appropriate senior managers in the organisation. The Council approved written delegations to the CEO on 15 August 2002. These in turn provide the framework for delegations from the CEO to the executive directors (EDs), which were approved on 29 May 2003. The onward delegations from the EDs to directors and other senior levels of staff were approved on 20 May 2004. Following internal restructuring during 2005/06, existing delegations were updated to provide for new post descriptions such as that of Chief Operating Officer (COO). These amendments were approved at the Council meeting of 9 February 2006.

The HSRC is listed as a national public entity under Schedule 3A of the PFMA. This classification is aligned with the public-purpose mandate of the HSRC, a matter that was confirmed in response to a request lodged in April 2005 for the possible relisting of the HSRC as a national government business enterprise, under Schedule 3B of the PFMA.

2.3.2 Going concern status of the HSRC

On the basis of the annual financial statements for 2005/06 and information regarding the forthcoming financial year, the Council has every reason to believe that the HSRC will remain a going concern:

- It continues to receive substantial Parliamentary grant funding (increased to R107,5 million for 2006/07 – a baseline grant of R97 million plus two ring-fenced grants of R5,5 million and R5 million respectively – and set to increase further to a total of R117,6 million for 2007/08, and R124,4 million for 2008/09, according to current MTEF allocations and projections).
- External research income targets for 2006/07 are likely to be met, based on historical evidence and a substantial amount of external income already secured in the form of longer-term research contracts or grants. Approximately R65 million in external income, or 43% of the external income target for the 2006/07 budget year, was already secured in the form of signed contractual agreements by May 2006, with several further agreements for funding already in advanced stages of negotiation.
- The total assets of the organisation at 31 March 2006 (some R121 million) exceed its total liabilities (about R40,2 million).
- The HSRC has proven its ability to collect income from debtors, as illustrated in the decrease in trade and other receivables between 2004/05 and 2005/06 and the introduction of more stringent debt collection policies in November 2005.

2.3.3 Appointment of new President and CEO of the HSRC

One of the functions entrusted to the Council in terms of the HSRC Act is the selection and appointment of a CEO and President of the HSRC. When the former CEO indicated his wish to step down at the conclusion of his five-year contract on 31 July 2005, the Council adopted a succession process to ensure that the process of recruiting a new incumbent would commence. Advertisements were placed in national newspapers in October 2004. After initial shortlisting and searching – the latter with the help of professional advisers – interviews took place on 11 April 2005. The successful candidate, Dr Olive Shisana, accepted the position and assumed office on 1 August 2005.

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2.4 Sub-committees

On 31 March 2006 the Council had four sub-committees: an Executive Committee, a Human Resources and Remuneration Committee, a Research Committee and an Audit Committee.

2.4.1 Executive Committee

The Executive Committee comprised the following members:

Professor G.J. Gerwel (Chair)
Mr T. Makwetu (Chair of the Audit Committee)
Dr P. Gobodo-Madikizela (Chair of the Research Committee)
Dr F.M. Orkin (President and CEO, until 31 July 2005)
Dr O. Shisana (President and CEO, from 1 August 2005)

It was not necessary for the Executive Committee to meet during the year under review.

2.4.2 Human Resources and Remuneration Committee

The Human Resources and Remuneration Committee comprised the following members:

Professor G.J. Gerwel (Chair)
Mr M.E. Motala
Mrs P. Ntombela-Nzimande
Professor E.C. Webster
Dr F.M. Orkin (President and CEO, until 31 July 2005)
Dr O. Shisana (President and CEO, from 1 August 2005).

The Human Resources and Remuneration Committee met on 26 May 2005, 7 September 2005, 24 November 2005 and 9 February 2006.

2.4.3 Research Committee

The Research Committee comprised the following members:

Dr P. Gobodo-Madikizela (Chair)
Professor G.J. Gerwel
Ms N. Gasa
Professor W.E. Morrow
Mr M. E. Motala
Mr S.M. Pityana
Mr M.V. Sisulu

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Professor E.C. Webster

Dr F.M. Orkin (President and CEO, until 31 July 2005)

Dr O. Shisana (President and CEO, from 1 August 2005)

Members of the Research Committee attended and contributed to the HSRC Research Conference in July 2005. The Research Committee also met on 19 and 20 November 2005, at the HSRC strategic planning *lekgotla*.

2.4.4 Audit Committee

The members of the HSRC Audit Committee are appointed for a calendar year. During 2005/06 the Audit Committee comprised two specialist external members and three members of the Council.

The specialist members were:

Mr R.J. Page-Shipp

Ms R. Xaba

The members of the Council on the Audit Committee were:

Mr T. Makwetu (Chair)

Professor W.E. Morrow

Dr F.M. Orkin (President and CEO, until 31 July 2005)

Dr O. Shisana (President and CEO, from 1 August 2005)

The Audit Committee functions in accordance with the PFMA and associated Treasury regulations. The Audit Committee also functions as the Finance Committee of the HSRC, which is reflected in its formal terms of reference (Audit and Finance Committee Charter), adopted on 27 January 2005 in accordance with the requirements of the King II Report. The committee structures its activities and reporting according to a comprehensive planned schedule, with target dates. It reviews the following documents, and reports on them to the ensuing meetings of the Council:

- annual internal audit plan,
- the external audit plan,
- periodic internal audit reports,
- the proposed budget for the year,
- quarterly and annual financial statements,
- quarterly compliance reports to DST in terms of the PFMA,
- debtors reports, and
- the annual external audit report of the HSRC.

In addition to reviewing periodic internal audit reports and monitoring progress with the implementation of any recommendations for follow-up action that had been identified and approved, the Audit Committee is also responsible for monitoring the scope and effectiveness of the outsourced internal audit function.

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Under the guidance of the Audit Committee, a first strategic assessment of the HSRC's risk areas was conducted in 2001/02. The new internal audit service provider, KPMG, assisted the HSRC during 2005/06 in identifying and prioritising strategic risks, and developing a structured plan for implementing effective and ongoing risk management in the organisation. The Council approved the resultant risk policy framework for the HSRC at its meeting on 9 February 2006, as recommended by the Audit Committee. The Audit Committee continues to monitor risk management in the organisation on an ongoing basis (see section 7).

In terms of monitoring the implementation of recommendations of various internal and external audit reports, the following received specific attention during 2005/06:

- Further to a PFMA compliance review undertaken by KPMG in 2004/05, the development of a revised Code of Ethics remained on the agenda. This matter received further attention when requirements for the draft Shareholder's Compact, to be entered into between the HSRC Council and the Minister of Science and Technology, were dealt with. It is expected that the revised Code of Ethics and register of interests will be approved by the Council at its meeting in May 2006.
- In accordance with the requirements of the PFMA, a draft fraud prevention plan was prepared and a finalised version approved by the Council in May 2005. This plan continues to be put into operation by the HSRC, in the form of an action plan and time frames to ensure proper communication, sensitisation of staff, and implementation throughout the organisation.
- The implementation of the recommendations of an earlier Information Technology (IT) audit was monitored on a quarterly basis. A draft IT strategy document was completed in February 2006, following which a consultative process started with a view to submitting the IT strategy to the Council in May 2006. Feedback on the management of IT services that were outsourced in the course of 2005/06 also received attention.
- Progress made with the implementation of a Supply Chain Management (SCM) framework, a matter emphasised in the report of the Auditor-General in 2005, was also reviewed on a regular basis.

The Audit Committee submits a summary of its activities to the Council on a regular basis. It also submits a report of its work for inclusion in the HSRC Annual Report.

The Audit Committee met on 23 May 2005, 25 July 2005, 7 November 2005 and 2 February 2006.

2.5 Research Ethics Committee

The Council approved the establishment of a Research Ethics Committee (REC) in 2002, whose mandate is to review all HSRC research proposals from the perspective of research ethics. The REC aims to promote a culture of ethical conduct and research integrity in the HSRC, and reports annually to the Council.

The REC was reconstituted in November 2005 and its members appointed for a three-year term of office that will end on 31 October 2008. It has six external members and 19 internal representatives from the research programmes and cross-cutting units (some attending on a rotation basis). The Committee is empowered to recognise the authority of ethics committees at other institutions to approve proposals on behalf of the HSRC where necessary. The REC began functioning in 2003 and successfully applied to the US Office of Research Protections for Federalwide Assurance within its first

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year of operation. Its Institutional Review Board status (Federalwide Assurance FWA 00006347 posted at <http://ohrp.cit.nih.gov/search/asearch.asp>) remains valid.

In the financial year under review the REC met nine times and considered some 66 project proposals. Of these, some 60 proposals had been approved by May 2006, some following the incorporation of feedback from the committee and resubmission.

During 2005/06 the external REC members were:

Professor Peter Cleaton-Jones – Dental Research Institute, University of the Witwatersrand (Chair until 31 October 2005)

Professor Doug Wassenaar – School of Psychology, University of KwaZulu-Natal, Pietermaritzburg (Chair from November 2005)

Professor Christa van Wyk – Department of Jurisprudence, Unisa

Dr Jerome Singh – Centre for the AIDS Programme of Research in South Africa (CAPRISA), Doris Duke Medical Research Centre, Nelson R. Mandela School of Medicine, University of KwaZulu-Natal, Durban

Dr Mantoa Mokhachane – Chris Hani Baragwanath Hospital, Soweto

Dr Martin Bulmer – University of Surrey, United Kingdom (until 31 October 2005)

Dr Reidar Lie – Professor of Bioethics, NIH Department of Bioethics, University of Bergen, Norway (from 1 November 2005)

On 31 March 2006 the deputy chairs of the REC were Dr Mantoa Mokhachane, an external specialist member, and Dr Eric Udjo, a research director in the HSRC.

2.6 Council members' remuneration

Council members who are not HSRC staff members or government officials receive honoraria for the services they render to the Council in accordance with the relevant determination by the National Treasury.

Non-HSRC members of the Audit Committee are reimbursed on an hourly claims basis, according to professional fee schedules.

Where Council members are requested to provide additional advisory services to the HSRC on the basis of their professional specialities, they are reimbursed in accordance with the professional advisory fees recommended by the Auditor-General. These services include requests for a Council member to serve on interview panels for EDs, in accordance with an agreement reached with the Union (the Public Service Association) in 1998. During 2003/04, and prior to her becoming a member of the HSRC Council, Ms N. Gasa was appointed as lead consultant for an HSRC contract project dealing with women's role in transforming South Africa. Payments made for this service during 2005/06 are reflected in Note 6 of the audited Annual Financial Statements.

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2.7 Council members' interest in contracts

No contracts involving Council members' interest were entered into in the year under review.

2.8 Losses, irregularities and other matters

Losses or irregularities are referred to in Section 55(2)(b) of the PFMA, and defined in the Materiality Framework developed and agreed in terms of Treasury Regulation 28.1.5:

The Framework, adopted by the Council on 29 May 2003, contains detail on fiduciary duties of the accounting authority in terms of Section 50 of the PFMA, matters that must be reported in the Annual Report and Financial Statements (Section 55) and information to be submitted to the accounting authority (Section 54). In terms of Section 55, matters that must be reported on in the Annual Report and Financial Statements, the following were specified:

- (i) any material losses through criminal conduct and any irregular expenditure and fruitless and wasteful expenditure that occurred during the financial year. Materiality is defined as follows: In terms of losses through criminal conduct, any identified loss should be reported. Losses through irregular, fruitless, and/or wasteful expenditure should be reported if the combined total exceeds the planning materiality figure used for the year under review, in this case R0,59 million or 0,25% of the overall budget for 2005/06.
- (ii) any criminal or disciplinary steps taken as a consequence of such losses or irregular expenditure or fruitless and wasteful expenditure;
- (iii) any losses recovered or written off;
- (iv) any financial assistance received from the State and commitments made by the State on its behalf; and
- (v) any other matters that may be prescribed.

Two suspected instances of fraud were identified in the organisation during 2005/06. The CEO commissioned KPMG to conduct a full forensic audit. The joint sum amounts to approximately R72 000. Regarding each of the two instances, a thorough disciplinary hearing was held, following which it was recommended that the staff members concerned be dismissed. These recommendations were subsequently implemented.

The HSRC is satisfied that it has reliable measures in place to detect and address any such occurrences quickly. These are reflected in its financial policies and procedures, which include revised policies and procedures. In addition, the Council-approved anti-fraud plan and implementation framework will be further developed, communicated and implemented during 2006/07.

2.9 Judicial proceedings filed during the year

Two judicial matters relating to the HSRC were dealt with during the year. In the first, judgement was passed in the High Court in favour of the HSRC in respect of a long-running dispute over the retrenchment of a former senior employee during restructuring in 2001/02. In the second, the State commenced the prosecution on four counts of fraud of a former employee who was dismissed in 2004/05. The case is still *sub judice*.

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2.10 Review of the Human Sciences Research Council

2.10.1 The 2003 Institutional Review

The report of the 1997/98 System-wide Review of science councils and national research facilities in the country recommended that institutional reviews be undertaken on a five-yearly cycle to evaluate progress and implementation of earlier recommendations. During 2003/04 the DST entrusted to the Council the responsibility of providing terms of reference for and to oversee the process of an independent institutional review of the HSRC. The duly appointed Institutional Review Panel submitted their report to the Council in November 2003, following which the report was published and widely distributed for public comment.

Several high-level proposals and recommendations were made, addressing matters such as the following:

- Engaging with stakeholders on the role and public purposes of the HSRC, towards incorporating these in a new Act to be prepared in conjunction with the DST;
- Institutionalising and systematising its numerous collaborations with research partners, especially in higher education institutions;
- Further extending its outreach into the rest of Africa through projects and organisational partnerships, under the New Partnership for Africa's Development (NEPAD) rubric;
- Deepening and widening transformation in the organisation and its research activities, taking into account gender, disability and race and marginalised communities and individuals;
- Improving its management information systems and updating its policies and procedures;
- Addressing issues of data preservation, intellectual property and information sharing.

The recommendations of the Review Panel, and the Council's response to these recommendations, fed into the subsequent strategic planning process of the HSRC. In February 2004, the Council approved an ongoing process for implementing the main recommendations of the Review which was initially led by 13 task teams. These task teams progressed with putting in place plans for implementing recommendations, and the Council received regular reports on this progress at its quarterly meetings. By 31 March 2006, the work of some of these task teams had been concluded, whereas ongoing activities aligned with recommendations from the 2003 Institutional Review Panel had been integrated into the new strategic plan, performance objectives and institutional structure that were adopted and implemented in the latter half of 2005/06 (see Section 3 for more details).

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Specific progress made during 2005/06 in relation to recommendations put forward by the 2003 Institutional Review Panel is summarised below:

Engaging with stakeholders on the role and public purposes of the HSRC, towards incorporating these in a new Act to be prepared in conjunction with the DST

- The first version of a draft Bill prepared by DST was reviewed by the HSRC with inputs from the Council and internal and external stakeholders towards the end of 2004/05.
- Further consultation related to the draft Bill in 2005/06 informed the development of a Shareholder's Compact between the Minister of Science and Technology and the Council of the HSRC.
- Engagement with members of DST Review Panel in February 2006 and ongoing engagement with political stakeholders such as the Portfolio Committee on Science and Technology is expected to inform further refinement of the draft Bill in the course of 2006/07, in preparation for a legislative process.

Implementing and systematising collaboration with research partners, especially in higher education institutions

- In September 2005, a meeting of Higher Education South Africa (HESA), the national association of the country's vice-chancellors, was addressed by the CEO of the HSRC on opportunities for strategic partnership between the HSRC and the higher education sector.
- A follow-up workshop involving almost all of the 23 universities represented by HESA was held in February 2006 to explore concrete ways of expanding social science and humanities research and of accelerating the development of a new generation of researchers in line with national policy.
- The nature and scope of the mutually beneficial partnerships and collaboration will be informed at a first level by a HESA-HSRC memorandum of understanding (MoU), at a second by HSRC-university-specific agreements and at a third by agreements between the HSRC and specific programmes or research groupings at universities.

Further extending outreach into the rest of Africa through projects and organisational partnerships, under the New Partnership for Africa's Development (NEPAD) rubric

- The systematic strengthening of collaboration with multilateral agencies, such as NEPAD, was prioritised in the inaugural address of the CEO and in the strategic and business plans of the HSRC.
- Discussions have been held, and will continue, both with the NEPAD secretariat and with bodies such as the Council for the Development of Social Science Research in Africa (CODESRIA). A memorandum of understanding between NEPAD and the HSRC was signed in 2005, while a memorandum of understanding with CODESRIA was developed and is expected to be finalised soon.
- An International Liaison unit was re-established in the Office of the CEO and the recruitment of a director successfully concluded.
- Collaborative work with research counterparts in other parts of Africa is continuing, with particular reference to work undertaken under the auspices of the predominantly donor-funded Social Aspects of HIV/AIDS Research Alliance (SAHARA).
- Other initiatives, notably dealing with research activities in other parts of Africa and the HSRC's engagement with NEPAD and its appropriate substructures, are highlighted elsewhere in this Annual Report.

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Deepening and widening transformation in the organisation and its research activities, taking into account gender, disability and race and marginalised communities and individuals

- The first African, female president and CEO of the HSRC was appointed on 1 August 2005. Strategic objectives set by the new CEO include a renewed and more detailed focus on staff representativeness at all levels.
- A cross-cutting Gender and Development unit has been established to ensure gender mainstreaming within the organisation. Its activities include research, external collaboration and training programmes for HSRC staff.
- A survey of staff perceptions of the HSRC and a "Gender Audit" were undertaken in 2005. Issues arising in relation to gender, race and disability are being addressed on a number of fronts under the direction of the CEO, for example through recruitment policy and leadership development interventions. Training in gender sensitivity will be offered to all staff during 2006/07 under the auspices of the Gender and Development unit.
- The introduction of "implementation networks" as a requirement for large research projects in the HSRC is intended to ensure that the needs of all relevant stakeholders, including marginalised communities, are accounted for in research design, execution and follow-up implementation.
- The new strategic direction also prioritised the research needs of marginalised communities by refocusing the HSRC research agenda on poverty, HIV/AIDS, service delivery, unemployment and quality of education. Furthermore, a new policy unit was introduced to focus on assessment of the impact of policies and programmes on the quality of life of South Africans, the majority of whom are still poor.
- Infrastructural improvements to make the HSRC's buildings fully compliant with the disability requirements of the Occupational Health and Safety Act are planned for the 2006/07 financial year.
- Shared values such as independence, non-discrimination, tolerance of diversity, honesty, integrity, respect, non-partisanship, innovation, diligence, responsiveness and collaboration are also being promoted in the work of the HSRC.

Improving management information systems and updating policies and procedures

- A COO was appointed following the internal restructuring of the HSRC in September 2005.
- The HSRC's own Research Management System (RMS), an integrated database, which is simultaneously accessible from multiple sites, was further developed and integrated into the organisation in 2005/06.
- Policies to regulate work in Human Resources (HR) and Finance were developed and approved. A new financial model to cost projects was developed. The introduction of streamlined and automated accompanying procedures, as well as staff training to support these initiatives, received ongoing attention.
- To accelerate the rebuilding of the HSRC's IT capacity, the network and backup support functions of IT were outsourced, the hardware and software platforms are being strengthened and improved arrangements for IT governance have been introduced.
- A new Supply Chain Management unit, an appropriate structure for risk management, and a dedicated Legal Services unit are being put in place.
- An electronic research library is being developed, and it is intended to increase the access of external users progressively.

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Addressing issues of data preservation, intellectual property and information sharing

- An in-house "knowledge management practices survey" project was undertaken during 2005/06, with findings and recommendations expected to be considered in 2006/07.
- An agreement was reached in principle with Stats SA, for it to become the repository of research data from the HSRC, making this accessible to the wider public.
- Oversight of the management of intellectual property rights is now provided by the Legal Services unit.

2.10.2 The 2006 DST review of institutional review reports of science councils

During February 2006, a review panel was appointed by the DST to review the institutional review reports for various science, engineering and technology institutions (SETIs) developed in the period 2001 to 2004. This second "wave" of institutional reviews was intended to assess the extent to which institutions have implemented the generic and specific recommendations of the 1997/98 System-Wide SETI Review and to identify universal problems with implementation and the related implications for the governance of the science and technology system.

Members of the HSRC Council and executive management team met with the 2006 Review Team on 9 February 2006. Discussions during this meeting also focused on new strategic objectives for the HSRC and the SETI environment in general. A report emanating from this system-wide review process is expected to be published during 2006/07.

2.11 Self-assessment of performance

The Protocol on Corporate Governance was developed for public entities such as State-owned enterprises and national government business enterprises, to ensure adherence to requirements outlined in the King II Report. As a national public entity, the HSRC is not formally bound by all the provisions of the Protocol but nevertheless strives to adhere to the principles outlined in it. In terms of the Protocol, governing bodies should conduct regular self-assessments of their performance.

The Minister of Science and Technology is mandated to select and appoint members of the HSRC Council on a four-year term of office, following a broad consultative process. Any formal review of the size, mix of skills, expertise and experience in relation to the effective, efficient and accountable functioning of the Council thus needs to be undertaken in the context of the relevant legislation.

The Council reports on an annual basis on the overall performance of the HSRC against performance objectives and targets, using key performance indicators developed for this purpose. Section 10 of this report contains an overview of such performance during 2005/06. The Council will continue to report on performance against such objectives and targets in terms of the Shareholder's Compact that will be entered into with the Minister of Science and Technology with effect from the 2006/07 reporting year.

Although performance against such predetermined targets can be regarded as indicative of institutional performance, the Council wishes to state categorically that such performance measures provide but one perspective on the extent to which

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an organisation such as the HSRC, under the auspices of its Council, has responded to its public-purpose mandate. This full Council's Report for 2005/06 should therefore be regarded as further evidence of reflection on the performance of the HSRC Council during the year under review.

The Council has played a crucial role in overseeing the ongoing transformation of the HSRC, with particular reference to strategic interventions made by new CEOs in 2000/01 and 2005/06. In addition to engaging with strategic issues during quarterly meetings of the Council and its sub-committees, Council members also attend important strategic planning meetings of the HSRC, for instance the annual researchers' conference and strategic planning *lekgotla*.

Examples of major contributions made by the HSRC Council during 2005/06 include:

- strategic engagement with the development of a new HSRC Bill;
- the appointment of a new CEO;
- consideration and approval of a new strategic vision and organisational structure for the HSRC;
- high-level meeting with members of the DST-appointed Review Panel tasked with reviewing the slate of institutional review reports that followed on the 1997/98 review cycle;
- involvement in the development of a Shareholder's compact, to be entered into between the HSRC Council and Minister of Science and Technology;
- approval of several new policies and strategies, including a communication strategy, media policy, HR policies, new financial models, and the outsourcing of services such as IT.

2.12 Challenges remaining

Matters remaining high on the agenda of the HSRC Council and management team include:

- the refinement and subsequent promulgation of a new HSRC Act, informed by careful consideration of the mandated objectives – or public purposes – of a new HSRC;
- active involvement in conducting and co-ordinating research, while developing new models of research collaboration in consultation with higher education institutions and other role-players in South Africa, other parts of Africa and abroad;
- meaningful contributions to research capacity development at both individual and institutional level;
- transformation and empowerment of the workforce at all levels, so that disparities associated with race, gender and disability are eradicated;
- ongoing commitment to improving the quality and impact of its research;
- finding and channelling the resources – human, capital and institutional – to achieve organisational objectives and meet national needs in a systematic and sustainable way.

These challenges have been put into operation in terms of strategic objectives for the HSRC, as outlined in its three-year strategic plan for 2006/07 and beyond, and in its business plan for 2006/07.

2.13 Appreciation

The Council wishes to recognise the strategic leadership role played by Dr F.M. Orkin, former President and CEO, in

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transforming the HSRC from August 2000 until July 2005. It expresses its appreciation to Dr O. Shisana, new President and CEO, for the way in which she has already embarked on a process of consolidation and further transformation in the interest of the HSRC and the public-purpose mandate it serves. It supports the strategic direction and ethical values informing this new approach. Other members of management and staff of the HSRC are thanked for their support and the key contributions made to ensure that the work of the HSRC is regarded as relevant, non-partisan, accountable and excellent.

The professional and critical support from the Department and Ministry of Science and Technology is highly valued. The engagement of members of the Portfolio Committee on Science and Technology, as well as other structures of legislative bodies with issues relevant to the work of the HSRC, is appreciated.

The effective and efficient functioning of the Council and its sub-committees is highly dependent on the quality of services rendered by its Secretariat. The highly competent and dedicated support from the Council Secretariat as well as from related management and support structures in the HSRC are gratefully acknowledged.

3. Organisational developments

3.1 Consolidation and renewal: New vision, strategic direction and priorities

During 2005/06, the HSRC entered a new phase of institutional development when the Council appointed a new CEO and President for the organisation. Dr O. Shisana, the first African and female CEO, took office on 1 August 2005. In her inaugural presentation to staff on that day, she referred to past achievements as well as to new challenges. The task at hand was "to ensure that the progress that has been made is sustained whilst taking the organisation onto new heights".

The vision of the HSRC was newly formulated, as follows:

The HSRC intends to become a human and social sciences research council serving as a knowledge hub where public policy and discourse on current and future challenges for South Africa and the African continent are independently researched, analysed and informed, and where research-based solutions to human and social problems are developed.

The following strategic priorities were identified as "longer-term business objectives" in the HSRC's Strategic Plan for the period 2006/07–2008/09:

- to consolidate and strengthen its public-purpose research activities;
- to contribute to prioritised policy issues of national importance through the introduction of a cross-cutting policy unit;
- to strengthen research collaboration and network activities in partnership with institutions and individuals in other parts of Africa;
- to increase the relevance, utilisation and potential impact of human and social science research by means of implementation networks;
- to confirm the excellence of research work by emphasising peer-reviewed publication of scholarly articles by senior as well as emerging researchers;

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- to contribute to human capital development in the human and social sciences through the consolidation and expansion of research internship and fellowship programmes;
- to accelerate transformation in the HSRC, with particular reference to African representation in senior research and management positions;
- to retain and empower critical staff and skills in the HSRC; and
- to ensure the financial sustainability of the HSRC.

These strategic priorities build on key recommendations from the 2003 Institutional Review Panel, as listed on pages 24 to 25 of its report:

- strengthening administrative support services and systems to better support the requirements of research programmes and teams operating from several different offices and sites;
- deepening the transformation of the organisation, with particular reference to gender, staff representivity at senior levels, research needs of marginalised people, as well as communicating research findings to the public at large;
- developing opportunities and platforms to support research collaboration, networking and capacity development in the social sciences, across South Africa and the continent;
- engaging with issues related to intellectual property and the preservation and management of research data; and
- considering the formulation of its public purposes "as a statement of its *raison d'être* for inclusion in a new HSRC Act" (HSRC Institutional Review Report, 2003, p. 119), which could serve as "justification or warrant for receiving public funds", while simultaneously providing the HSRC with "a powerful set of criteria against which to judge its own actions" (HSRC Institutional Review Report, 2003, p. 97).

The HSRC subsequently arranged its new strategic mantra, also associated with sentinel indicators of institutional performance, according to the following headings:

P	Public purpose
A	Africa outreach
I	Implementation networks
T	Transformation
E	Excellence
C	Capacity development
S	Sustainability

The renewed vision and strategy for the HSRC necessitated the strategic realignment of its activities.

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3.2 Restructuring: Purpose, process and outcomes

As mentioned above, the new approach proposed by the CEO in August 2005 resonated closely with recommendations contained in the report of the 2003 Institutional Review Panel. It was further informed by a consultative process involving executive directors at a strategic planning *lekgotla*, and discussions with staff during meetings with the various units of the HSRC in Cape Town, Durban and Pretoria. A presentation to the Council at its meeting on 7 September 2006 outlined the need for internal restructuring, with the following objectives:

- to streamline institutional governance, by consolidating aspects of the excessively flat structure which required ten research programmes, as well as all support units, to report directly to the CEO;
- to promote greater synergy between cognate research initiatives, by grouping research areas into fewer but larger entities, thereby intending to eliminate counterproductive duplication;
- to help streamline donor support by consolidating related activities, aiming to eliminate harmful competitiveness and uncoordinated overlaps;
- to help increase critical mass and reduce administrative costs associated with multiple research programmes;
- to facilitate greater collaboration between research programmes; and
- to help sharpen the focus of HSRC research on important strategic issues.

Following Council approval, changes in the organisational structure were implemented with effect from September, taking into account the preferences of staff as far as possible, and without any losses.

Information on staff, projects and budgets captured on the Research Management System (RMS) was rearranged to reflect the new corporate structure. This enabled the organisation to continue with appropriate monitoring and reporting of performance in accordance with the new structure and accounting lines in a seamless manner.

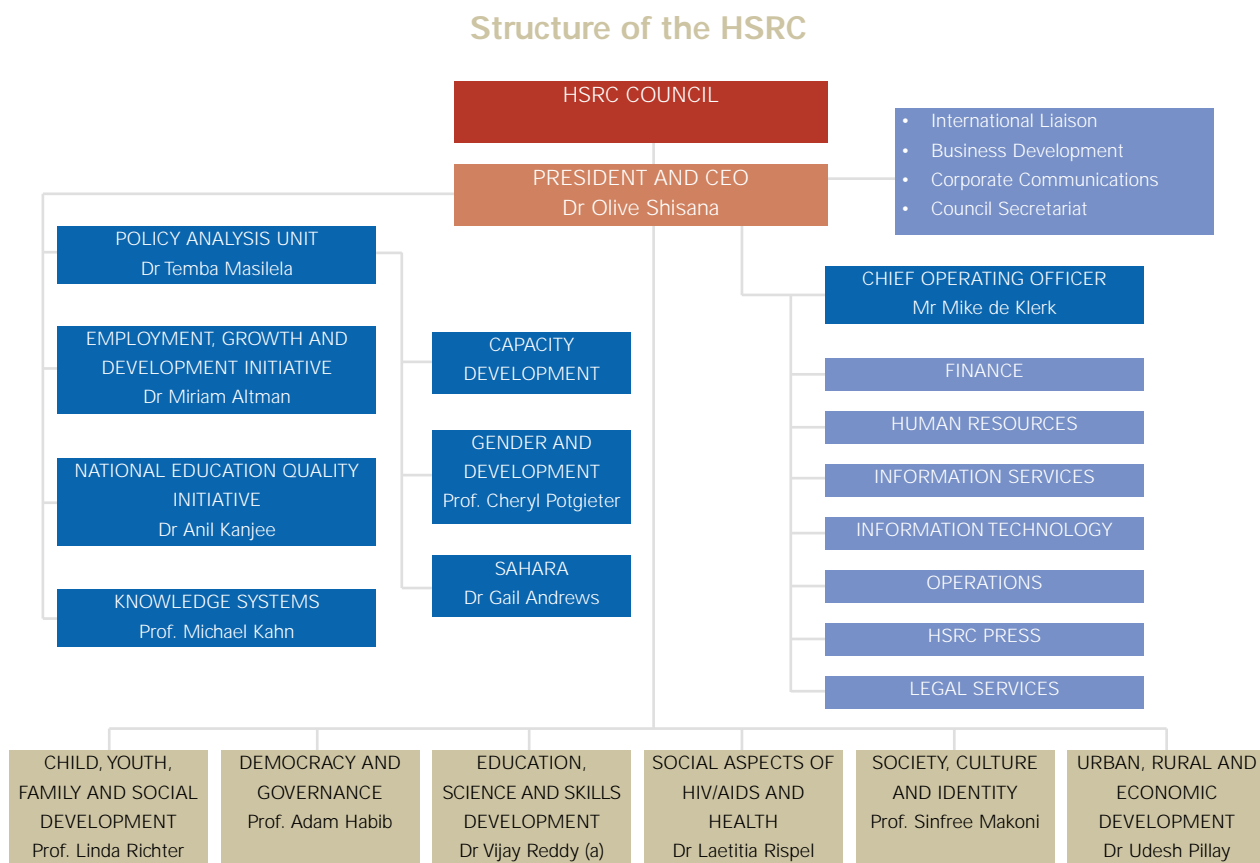
At 31 March 2006, the structure of the HSRC reflected the following:

- Six integrated research programmes (RPs), laying the foundation for HSRC work in undertaking, promoting and co-ordinating research in various problem-oriented research areas in the social sciences and the humanities. Through these programmes, the HSRC now provides single points of entry, with a critical mass of researchers for inter-disciplinary, problem-oriented research in these areas;
- Five cross-cutting units, intended to help mobilise and co-ordinate the resources, knowledge and support required to address national and institutional priorities;
- Ten (plus one outsourced) functions in Support Services and the Office of the CEO, to ensure that the organisational needs with regard to infrastructure, research capacity, stakeholder relations, sustainability, accountability and governance are met.

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Figure 1: HSRC structure



3.3 Consolidation of the organisation's administration and infrastructure

3.3.1 Developments in the corporate support units

One of the outcomes of the internal restructuring process was the appointment of Mr Mike de Klerk as COO of the HSRC, to head up the support services of the organisation. This position was created to replace the former position of Executive Director: Corporate Services, a position that had been vacant for some time.

The duties of Chief Financial Officer (CFO) were incorporated into those of the COO. Units from the former Corporate Services that were retained in the newly restructured Support Services include Finance, HR, Information Services, Information Technology (IT), Publications and Operations. "Publications" refers to the publishing arm of the HSRC, also known as the HSRC Press, which was transferred from the Office of the CEO to Support Services as part of the restructuring process. New functions established in Support Services in the course of 2005/06 include Supply Chain Management and Risk Management. Legal Services will become an independent unit within Support Services, once transferred from the Business Development unit in the Office of the CEO, as of 1 April 2006.

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The Office of the CEO retained strategic functions related to corporate governance and stakeholder relationship management. It provides strategic direction, communicates the work of the HSRC, represents the HSRC to key stakeholders, and supports fundraising activities. The CEO, in addition to leading the team in her office, steers the direction of the entire organisation along the path laid through the strategic plan and the business plan and also contributes to the intellectual activities of the organisation in areas relevant to her own research expertise.

Units in the Office of the CEO include Business Development, Corporate Communications, Council Secretariat and International Liaison. The Council Secretariat also serves as contact point for the outsourced internal audit service. As part of the restructuring process, the former executive director in the Office of the CEO was entrusted with the responsibility of establishing the new cross-cutting unit for Capacity Development.

By 31 March 2006, there were 128 administrative staff members on permanent or longer-term contract appointments in the HSRC. This is down from the 136 reported in March 2005. Of the 128 administrative staff by the end of 2005/06, 92 were based in Pretoria, 22 in Cape Town and 14 in Durban.

Senior appointments and resignations in support units during the year under review include the appointment of a new head of International Liaison as of 1 March 2006 and the resignation of the head of Information Technology (IT) as of 28 February 2006. The contractual appointment of the director responsible for the Editorial Board of the HSRC Press expired on 31 March 2006.

3.3.2 Management, communication and monitoring systems

Policies and procedures

The process of policy and procedure formulation begun in 2004/05 to provide a clear, formal set of principles and operating framework for the activities of the HSRC has been accelerated substantially in 2005/06. This initiative was required to provide a consistent approach in the application of administrative transactions that would in future be operated online, and also to provide clear guidance to staff on organisational best practice and legislative requirements, without creating a highly bureaucratic environment. The preparation of these policies is important to ensure good governance. Care has been taken to involve relevant stakeholders in the refinement of draft policies and procedures and to ensure compliance with legislative frameworks.

To introduce uniformity into the content, format and process of policy formulation and approval itself, a "policy on policies" was approved by the Council in November 2005. The comprehensive set of HR policies approved by the Council at the same meeting was compiled in compliance with this policy. The value of these policies, particularly in guiding the resolution of the many difficult issues that are the daily fare of HR and financial management, has since been demonstrated repeatedly. Policies approved earlier in the year that have proved no less valuable in their respective spheres concern communications, media relations and telephone management.

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Further sets of policies for finance, supply chain management, IT, information services and buildings and facilities are currently being developed. Also in the process of development are an overarching Code of Ethics, to complement the Code of Conduct for staff, and the HSRC's Code of Research Ethics.

Meetings

The cycle of regular meetings to ensure ongoing communication and sharing of information among research managers and their counterparts in support services has been sustained during the review period. Some changes intended to rationalise and streamline corporate meetings were introduced in January 2006.

The format of the monthly "ED Workshop" meetings was changed to allow for quarterly meetings of the CEO, COO and EDs to focus specifically on strategic issues affecting the organisation. This forum is critical to the strategic management of the HSRC. An extended meeting structure, consisting of the CEO, COO, EDs, heads of cross-cutting units and heads of units in Support Services and the Office of the CEO, was established to focus on more operational issues affecting the organisation as a whole. This structure, known as the Senior Operations Meeting, meets on a monthly basis except for the months when quarterly ED Workshops take place.

A new initiative aimed supporting direct communication between the CEO and staff in different units was introduced. Facilitated by the Corporate Communications unit, structured meetings between the CEO and staff in different programmes and offices will in future take place on a six-monthly basis. The agenda for such meetings is open and staff are encouraged to raise issues on their minds without fear. This is critical to enabling staff to contribute to a better working environment and to build trust in the organisation.

The annual research conference, held on 27 and 28 July 2005, provided opportunities for internal networking and knowledge sharing. This annual event will be expanded in 2006/07 to provide a venue for national networking in the human and social sciences. A conference call, jointly administered by the Africa Institute of South Africa (AISA) and the HSRC, was launched in January 2006.

Strategic planning takes place at research programme/unit as well as at corporate level. Newly structured research programmes and cross-cutting units held their own *lekgottlas* in preparation for, and subsequent to, the two-day annual corporate *lekgotla* held on 17 and 18 November 2005.

The video-conference venues of the HSRC are constantly booked to accommodate meetings at project, unit and corporate levels. Regular ED Workshops, Senior Operational Meetings, Research Business Meetings (RBMs) and meetings of the REC involving staff from across the HSRC benefit greatly from this facility. The popular HSRC seminar series is open to HSRC staff as well as external guests in Cape Town, Durban and Pretoria. International visitors have been able to engage with staff from three offices during official visits to the HSRC.

HSRC staff have access to collective bargaining in terms of the recognition agreement between Management and the Public Service Association (PSA) signed on 9 May 2002. The Council approved a request that salary negotiations for 2006/07 be moved earlier so that the new implementation date for cost-of-living-related salary increases would be 1 April

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as opposed to 1 July. Thus, two rounds of salary-related negotiations were successfully concluded during the year under review. Agreement on a 5,7% across-the-board salary increase with effect from 1 July 2005 was reached between Management and Union representatives on 26 October 2005, and agreement on a 6% across-the-board increase, with effect from 1 April 2006 was reached on 30 March 2006.

Research Management and Performance Appraisal Systems

The Research Management System (RMS) was further refined and used as the primary source of management information during 2005/06. A *lekgotla* involving support staff responsible for capturing RMS data was held during August 2005 to increase awareness of the value and importance of this management tool and to identify issues of concern to be addressed by means of communication with key stakeholders, as well as ongoing system improvements.

User-friendly report formats generated from the RMS enable HSRC staff and managers alike to access relevant management information with regard to anticipated and actual income and expenditures, project progress against planned targets, research outputs, and many more.

The performance appraisal system of the HSRC is aligned with strategic organisational objectives. Up to March 2006, rubrics under the COUPE (**C**ontracts, **O**utreach, **U**ser needs, **P**erformance, **E**xcellence) were used to arrange generic key performance areas (KPA's) of all staff members of the HSRC, and also to arrange organisational key performance indicators (KPIs) that are used as the framework for setting performance targets, and to monitor and manage performance accordingly.

As of 2006/07, institutional and individual performance areas and indicators will be considered in the context of PAITECS (**P**ublic purpose, **A**frica outreach, **I**mplementation networks, **T**ransformation, **E**xcellence, **C**apacity development and **S**ustainability).

3.3.3 Investments in research infrastructure

In a year in which the budget available for capital improvements was small, two important improvements to research infrastructure were implemented. An additional 1 000 square metres of floor space was leased to consolidate the Cape Town office and to accommodate the rapid growth in staff – now more than 100 – housed in that office. The accompanying renovations have enabled all of the staff of the Social Aspects of HIV/AIDS and Health (SAHA) research programme to be located on the same floor and have incorporated the innovative and attractive use of open planning for work-stations. The upgrading of currently unused floor space on the 9th floor of the HSRC Building in Pretoria is planned for 2006/07.

A virtual improvement affecting all members of research staff was the implementation of e-library services, employing software now widely used in other parts of the world. The system offers a wide range of time-saving services, including remote access to the HSRC's catalogue and to the collection of more than 45 000 full-text journal titles to which the library subscribes. Extending these facilities to external users will in coming years help realise the vision for the HSRC of becoming a knowledge hub for the social sciences in Africa.

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Although the actual investment will occur only in 2006/07, the foundations for the most significant improvements in research infrastructure in many years were laid in the months following the new CEO's appointment. During this time, a contract was signed with Choice Technologies to outsource the maintenance of the IT network, desk support and infrastructure. The award of the contract involved undertaking a thorough due diligence investigation to determine the improvements needed to stabilise the HSRC's infrastructure platform. Arising out of this, a programme for remediation was proposed and has now been approved for implementation as early as possible in 2006/07.

Accompanying this, a strategy for the long-term development of IT was formulated by the director: IT, the essence of which is to introduce e-research techniques – now standard practice in many other parts of the world – into the HSRC. This strategy, too, has been approved and an application to National Treasury to fund the major investments in infrastructure involved is being prepared.

3.4 Developments in the research programmes and cross-cutting units

Following the internal restructuring process that took place in September 2005, the research portfolio and associated cross-cutting initiatives were arranged as follows:

TABLE 1: RESEARCH PROGRAMMES AND CROSS-CUTTERS AS AT 31 MARCH 2006

Six integrated research programmes:			
Name of programme	Acronym	Executive director	Headed from
Child, Youth, Family and Social Development	CYFSD	Professor Linda Richter	Durban
Democracy and Governance	D&G	Professor Adam Habib	Pretoria
Education, Science and Skills Development	ESSD	Dr Andre Kraak	Cape Town
Social Aspects of HIV/AIDS and Health	SAHA	Dr Laetitia Rispel (from 1 March 2006)	Pretoria
Society, Culture and Identity	SCI	Dr Xolela Mangcu (until 31 December 2005)	Pretoria
Urban, Rural and Economic Development	URED	Dr Udesch Pillay	Pretoria
Five crossing-cutting units:			
Name of unit	Acronym	Executive director	Headed from
Capacity Development	CD	Dr Romilla Maharaj	Pretoria
Gender and Development	GD	Professor Cheryl Potgieter	Pretoria
Social Aspects of HIV/AIDS Research Alliance	SAHARA	Dr Gail Andrews	Pretoria
Policy Analysis Unit, currently housing two national initiatives:	PAU	Vacant	Pretoria
<i>National Education Quality Initiative</i>	NEQI	Dr Anil Kanjee	Pretoria
<i>Employment, Growth and Development Initiative</i>	EGDI	Dr Miriam Altman	Pretoria
Knowledge Systems	KS	Professor Michael Kahn	Cape Town

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By 31 March 2006, there were 152 research staff members of various categories on permanent or longer-term contract appointments in the HSRC. Of these, 81 were based in Pretoria, 55 in Cape Town and 15 in Durban. This represents a decrease in relation to the number of researchers in the HSRC in the course of the last two years, namely from 156 in March 2004 down to 154 in March 2005, and now down to 152 (118 researchers, 17 research interns and 17 research field-workers) by 31 March 2006. The newly established Capacity Development unit, with support from research programmes, the HR directorate and external stakeholders, will play an important role in introducing a more co-ordinated and sustained approach to the HSRC's internship programme.

Senior resignations or transfers in research and cross-cutting units during the year under review include Dr Olive Shisana, ED of SAHA, who left a vacancy as of 31 July 2005 when taking up her appointment as new CEO of the HSRC, Dr Xolela Mangcu, ED of SCI who resigned with effect from 31 December 2005, and Professor Mokubung Nkomo, Distinguished Research Fellow, who reached normal retirement in November 2005. Two research directors (one in the former Surveys, Analyses, Modelling and Mapping (SAMM) research programme, the other in CYFSD) left the HSRC in the course of the year upon resignation or expiry of contractual appointment. Senior appointments during 2005/06 include those of Dr Laetitia Rispel, ED of SAHA from 1 March 2006, and two research directors – one in SAHA, the other in URED.

Information on research projects and related activities in the research programmes and cross-cutting units are provided in section 4, below. More information on activities and achievements of research programmes and cross-cutting units is also provided elsewhere in this Annual Report.

4. Review of research activities

4.1 Earnings from research contracts and grants

The financial sustainability of the HSRC is dependent on sufficient levels of funding achieved from the Parliamentary grant allocation augmented by income achieved from other sources, particularly from research contracts and grants. This increased reliance on income sources other than the Parliamentary grant enabled the HSRC to expand its researcher capacity and to respond to a broader range of current and anticipated user needs. However, the HSRC remains mindful of the risks of financial exposure and changes in the organisational research climate that might be associated with setting inordinately high external income targets.

The Council, particularly through its Research Committee, has in the past identified the dependency on external research funding as a potential risk to the quality and independence of HSRC research. While acknowledging that short-term, relatively low-income, research contracts undertaken for South African government departments are often the best vehicles to ensure engagement with relevant decision-makers and eventual research implementation and impact, a balance needs to be struck between different types and sources of research funding. The 2003 HSRC Review Panel also identified the pressure on researchers to achieve external targets as a source of concern, and South Africa's National R&D Strategy, approved by the Cabinet in July 2002, indicated that sufficient levels of core funding should be made available to science councils to ensure that they remain able to undertake "strategic research that is in the long-term national interest" (pp. 63, 82).

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The Council therefore welcomed the approach towards the achievement of external income targets highlighted by the new CEO in her inaugural speech, by the HSRC in its new marketing and fund-raising strategy, and in the emphasis on both "P" (public purpose) and "S" (sustainability, particularly by means of longer-term, larger grant allocations) highlighted in the new "PAITECS" strategic approach introduced in the strategic planning and budget documents for 2006/07 and beyond. In the three-year Strategic Plan for 2006/07 to 2008/09, a specific case for increased levels of Parliamentary funding was argued, aimed at gradually closing the gap between the levels of funding received from the Parliamentary grant and from extra-parliamentary sources.

The following principles will increasingly inform the HSRC's approach towards achieving its overall funding targets:

- The achievement of income targets is a shared responsibility, with the CEO and senior research managers carrying a heavier responsibility in terms of engaging with relevant decision-makers, opening doors to opportunities, and providing guidance and support to those preparing proposals as well as delivering on research projects.
- Three important prongs to the marketing and fund-raising strategy are endorsed, namely "growing the Parliamentary grant allocation", "improving access to public funds", and "securing research income from selected funding organisations".
- Externally-funded research projects should complement the broad strategic thrust and national priorities, identified as core areas of work for research programmes in the HSRC. Otherwise, the fragmentation of research efforts may lead to reduced efficiencies, unnecessary competition with other research organisations already active in other areas of work, and loss of potential impact.

The Council further recognised that this new approach to fund-raising will require more attention to stakeholder relationship management, an issue that will require careful co-ordination, attention to systems and human capacity development, and managerial support.

By the end of 2005/06, the HSRC had secured almost R119 million in external research income, 8% less than the target. This was mainly because the target for SAHARA was set too high for 2005/06; this has been corrected in 2006/07. More details on how the new financial model and funding strategy of the HSRC impacted on the management of the overall HSRC budget for 2005/06 are provided in section 5 below. Despite the reduced level of income generated, the HSRC in 2005/06 did not have a deficit. This was because the organisation was able to save approximately equal amounts of money as a result of fewer project activities and outsourcing services. Furthermore, a careful approach to cash flow management was in place. The final result was the realisation of a small surplus for the year under review.

While the HSRC has continually been able to exceed external research income targets set for previous years, the achievement for 2005/06 is not regarded as an immediate cause for concern. It should be noted that 2005/06 was an extraordinary year, which involved internal restructuring and some element of inward focus and consolidation before renewed attention could be focused on external funding opportunities and targets. Some units, particularly in cross-cutting areas, were newly established and required start-up funding. It is expected that these units will contribute to the achievement of external research income as of 2006/07.

The Council, also through its Audit Committee, and in conjunction with the HSRC management team, continues to monitor progress against external income targets. Rather than envisaging short-term corrective action only, the Council

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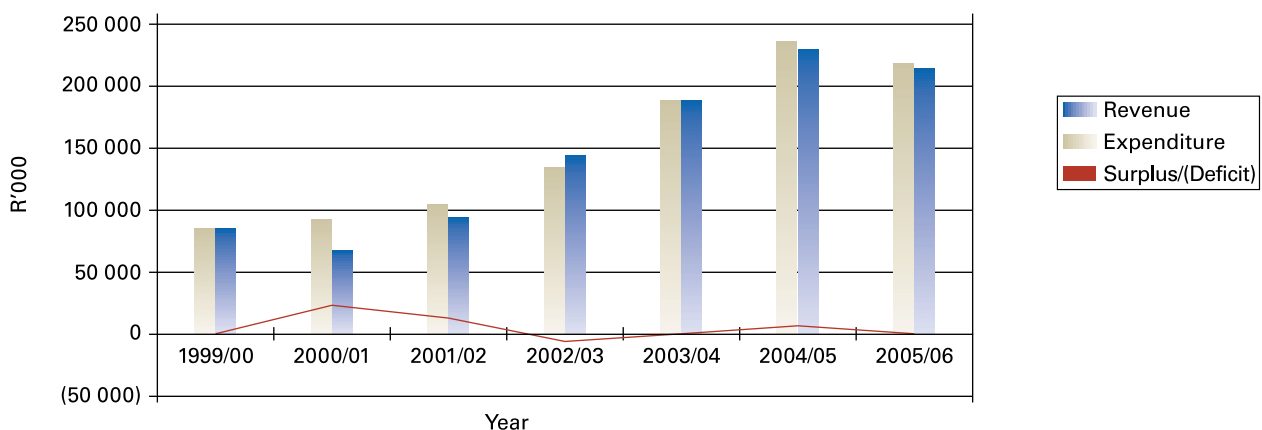
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believes that the longer-term sustainability of the organisation, particularly in achieving its public-purpose mandate, will benefit from relatively higher levels of public investment through the Parliamentary grant allocation.

Over the next two to three years the HSRC will develop a firmer idea of the sustainable balance between funding from the Parliamentary grant and the various forms of external income. Meanwhile, it is moderating the growth in its permanent payroll by the appropriate use of contract appointments. These aspects of risk will continue to be closely managed.

Figure 2 shows historical trends with regard to the generation and utilisation of research income over the past seven years. The growth in the blue bars in Figure 2 illustrates the combined effect of sharp increases in external research earnings, more recently further supported by increases in the Parliamentary grant and ring-fenced funding allocated to the HSRC. Table 2 also shows the respective surpluses or deficits realised at the end of the financial years concerned.

Figure 2: Income, expenditure, surpluses and deficits for the past seven years (in nominal rands)



The Parliamentary grant was R85,1 million for 2005/06, compared to R79 million in 2004/05 (see table 2 page 142). These amounts were augmented by additional ring-fenced funding received for work of the Centre for Science, Technology and Innovation Indicators (CeSTII) as well as other external income earned for research and non-research activities. The Parliamentary grant for 2005/06 thus increased in real terms, even after allowing for inflation, compared to the previous year.

As shown in table 5 in section 5, these figures then have to be adjusted for deferred income regarding depreciable assets at financial year-end. This is shown in the top row of table 2 on page 142.

The HSRC uses Parliamentary grant funding to undertake projects that anticipate research needs, handle tasks for sectors or communities of users that cannot afford to commission work, and leverage donor funds in shared undertakings. It also deploys funds from its Parliamentary grant allocation to help create and maintain research infrastructure, build

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external networks and internal capacity, and update technology.

The external research income from contracts and grants of approximately R117 million for 2005/06 appears in table 2 as separate lines: contract income totalling R112 million (from South African government departments, other South African sources, and international funding sources including foundation grants), and the ring-fenced grant. In addition, other lines in table 2 show that the HSRC also received income from research-related products and services, including book sales, royalties, and interest received on grant funds received in advance, as well as from non-operational sources such as rental income received on the HSRC Building in Pretoria.

When all these additional revenues (operational and non-operational) from sources other than the Parliamentary grant are summed, and taken as a share of total HSRC revenue, the resulting proportion, for each of the past five years, continued to grow: from 31% in 2000/01 to 64% in 2004/05 and now 61% in 2005/06 – from less than one-third to almost two-thirds of the total revenues of the HSRC. The need to achieve more balanced levels of funding – nearer to a 50% proportion of external revenue – has been recognised as a strategic organisational objective.

TABLE 2: HSRC INCOME FOR 2004/05 AND 2005/06

Funding source	2005/06				2004/05	Actual 2005/06 vs actual 2004/05
	Budget	Actual	Variance budget vs actual	% of total	Actual	
	R'000	R'000	R'000	%	R'000	%
Parliamentary grant – core funding	84 458	85 130	672	-4	79 198	7
Utilised for research	0	78 333	78 333	-392	73 701	0
Utilised for institutional costs	0	7 469	7 469	-64	6 359	90
Deferred income	0	(672)	(672)	4	(862)	-22
Project-specific (ring-fenced) Parliamentary grant	4 500	5 000	500	-3	4 000	25
External contract funding	138 047	112 456	(25 590)	136	135 705	-17
Income from intellectual property (patents, royalties, etc.)	0	37	37	0	117	(1)
Commercial services	600	1 440	840	-4	902	1
Non-operational income – rent received	8 078	6 067	(2 012)	11	8 501	(0)
Non-operational research income – other	0	5 682	5 683	-30	8 527	(0)
Non-operational research income – investment income	100	1 191	1 091	-6	458	2
Total	235 783	217 003	(18 780)	100	237 408	-9

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A positive trend in terms of external research income is the number of larger-scale, multi-year projects, providing more security in terms of future external research earnings. The result is that the HSRC commenced the 2004/05 and 2005/06 financial years with more than half of the target for external research earnings already under contract, and is entering the 2006/07 financial year with almost half of its external earnings already secured in the form of signed contracts.

4.2 Changing composition of research earnings

During 2005/06, the HSRC responded to a broad range of tender and grant opportunities. Information on new funding applications submitted in this period was captured by the Business Development unit as well as administrators in research programmes and cross-cutting units. Some 163 proposals submitted to external sources of funding were analysed (153 in 2004/05). The overall success rate among these 163 proposals, for which an outcome was known by May 2006, was 65% (compared to 54% at a similar stage in 2004/05). The HSRC understands that these rates are well above the average of international standards for similar development-research organisations; this is partly attributable to the HSRC's selective responses to such opportunities and partly to the quality of the submissions.

The tender invitations to which the HSRC responds are typically issued by South African government departments or public entities, at national, regional or local level. International competitive tenders, i.e. defined by the users and with predetermined closing dates, are also predominantly issued by publicly funded agencies. Some 89 proposals in response to competitive calls of this kind were recorded during the 2005/06 financial year (106 in 2004/05). The success rate, on information available at May 2006, was 51% (compared to 43% in 2004/05). If only South African competitive tender applications are taken into account, some 31 tender proposals were recorded. Of these 22 were known successes by May 2006. This represents a resounding success rate of 71%. It seems as if the HSRC has learned to become much more selective in its responses to South African tender invitations as of 2005/06, thus having a better chance of being successful. This more selective approach should place less pressure on researchers who are often pressed for time to submit proposals in response to South African tender invitations, and reflects the principles informing the HSRC's new approach to fund-raising. During 2004/05, some 63 South African tender proposals were submitted, but only 19 of these were successful – a success rate of 30%. Similar, relatively low, success levels were recorded in 2002/03 (25%) and 2003/04 (32%).

Over and above the regular Research Business Meetings, funding opportunities are also identified when potential collaborators – often from international research institutions – approach HSRC research leaders directly with the request to participate in proposals. Research leaders are similarly selective in their responses to such invitations, requiring that their participation would add competitive advantage to the proposal, and that the proposal itself should fit in with HSRC research priorities and the development needs of South Africa.

Another risk that needs to be addressed prior to submitting such funding proposals – particularly for large, multi-year research grants – is the possibility of the HSRC under-recovering its overhead costs on such a project. The HSRC will either have to “walk away” from funding opportunities where donors are inflexibly prescriptive about levels of allowable overhead costs or seek to secure co-funding for part of the project, should this be deemed of national importance.

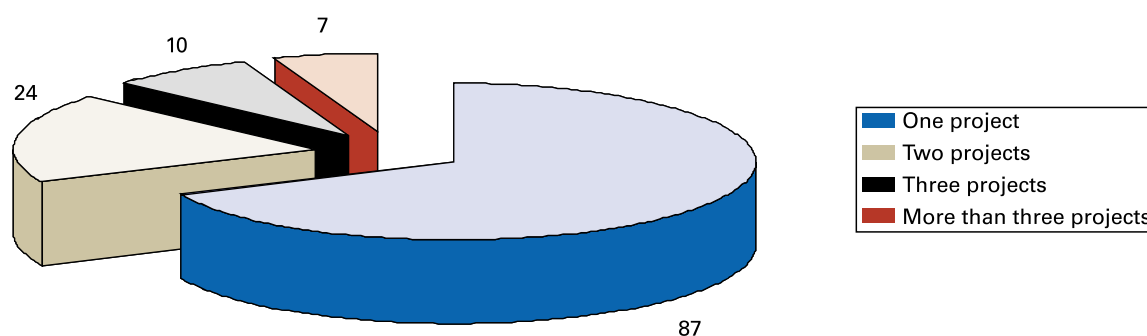
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Potential funders are increasingly approaching the HSRC with direct requests to submit proposals for research work that needs to be undertaken. Some are follow-ups, after successful completion of an earlier project. Others represent "restricted" or "closed" tender opportunities where a few (and sometimes only one) selected potential service providers are requested to submit proposals. Fifty-three of the funding applications recorded in 2005/06 were prepared following a direct request from the potential funder (42 in 2004/05). Of these, 51 (96% of the applications submitted) were known to be successful by May 2006, with a further two still awaiting feedback. The corresponding success rate recorded for 2004/05 was 86%.

When analysing projects supported by external funders in 2005/06, the value of "repeat customers" becomes evident. Of 208 different projects considered, almost 60% (121 projects) were funded by organisations that were willing to support more than one HSRC project during the 2005/06 financial year. The range of "multiple customers" included South African government departments, non-government organisations, international development agencies as well as local and international foundations. Each multiple funder supported anything between two and 14 projects – obviously varying in size, duration and research topic – during 2005/06. Figure 3 provides a visual overview of this analysis.

Figure 3: Number of funders supporting one or more HSRC projects



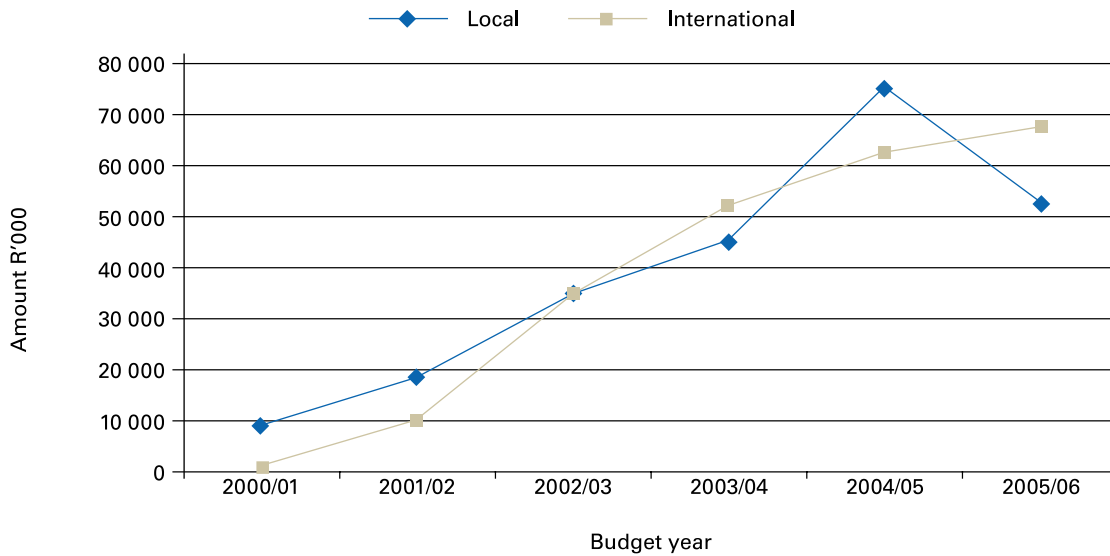
The HSRC has started to reap the benefits of submitting proposals to international and national foundations or grant-making agencies. Such agencies often allow applicants to determine the research problem and approach within a specified broad thematic area.

A corollary of the increase in foundation and international competitive grants is that the proportion of the HSRC's support from international sources has risen over recent years. This extends the science and technology (S&T) funding base of the country as a whole, and the benefits are experienced not only by the HSRC but also by its collaborators on these projects in higher education institutions and NGOs. The grey line in figure 4 shows how the level of external income from international sources has risen over the last six financial years.

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Figure 4: Local and international sources of external research funding



The mixture of tenders, requests and grants described in this section, and of local and international sources, has ensured the HSRC's growth and financial sustainability. This has in turn enabled the HSRC to extend the range and quality of its services to its users and thereby to its wider beneficiaries in South Africa and beyond.

4.3 Nature and distribution of research projects and associated earnings

During 2005/06, 248 research projects were undertaken. The major share of research earnings continues to be accounted for by longer-term, large-scale, externally funded projects. Seventy-four of the 248 research projects can be described as "large", in the sense that they had recorded income of at least R500 000 for the year. Table 3 shows the 20 largest research projects undertaken in the HSRC during 2005/06, in terms of project income. This table displays the amounts received for research during the reporting year, to a total of R79,4 million, for the top 20 projects. Of this amount, almost R70 million was received from sources other than the Parliamentary grant. It is striking that the external income component of approximately 8% of the research projects registered in 2005/06 contributed to almost 60% of the HSRC's external research turnover of R117 million for the year. The Parliamentary grant contributed almost R10 million to these "top 20" projects, all of which were undertaken in the national interest. Furthermore, it is noteworthy that several of these projects benefited from grants made available by a number of funders with an interest in supporting work that is regarded as being in the public good. Most of these projects extend over two to three years. This serves as a practical illustration of the "Sustainability" requirement set for the HSRC under the new "PAITECS" strategic approach.

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TABLE 3: TOP 20 RESEARCH PROJECTS FOR 2004/05

Research project	External funder	External income R'000	Parl. grant R'000	Total R'000
OVC Project: 3 Countries (Botswana, South Africa and Zimbabwe)	W.K. Kellogg Foundation	14 448		14 448
SAHARA	Canadian International Development Agency (CIDA) UK Department for International Development (DFID) Directorate-General for International Co-operation (DGIS), Netherlands Ministry of Foreign Affairs Ford Foundation	12 682		12 682
Project Accept	National Institute of Mental Health, via University of California	6 281		6 281
SABSSM II Main Study	Centers for Disease Control and Prevention Nelson Mandela Foundation Swiss Agency for Development and Co-operation	4 527	500	5 027
Research and Development (R&D) Survey	Ring-fenced amount from DST	4 944		4 944
HSRC Surveys Programme (SASAS)	Subscribers	963	3 660	4 623
National survey on attitudes and perceptions of South Africans on issues related to the Municipal Elections	Independent Electoral Commission	3 533		3 533
Permanent Residents Registration Survey	Department of Home Affairs	3 505		3 505
Lesotho Highlands Water Project: Further phases: Feasibility Study for Phase II	Lesotho Highlands Development Authority	2 794		2 794
Birth to Twenty Study	Wellcome Trust	2 693		2 693
Social Grant Beneficiaries	Geospace International	2 665		2 665
OVC Technical Assistance	W.K. Kellogg Foundation	2 351		2 351
Race and Redress	Charles Stewart Mott Foundation Ford Foundation Konrad Adenauer Foundation	1 237	1 319	2 556

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Research project	External funder	External income R'000	Parl. grant R'000	Total R'000
Knowledge Management Conference	DST	2 080		2 080
HRD Review 2006			1 850	1 850
Quality Learning Project	JET Education Services	1 602		1 602
Identity, Africa and the World Distinguished Lecture Series	Institute of International Education Nelson Mandela Children's Fund Nelson Mandela Foundation Open Society Initiative for Southern Africa	592	982	1 574
Urban Development Implications of the FIFA World Cup 2010 on South African Cities			1 518	1 518
Gender Violence and HIV Risk Reduction in South Africa (Men's Grant)	National Institute of Mental Health (NIMH), via University of Connecticut, USA	1 386		1 386
Africa Genome Initiative – Phase 3 Kenya Conference	Bill and Melinda Gates Foundation Ernest Oppenheimer Memorial Trust Nelson Mandela Foundation	1 332		1 332
		69 615	9 829	79 444

The table further illustrates the broad range of the HSRC's funding base. Government departments, civil society as well as international and South African foundations are included in the impressive list of top HSRC research funders for the year under review. These large-scale projects also entailed significant levels of engagement with external stakeholders, given the frequency of survey-type studies and conference engagement supported.

4.4 Deployment of the Parliamentary grant

The HSRC receives a Parliamentary grant in order to implement its statutory public-benefit mandate, to undertake, stimulate and promote policy-relevant, applied social science research that contributes to the development of South Africa and the region, and particularly the advancement of its inhabitants who are poor, vulnerable or marginalised.

The Parliamentary grant is the HSRC's largest single, and most predictable, source of income. However, there are limits to what can be achieved with the Parliamentary grant allocation. During 2005/06, the Parliamentary grant contributed to less than half of the HSRC's total research turnover. The size of the HSRC's annual salary bill alone exceeds its entire Parliamentary grant. The HSRC therefore needs to apply Parliamentary grant funds in the most strategic and beneficial way possible.

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Table 2 in section 4.1 shows that some R73,7 million of the Parliamentary grant of R85,1 million for 2005/06 was directly allocated to research activities. Of this amount, approximately R40 million was spent on research projects, as reflected in figure 5 below, while some R32,7 million was applied to research capacity building and to infrastructure support within the research programmes. The remaining, relatively small, proportion of the Parliamentary grant is used for institutional costs required to maintain basic research infrastructure and respond to responsibilities as a public entity. The Parliamentary grant is allocated following a strategic planning *lekgotla* and meetings of senior management where emerging priorities and the overall budget targets for the HSRC are considered.

Parliamentary grant funds are spent on research projects of strategic or developmental relevance where

- "market failure" is evident, and the proposals were able to stand the test of external peer review;
- the HSRC uses some of the Parliamentary grant to "seed-fund" a new initiative where external funding might be obtained in future;
- external funders, notably South African government departments or international donor or aid agencies, require co-funding from recipients; and
- the coverage or quality of the study may be improved, to public benefit, by co-funding, for example increasing the size of the sample to enable policy-relevant breakdowns.

Examples of research projects in the first category include the longitudinal international Trends in Mathematics and Science Study (TIMSS), which has evidently informed the initiatives introduced by the national and provincial departments of education to prioritise mathematics and science education; a study aimed at analysing the relationship between exchange rates and employment, and work dealing with urban development implications of the FIFA World Cup 2010 on South African cities.

The SAHARA research network provides an example of HSRC initiatives that were initially supported with seed funding from the HSRC Parliamentary grant but subsequently became virtually independent in terms of financial sustainability. An ambitious, multi-disciplinary and multi-dimensional research project on South Africa's role in Africa has also benefited from an initial investment of Parliamentary grant funding, following which a range of potential funders were approached for co-investment in this study.

Examples of projects in the third category include a stocktaking report on mother-tongue and bilingual education in Africa, of interest to international development agencies including UNESCO, education authorities in South Africa as well as stakeholders ranging from textbook developers to parents and educators. The Birth to Twenty study, funded by the UK-based Wellcome Trust, is another example of a project in the third category.

Various separately commissioned studies focusing on indicators of child well-being benefited from support described in the fourth category, through value-adding comparative work, creating synergy and higher levels of understanding as a result.

The contributions made by research programmes, in the Highlights and respective programme sections of this Annual Report, provide more detailed discussion of projects supported by the Parliamentary grant, their importance and impacts.

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Figure 5 shows that 91 of the 248 research projects undertaken during 2005/06 were supported in full or in part by the R40 million of the Parliamentary grant assigned in this way. Figure 6 shows the relative amounts of funds allocated to the different forms of support for research projects in the HSRC.

Figure 5: Sources of project funding

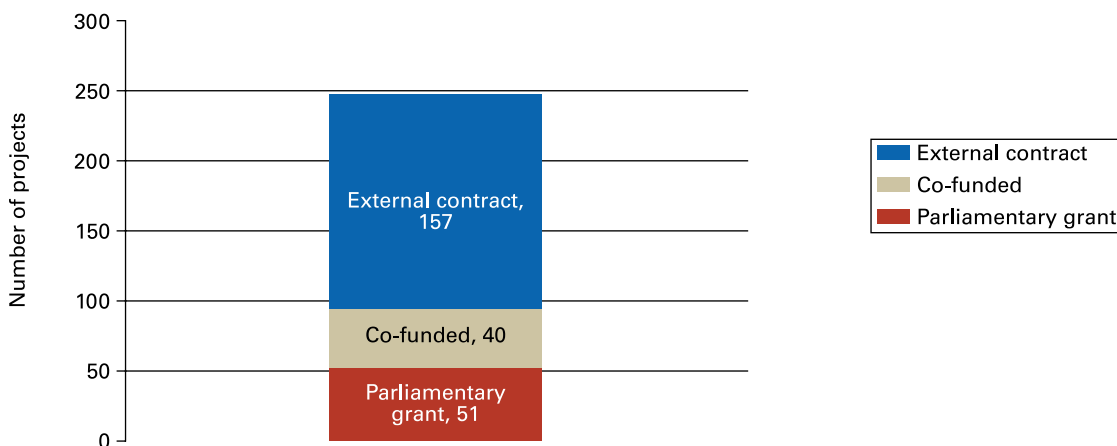
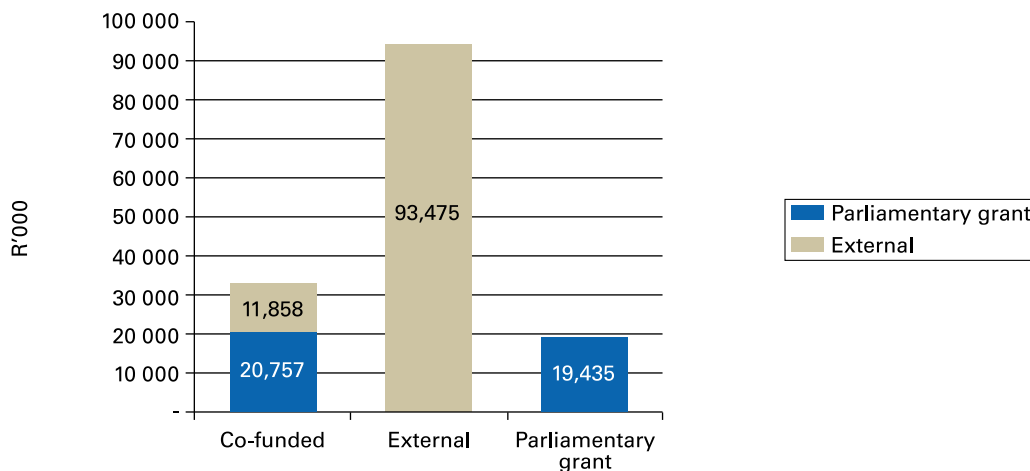


Figure 6: Utilisation of research income



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4.5 Outreach to collaborators and stakeholders

The 2003 Institutional Review Panel recommended that the HSRC should develop opportunities and platforms to support research collaboration, networking and capacity development in the social sciences, across South Africa and the continent.

Collaboration with researchers outside the HSRC has become quite frequent, in research projects with Parliamentary as well as external funding. During 2005/06, 67% of 248 HSRC research projects recorded payments to external collaborators. The relationships span South Africa, the SADC countries, the rest of Africa and industrialised countries. The corresponding figure reported for 2004/05 was 51% of 283 projects, or 144 research projects. HSRC projects across the range, but especially the larger ones, involved significant collaboration with outside researchers with specialised knowledge or networks in areas of mutual interest. The number of client reports authored or co-authored with researchers outside the HSRC, as reflected in the list of publications elsewhere in this Annual Report, is also an indication of meaningful collaboration with external research partners.

Collaboration with fellow science councils in projects and planning forums has also expanded. Researchers from the Agricultural Research Council (ARC), CSIR and Medical Research Council (MRC) were involved in projects listed on the RMS for the 2005/06 budget year, for example projects on food security, technology transfer and HIV prevalence respectively. The National Research Foundation (NRF) and the Water Research Commission (WRC) were also listed as funders of 2005/06 projects.

The following serve as anecdotal evidence of contributions made by the CEO of the HSRC in the period 1 August 2005 to 31 March 2006 in terms of strengthening and institutionalising relations with related institutions in South Africa, Africa and the international research community:

- Focus on Africa: The Council for the Development of Social Science Research in Africa (CODESRIA) was visited in October 2005 to explore areas of mutual interest between the HSRC and CODESRIA. The following areas of common interest will be further explored, in the context of a MoU that is expected to be finalised in 2006/07:
 - capacity-building, by providing a platform for training young researchers from the South and the West through exchange programmes;
 - improving the interface between CODESRIA and SAHARA as they both tackle socio-cultural issues related to HIV/AIDS;
 - collaboration between researchers from South and West Africa on projects that inform policy, particularly in areas such as unemployment across the continent, economic growth, human rights and democracy, child, youth and family development and the South Africa in Africa project; and
 - access to existing CODESRIA networks.
- Collaboration with higher education institutions in South Africa: Following a presentation to representatives of Higher Education South Africa (HESA), a consultative workshop took place in February 2006, leading to a joint statement of collaboration affirming that social science and humanities research is fundamental to economic, social and cultural development and to nation-building. Both organisations undertook to draft an MoU with the aim of promoting and advancing social sciences and humanities research in the public and private sectors. Apart from a generic MoU between the HSRC and HESA, specific areas and approaches to collaboration between the HSRC and individual

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institutions will be further explored. In addition to exploring opportunities for research collaboration and sharing of knowledge and information, the HSRC is also keen to investigate joint approaches to research capacity development.

- Following a meeting of UNESCO's International Science Programme (ISP) held in Berlin (28 January–2 February 2006), the South African National Commission for UNESCO appointed the HSRC to serve as the Focal Point for the Management of Social Transformation (MOST) programmes in the social sciences.
- In February 2006 the HSRC and the DSD hosted three workshops in Buenos Aires, Argentina, aimed at encouraging researchers and policy-makers to work together. The workshops addressed issues such as:
 - establishing mechanisms for "knowledge-brokering" between research and policy-makers in Africa;
 - comparative approaches to social protection policy in southern Africa; and
 - the institutionalisation of the dialogue between population research and development policy in Africa.
- High-level meetings with international donor and research funding agencies took place in December 2005 and February 2006. The role of the social sciences and humanities was promoted at an international workshop hosted in Brussels by the European Commission during December 2005.
- Strategic engagements with the WHO will contribute to accelerating domestication of global and regional health programmes, thus increasing South Africa's contribution to regional and global issues.

Currently the HSRC reaches out in many ways, and at different levels, to users, collaborators and funders. Research programmes interface with both end-users and collaborators through contract work, specific arrangements for research services or advice, and informal networks. Some government departments and donor organisations have initiated special meetings with the HSRC to identify common areas of interest, seek inputs with strategic planning, and plan joint approaches to obtaining funding and stakeholder involvement for important research-driven initiatives. In some instances, special MoUs were developed and signed to describe the nature of collaboration between the HSRC and its counterpart organisation. These initiatives will be better co-ordinated in future, following the appointment of the Head: International Liaison and the introduction of a marketing and fund-raising strategy that will incorporate stakeholder relationship management, both during 2005/06.

4.6 Publications and research outputs

The HSRC is mandated to play a role in the publication of research findings in the social sciences and the humanities. Furthermore, the quality and impact of its own research work needs to be tested and recognised by means of stringent peer review.

With regard to progress made with the publication of research findings, the work of the publishing arm of the HSRC, also known as the HSRC Press, should be noted.

The HSRC Press is a "public benefit" publisher of documents emanating from the organisation's research activities and other research-based works of exceptional quality. It is an important element of the HSRC's drive to become a "knowledge hub", to further its public purpose orientation, and to support engagement with researchers in other parts of Africa.

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The Press is a not-for-profit publisher employing a dual-media publishing strategy, publishing simultaneously in print and online electronic formats. Print-based publications are promoted through conventional book distribution channels, while electronic publications are available on an Open Access basis. It is an active participant in the development of an African "intellectual commons".

Quality control of manuscripts submitted for publication is managed by an independent Editorial Board. Stringent peer-review processes overseen by the Board comprise at least two double-blind peer reviews per publication followed by deliberation at quarterly Board meetings. The first Editorial Board completed its two-year term at the end of March 2006. The Board consists of ten members, three of whom are *ex officio*, namely the CEO of the HSRC, the Director of the Press and the Chair of the Editorial Board. The remaining members comprise three internal researchers, three external academics and one Council delegate.

During the financial year under review, the Board considered 43 proposed publications, of which 17 have been accepted. During the previous year, 35 submissions were considered and 14 accepted for publication. Many of the proposed publications that have not been accepted are currently under revision.

The new Chair of the Editorial Board is Dr Dan Ncayiyana, who will fill the position from June 2006. Dr Ncayiyana is an experienced and respected editor of scholarly publications, serving both on national and on international editorial associations.

In the 2005/06 year, the Press produced 59 publications with 21 in production at year-end. These comprise a mixture of research monographs and books. During the previous financial year the Press produced 28 publications, with 11 in production at year-end. The Press has become a significant contributor to research-based knowledge in Africa.

For the financial year under review, 10 951 copies of printed publications were sold, an increase on the 9 975 sold in the previous year. This was the first year that the Press was able to track the usage of its free electronic publications reliably, recording 30 905 titles downloaded from the HSRC Press website; visitors numbered 222 706. In addition, the Press has disseminated its publications via initiatives such as the E-Granary, which provides free electronic publications to African institutions. Unfortunately, no usage statistics are available for these initiatives as yet.

The HSRC Press paid ongoing attention to effective marketing of research outputs during the year under review. Advertising Value Equivalent (AVE) generated by the Press for the HSRC, as measured by Newsclip Media Monitoring, amounted to R3 040 635 for print-based mass media and R2 132 697 for broadcast media (radio and television). In essence, it would have cost the HSRC over R5 million to achieve the equivalent amount of publicity had it bought advertising. In addition, the Press held 21 launches including five in other African countries and one in the United States.

Capacity development also received attention during 2005/06. The Press participated in the first publishing internship programme administered by the Publishing Association of South Africa (PASA). The year-long programme is sponsored by the Media, Advertising, Publishing, Printing and Packaging Sector Education and Training Authority (MAPPSETA) and run in collaboration with the University of Pretoria and the University of the Witwatersrand, who provide offsite training as well as monitoring and assessment. Nationally, 30 interns who are younger than 30 years old, black and currently

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unemployed are selected by PASA. The Press accommodated one intern for 2005/06 and has agreed to provide opportunities for two interns during 2006/07.

Special awards and recognition gained during 2005/06 include the nomination of an HSRC Press title, *Theatre of violence* (by Don Foster; Paul Haupt and Marésa de Beer) for the African Politics Best Book Award for 2006. This award is made by the American Political Science Association. The 2005 winner was *Overcoming apartheid* (by James L Gibson), also published by the HSRC Press.

The Press also had three books nominated for the NOMA Award for Publishing in Africa, two titles nominated for the Exclusive Books Publisher's Choice 2005 and one book nominated for the *Sunday Times* Alan Paton Award.

Over the past year the Press has consolidated its European and North American distribution via agencies. In line with the HSRC's new strategy, the Press will pursue improved distribution in Africa through collaborative relationships with key stakeholders.

Alongside the publications which the HSRC itself produces, important outputs are articles by HSRC researchers in scientific journals and chapters in books. A comprehensive list of HSRC publications is provided elsewhere in the 2005/06 Annual Report. With regard to research outputs produced by HSRC research staff, table 4 below provides a summarised overview of the quality and productivity of staff, as measured in terms of publications generated during 2005/06:

TABLE 4: PUBLICATIONS

Category	No. in 2005/06	No. in 2004/05
<i>All HSRC research staff</i>		
Books and chapters in HSRC books	119	59
Books and chapters in non-HSRC books	35	50
Journal articles	166	144
<i>Refereed</i>	116	93
<i>Non-refereed</i>	50	51
Research reports to clients/users	124	92
Total	444	345

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Category	Per capita 2005/06	Per capita 2004/05
<i>All research staff from SR upwards</i>		
Books and chapters in HSRC books	1,02	0,50
Books and chapters in non-HSRC books	0,30	0,43
Journal articles	1,42	1,23
<i>Refereed</i>	0,99	0,79
<i>Non-refereed</i>	0,43	0,44
Research reports to clients/users	1,06	0,79
Total	3,79	2,95

The information in this table is not adjusted for multiple authors. If corrected for shared authorship with non-HSRC staff, this figure would decrease slightly, but not significantly.

Information on publications by HSRC staff during 2005/06 was further analysed. First, the total number of publications per average researcher head had increased from 2,95 in 2004/05 to 3,79 in 2005/06. The publication rate in books and chapters in HSRC books had increased considerably, to the level where every researcher in the HSRC, on average, has produced such an output in the year under review. The HSRC has once again surpassed its overall target with regard to refereed journal articles for the 2005/06 budget year.

Publication rates for female researchers and black researchers were similarly considered. It should be noted that the level of productivity in terms of published research outputs of black researchers, and of female researchers, did not differ from that of the HSRC overall. The detailed analysis in terms of gender and race breakdown can be found in section 10, table 6.

4.7 Corporate Communications

Recommendations of the 2003 Institutional Review Panel alluded to the important role to be played by a Corporate Communications function, both to help ensure optimal levels of communication and information sharing within the organisation and to play a role in ensuring that the work and publications of the HSRC are communicated effectively to stakeholders at all levels, ranging from marginalised communities to decision-makers in various parts of South Africa, Africa and the world.

Against this background, the corporate communications strategy was refined and approved during the year under review. Implementation of the strategy involved increased efforts to prioritise improved levels of internal communication during the year under review.

This renewed focus on improving internal communication entailed, amongst other things, the conducting of a staff perception survey in June, monthly editions of electronic newsletters and presentations on the work of the Corporate Communications unit at the quarterly staff induction session. The organisational restructuring process that occurred in August required even greater efforts to improve internal communication. Corporate Communications facilitated two

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consultative sessions between the CEO and staff in August and November. The "CEO's note", an electronic newsletter to staff from the CEO, was also introduced in November.

In recognition of the increased media interest in the work of the HSRC and the need to standardise how the organisation engages with the media, a media relations policy was developed in September. Prominent HSRC media engagements focused on such events as the World AIDS Day, an event that saw research findings being reported back to a community in Soweto; a media briefing on poverty pockets in Gauteng; and a commentary on the March local government elections. Examples of media releases focusing on important research work of the HSRC can be found at <http://www.hsrc.ac.za/media/2006/index.html>. Support from Corporate Communications goes beyond the preparation of a short media statement; it also entails the development of comprehensive media packs providing background information on the research issues at hand. Apart from featuring research activities and outputs of the HSRC by means of media releases, updated information on the HSRC website and quarterly publication of the *HSRC Review*, general information on important developments affecting the HSRC was also made available. So, for instance, the newly appointed CEO was profiled in various publications, including the *Sunday Times*, *Enterprise*, *Financial Mail* and *CEO*.

Media coverage for the period under review increased to R70,4 million in AVE compared to R45,6 million in 2004/05, a reflection of the relevance of the work the HSRC undertakes and the interest it generates in the media.

The name "HSRC" has become synonymous with research excellence. The institution's corporate identity is the physical manifestation of this widely recognised and highly respected brand. Much effort therefore went into developing a corporate identity manual, which provides guidelines for the use of various aspects of our corporate identity, including our logo, typefaces, corporate colours, and stationery. It enables the organisation to present a visually consistent and unified front to our stakeholders, and will be fully implemented in 2006/07.

Further initiatives that are underway include a corporate DVD, media relations training for staff, the development of policies for managing crises and the development of policies for managing the organisation's website.

5. Financial results and sustainability

During 2005/06, the HSRC introduced a new approach to fund-raising, and also reviewed the financial model informing its budgeting process for 2005/06. These were presented to the Council and its Audit Committee, and accepted as the new approach to be followed by the HSRC in ensuring its future financial viability. The goals of the new financial model are as follows:

- to place the primary responsibility for raising funds for research on the EDs and the CEO, with support from their research staff – rather than to place the burden of individual earning targets on the shoulders of less senior staff;
- to move away from a multitude of small projects to larger, multi-year projects;
- to reduce the earnings pressure on researchers;
- to reduce the charge-out rate of the HSRC;
- to focus on larger donor-funded projects rather than on tenders; and
- to close the ratio of external earnings to Parliamentary grant from 60 : 40 to 50 : 50.

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The internal restructuring of the HSRC, which was approved by the Council on 7 September 2005, is discussed in section 3 of this report. The establishment of new, integrated research programmes as well as cross-cutting units required a realignment of the budget of the HSRC to support this new structure. The total external income target for research programmes (including SAHARA, until the end of the year) was adjusted downwards to approximately R118 million, while the target set for the remaining cross-cutting units was R24 million.

Although some of the cross-cutting units, for instance SAHARA, Gender and Development, and Knowledge Systems had been operational in different guises prior to the restructuring of the HSRC, others were new. Many of these initiatives, for instance the initiatives under the Policy Analysis unit and SAHARA, are intended to focus more on the co-ordination of research rather than on primarily conducting research. This new emphasis on research co-ordination implies that external income earned would be largely administered as grants and payments to external collaborators. If one of the cross-cutting units, for instance SAHARA, were to raise less income than had originally been set as a target, the net effect on the HSRC would be seen in terms of a lower turnover, but not in the form of a deficit.

In addition, by setting external earning targets for cross-cutting units, some of the earnings pressures in research programmes will be reduced while enabling the HSRC to leverage funds to increase its potential impact in national and international priority areas. This would be particularly so in areas of policy development and analysis, collaboration in Africa, and research capacity development involving contributors as well as beneficiaries from within as well as outside the HSRC.

The above strategy was employed from September after the restructuring and realignment of the HSRC.

The turnover of the HSRC for 2005/06 was R217 million, a 9% decrease from the R237,4 million of 2004/05. The six newly consolidated research programmes, together with SAHARA, earned R90,6 million while the remaining cross-cutting units earned R26,7 million of the R117 million recorded for the 2005/06 financial year, shown in section 4.1, table 2. The total of R119 million in external research earnings recorded for the year includes interest on research income received in advance and other research-related income achieved across the various programmes and cross-cutting units. As mentioned in section 4.1, an important contributing factor to the lower-than-expected external income earnings is that SAHARA did not manage to meet its unrealistically high income target for the year, a target that has subsequently been adjusted for 2006/07.

In line with the new strategic approach, and the related reduction in external income earnings, the total expenditure of the HSRC decreased by 7,3% between 2004/05 and 2005/06 (compared to the increase of 26,4% between 2003/04 and 2004/05). Employee cost, the largest cost component, increased by 2,8% in 2005/06. This increase includes the effect of cost-of-living salary increases. The HSRC continues to be strategically driven in its recruitment activities, prioritising the appointment of senior research staff and managers who come from previously disadvantaged groups. Owing to the fact that a large portion of its research income is derived from external, project-related sources, the HSRC appoints contract staff, or external service providers, to extend the capacity of its permanent staff complement.

Overall expenditure in 2005/06 was R215,4 million. This resulted in a surplus of R1,5 million for 2005/06, compared to the surplus of R4,7 million at the end of 2004/05. During 2004/05 the HSRC sold its investment property, resulting in a prof-

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it of R6,1 million. If this extraordinary, non-operational source of income is excluded from the 2004/05 statement of financial performance, the comparative figures would have been a deficit of R1,3 million for 2004/05 against the surplus of R1,5 million for 2005/06.

The net effect of adjustments for deferred income in relation to depreciation costs on the Parliamentary grant allocations for the 2004/05 and 2005/06 financial years is shown in table 5 as well as in Note 2 to the Annual Financial Statements of the HSRC. This explains the difference between anticipated income shown in the MTEF allocation letter received from the DST and the actual income reflected in the Statement of Financial Performance.

TABLE 5: PARLIAMENTARY ALLOCATION

	2005/06	2004/05
	R'000	R'000
Parliamentary grant as per statement of financial performance	84 458	78 334
Plus: Net adjustment in respect of deferred income	672	864
Total	85 130	79 198

The HSRC received R12,3 million additional funding from National Treasury for the Value-Added Tax (VAT) liability incurred by the HSRC during the 2005/06 financial year due to changes in the VAT legislation. These changes made the transfer payments received from the DST taxable, at a 14% VAT rate. All information in the financial statements of the HSRC is reflected net of VAT.

The Statement of Financial Position on page 177 shows that the HSRC had total assets of R121 million at 31 March 2006, of which current assets were worth R39,4 million. The current liabilities are R32,1 million. The financial status of the HSRC is therefore sound. The Council's considered opinion on the going-concern status of the HSRC is reflected in section 2.3.2 of this Annual Report.

More detailed financial information, including extensive notes, can be found in the audited Annual Financial Statements appended to this report.

6. Human Resources

As a knowledge-intensive research organisation (KIRO), the HSRC's ability to deliver on its mandated objectives is dependent on the quality of its people. This section, which deals with aspects of human resources and human resource management during 2005/06, focuses on HSRC staff who were on indefinite or longer-term (i.e. one year or longer) employment contracts during the reporting period.

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Institutional performance with regard to human resources and transformation is regarded as crucial from the perspective of both the COUPE and the new PAITECS strategies. Targets are set and monitored in relation to overall staff representativeness, gender, race and disability. At the same time, key areas of concern are highlighted and receive focused attention, for instance, with regard to representativeness amongst researchers, senior research staff and managers. As of 2005/06, targets and reporting requirements have been set and monitored at a much greater level of detail: instead of simply reporting on "black" or "white" when it comes to race representativeness, more detailed analyses in terms of "African", "coloured", "Indian" and "white" are required. In particular, the new CEO indicated in her inaugural address that special attention needs to be given to representativeness of particularly African and coloured persons in researcher and senior managerial positions.

Detailed information on targets set and performance achieved in relation to human resources and transformation is provided in section 10, table 6.

In accordance with other compliance reports prepared by the HSRC, this Council's Report will focus on "permanent" staff on the payroll of the HSRC at 31 March 2006. "Permanent", in this context, refers to staff who are appointed for an indefinite period, or for a fixed period of at least 12 months. Other categories of persons on different payrolls of the HSRC are persons appointed on short-term contract (less than 12 months) and those appointed to undertake specific assignments (for instance, a fieldworker for a specific survey project or an academic appointed to review a draft report). The Council wishes to acknowledge the important role played by those individuals and institutions that help to expand the capacity of the HSRC at crucial times of delivery.

The nature of HSRC projects co-determines fluctuating needs for shorter-term appointments and assignments. The HSRC is wary of appointing too many staff on its permanent payroll, because the Parliamentary grant allocation, its only secure source of income for purposes of medium- to long-term appointments, represents less than 50% of annual budgeted income. At 31 March 2006, some 88 persons were working on short-term contract assignments for the HSRC, over and above the approximately 280 persons already employed by the HSRC in a more permanent capacity. The majority of these short-term contract workers, as reflected on 31 March 2006, were African (28 male and 24 female). They mostly provided professional, administrative or fieldwork services as required for specific research projects. The number of "assignees" appointed is largely dependent on project-specific operational requirements, varies from month to month, and may be in excess of 500 in any one month. Owing to the ongoing fluctuation in short-term contract appointments, further analysis of staff information will deal with permanent and longer-term appointees only.

The HSRC's staff complement (persons appointed for indefinite periods, or on contract for one year or longer) at the end of the 2005/06 financial year was 280, which is ten less than the previous year-end total of 290. During this period, normal attrition led to 64 terminations being recorded. Expressed as a percentage of all staff on the permanent payroll during 2005/06, the attrition rate in the HSRC was 18,6%. Of the 64 terminations recorded during 2005/06, 23 were in administrative positions and 41 in researcher positions. The majority of people leaving the HSRC did so because they were able to advance their careers in this way or because their contracts had come to an end. There was one instance of death, one of normal retirement, and one dismissal following a disciplinary hearing dealing with financial misconduct.

During the year under review, 64 new medium- to long-term appointments were made – 13 in administrative positions,

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and 51 in research positions, the latter including senior as well as junior appointments. A new category of research staff was introduced in 2005/06, when persons were appointed to provide appropriate professional counselling to people engaged in implementing research projects, particularly when doing research on topics related to voluntary counselling and testing. As with research interns, the entry-level requirements for this kind of professional research fieldworker differ from those for a person already on a researcher career path. It will therefore be appropriate to differentiate between the various categories of staff in the remainder of this report.

The number of research interns appointed for periods ranging from one year upwards decreased from 25 at 31 March 2005 to 17 at 31 March 2006. During 2005/06 an internal task group prepared a report on current and desired approaches towards "internship" programmes in the HSRC. This informed recommendations on a better co-ordinated researcher trainee programme, to be introduced under the auspices of the Capacity Development cross-cutting unit. It is expected that this unit will play a crucial role in co-ordinating the HSRC's emerging, integrated researcher trainee scheme. At 31 March 2006, there were also 17 "fieldwork" support researchers on the payroll.

The 2005/06 budget year saw a net increase in the proportions of black and female staff. The trend of appointing more administrative than research staff, which was noted during 2004/05, did not continue.

By 31 March 2006, 54% of HSRC staff were in research positions (including research intern and research fieldwork positions) compared to 53% at 31 March 2005 and 58% at 31 March 2004.

The HSRC remains committed to maintaining and steadily improving representativeness at all levels. Among researchers (excluding research fieldworkers and interns), the total number of blacks decreased from 66 to 60, but remained stable at 51% of the researcher complement. If analysed in more detail, the number of African researchers decreased from 40 (31%) to 32 (27%), coloured researchers improved slightly from 12 to 14 (from 9% to 12%), whereas the number of Indian researchers also remained stable at 14 (from 11% to 12%) and white researchers decreased from 63 to 58, but remaining at 49%, due to the overall decrease in the number of researchers during the year under review. This is regarded as a cause for concern, because experienced, fully qualified researchers are scarce resources and in demand at many competing institutions such as government departments and higher education institutions. When research interns and research fieldworkers are included in the analysis, the percentage of black researcher staff was 61% at 31 March 2006 (36% African, 14% coloured, 11% Indian, 39% white). This represents a further improvement from the 58% reported with regard to black staff in researcher positions by the end of 2004/05, and illustrates the HSRC's commitment to research capacity development as an important means of growing the number of senior black and female researchers in its service.

Female representativeness amongst research staff (excluding interns and fieldworkers) improved from 43% (55 persons) for 2004/05 to 48% (57 persons) for 2005/06. When research interns and research fieldworkers are included in the analysis, the corresponding figures are 47% at 31 March 2005 and 51% at the end of 2005/06.

Among administrative staff, the percentage of blacks increased further, from 68% by the end of 2004/05 to 69% by the end of this reporting period. A more detailed analysis shows that African administrators increased from 44% to 46%, coloured administrators stayed constant at 16%, whereas the Indian and white complements decreased slightly from 8%

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to 7% and 32% to 31% respectively. In terms of gender, the majority of administrative staff remains female, down from 70% at 31 March 2005 to 65% at 31 March 2006.

Changes in representativeness at the higher levels receive particular attention, although changes tend to occur more slowly because of the small numbers of people involved and a low attrition rate. Among administrative staff at the levels of deputy director and above the percentage of blacks remained stable at 54%, (with Africans up from 21% to 23%, coloureds down from 27% to 25%, and Indians and whites remaining at 6% and 46% respectively).

Among researchers of specialist rank and above, the percentage of blacks continued to improve, from 39 persons or 42% of 93 specialist researchers to 41 persons or 45% of 91 specialist researchers. More detailed analysis reveals small increases with regard to African and coloured researchers and a slight decline with regard to whites. Future analyses, in terms of PAITECS targets, will reveal a need for even more stringent attention to representativeness at the levels of senior research specialist (SRS) or above. Baseline data, for future comparison, are as follows: of 72 researchers and research managers at the level of SRS or above, 29 (40%) were female, and 29 (40%) were black at 31 March 2006. In terms of more detailed analysis regarding race, the baseline data were: 24% African, 8% coloured, 8% Indian and 60% white.

The predominance of female administrators in senior positions decreased slightly from 75% at 31 March 2005 to 70% by the end of 2005/06. This remains out of balance with the distribution of male and female persons in the South African population, and very different from the 46% female complement reported by the end of 2001/02. Within the group of senior administrative staff, white female staff now comprise 36%, followed by black female staff at 34%, black males at 21% and white males at 9%.

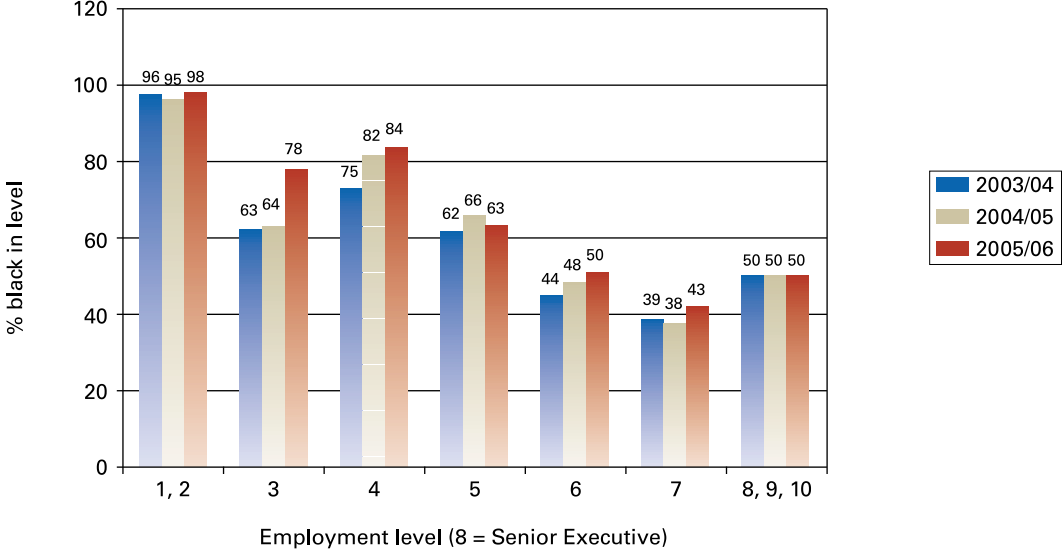
In terms of gender equity amongst senior research staff, female representation at the levels of research specialist or above improved from 40% at 31 March 2005 to 44% at the end of 2005/06. Senior female black researchers remain a minority at 20% (up from a much lower 14% at the end of 2004/05), with white males (31%), black males (25%) and white females (24%) taking up relative larger shares.

The proportions of black staff (researcher and administrative positions combined) per employment level for the current and previous reporting periods are shown in figure 7. The proportion has improved at nearly every level, and appreciably at the middle levels 5 and 6 (for example, level 5 is assistant director or chief researcher). Room for improvement remains at the highest levels (ED and above), where progress has been lacking for some time. This matter is being addressed by the Council and the CEO as a matter of priority. Two African EDs are due to take office as of 1 July 2006, which will significantly improve representativeness at the senior executive level.

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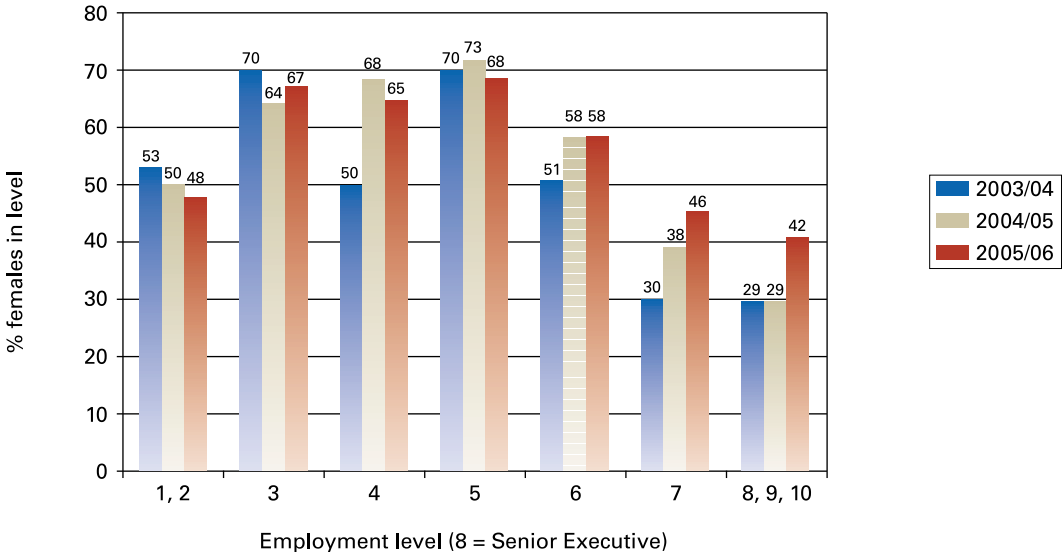
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Figure 7: Black employees in employment levels, 2003/04 to 2005/06



For the 2003/04, 2004/05 and 2005/06 years, the proportions of female research and administrative staff per employment level are shown in figure 8. The most noticeable increase is among professionals, i.e. from level 6, which starts at specialist researcher or deputy director level, and now also at the top-most level, from ED upwards.

Figure 8: Female employees in employment levels, 2003/04 to 2005/06



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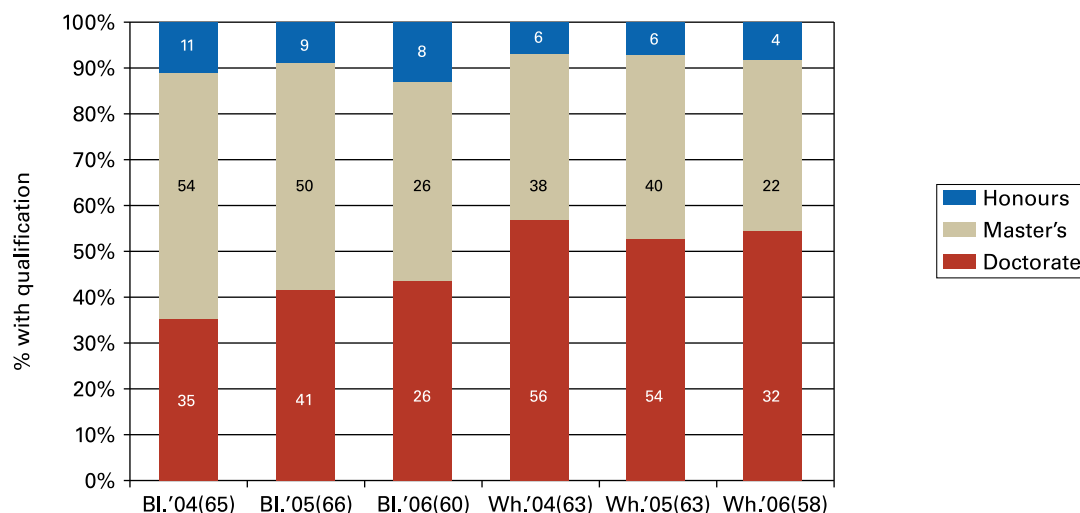
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Disabled people still comprise approximately 1% of the staff, similar to levels reported for 2004/05. The target for government departments is known to be 2%, and the HSRC remains conscious of this. The disabled persons in the HSRC's staff complement occupy research as well as administrative positions and function at senior levels.

Among researchers, excluding interns and research fieldworkers, the proportions of staff with master's or doctoral degrees remained relatively stable. However, if all research staff (including research interns and fieldworkers) are taken into account, the proportion of all research staff with either a master's or a doctoral degree decreased from 84% to 80% during this period. Figure 9 shows the trend in terms of percentages for black and white researchers, if research interns and research fieldworkers are excluded from the analysis. At 31 March 2006, 90% of the research staff had a master's or doctoral degree. The comparative figures for 2003/04 and 2004/05 were 91% and 92%, respectively. Amongst black researchers (excluding interns and fieldworkers), the percentage with a master's or doctoral degree was 87% (52 out of 60 black researchers), whereas 89% (51 out of 57) of female researchers and 93% (54 out of 58) of white researchers had obtained these key research-related academic qualifications.

Figure 9 provides a visual overview of qualification levels of research staff, reported over time.

Figure 9: Proportions of researchers (excluding interns and fieldworkers) with master's or doctoral degrees



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With the attraction and retention of highly skilled staff having been identified as a key strategic risk, the role of the new Capacity Development unit will be crucial in ensuring that adequate levels of skills in the researcher echelons are recruited and developed. During 2005/06, the Employment Equity and Skills Forum that was established to comply with requirements of the Employment Equity Act obtained training to ensure that they will be in a position to help monitor and evaluate the HSRC's practices in respect of recruiting, selecting and training staff. Employee and leadership development have been given high priority and are being conducted jointly by HR and the new Capacity Development unit, supported by funding from the sector education and training authority (SETA).

7. Strategic risk assessment

The Audit Committee monitors risk and risk-management in the HSRC on an ongoing basis. Following the initial exercise intended to identify priority risks in the organisation, the former CEO of the HSRC regularly reported to the Audit Committee on progress made with steps taken to mitigate risks in the organisation. During the year under review, the organisation's approach to strategic risk management was given further structure with the help of the outsourced internal audit service providers of the HSRC.

Following on a series of consultative meetings with managers in the HSRC, two workshops, attended by the full executive management team, were facilitated to help identify, assess and rank the risks that needed to be managed in order to achieve the mission and strategic goals of the HSRC. The workshops were designed to assist Management with establishing a risk management process as required by the PFMA and best practice corporate governance, as well as to provide guidance to the internal audit function in developing a risk-based internal audit strategy and annual internal audit plan for the HSRC.

Some 33 categories of risk were identified and assessed, of which the top-ranking four, augmented by two others, were subsequently selected as the foci for Management's attention in the remainder of 2005/06 and throughout 2006/07. These were:

- information technology (IT)-related risks
- negative cash flow
- fraud and corruption
- public image risks
- availability of suitably skilled staff, and
- supply chain management.

In addition, it was recognised that an appropriate structure and accompanying systems, policies and procedures should be put in place to monitor, evaluate and manage all risks on an ongoing basis. Significant progress has been made in addressing each of these issues.

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- In respect of IT-related risks, all of the matters identified by a special audit in 2003/04 have now been attended to or are the subject of initiatives in progress. Among these are: outsourcing the maintenance of the hardware and software infrastructure as well as network, desk support and some other related services to an external service provider;
- a campaign to make staff aware and assist the process of deriving maximum value from the outsource;
- the establishment of an IT Steering Committee and an End-User Committee and the development of a plan of action to implement a number of Information Technology Infrastructure Library (ITIL) best practices as first steps towards appropriate and effective governance;
- the design and approval of a remediation programme to stabilise the existing IT platform (to be implemented in 2006/07); and
- the formulation of a long-term strategy to provide the IT capacity needed to achieve the vision of the HSRC becoming a knowledge hub for the social sciences in Africa. An application to National Treasury to fund capital outlays expected to be in excess of R20 million is being prepared.

The extraordinarily rapid growth of externally funded research assignments secured in recent years has substantially increased the need for working capital and, on a number of occasions, strained the organisation's cash resources inordinately. To address this, a number of measures to improve cash flow and reduce the need for working capital have been instituted. These include:

- an undertaking by the DST to advance the payment of the HSRC's Parliamentary grant;
- the shortening of the average debtors' period to 60 days or less by prompt invoicing of debtors and diligent follow-up to ensure receipt of amounts owed;
- building up-front tranches into the payments schedule of research contracts, wherever possible; and
- changes to a number of operational processes to save costs, particularly in the high-expenditure areas of travel and subsistence, telecommunications and IT software licences.

Specific measures that are in place to manage financial risks such as interest rate risks, liquidity risks and currency fluctuation risks are outlined in Note 29 to the audited Annual Financial Statements of the HSRC.

In order to anticipate and deal pro-actively with potential instances of fraud – both financial and research-related – a high-level fraud prevention plan was approved early in 2005/06. This has still to be developed into sets of specific measures that cover the entire span of the HSRC's activities, a priority already set for the first and second quarters of 2006/07. However, many of the prerequisites have already been put in place in the form of the delegations, codes, policies and procedures that were developed and approved prior to and during 2005/06.

Important first steps have also already been taken in addressing public image risk. The communications strategy and media policy adopted during 2005/06 lay down basic principles that include guidelines for members of staff when they act as the public face of the institution while affirming their right to speak as individuals. Among the follow-up measures in the year ahead will be the training of staff in conducting interviews with the media.

The approach that has been adopted to manage the "availability of skilled staff" risk focuses on the ability of the HSRC to attract, develop and retain such staff. Though salaries are a key determinant, it has been recognised that a multiplicity

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of factors influence the attraction and retention of highly skilled staff. Some of the many management responses to the need to attract and retain staff included:

- in-depth surveys to gauge staff perceptions of the HSRC;
- the formation of a dedicated Capacity Development unit;
- the establishment of an Employment Equity and Skills Development Forum;
- the launch of an employee wellness campaign; and
- the inception of an induction programme to orientate new employees.

The foci in 2006/07 will emphasise employee development, change management, leadership skills, recruitment and selection, performance appraisal and career pathing as well as salary benchmarking.

A programme to implement supply chain management (SCM) in compliance with the PFMA was implemented during 2005/06. Developments up to this point have included:

- appointing an expert consultant to guide the process;
- drafting policies and procedures and reviewing them through internal audit;
- identifying a high-level organisational chart for a separate SCM unit and advertising the three key management positions;
- making temporary appointments to some of the more junior positions;
- preparing to implement electronic workflow procedures;
- appointing a Tender Bid Adjudication Committee; and
- implementing the initial phases of rechanneling existing procurement through the SCM unit, including the preparation and award of new tenders in full compliance with the Act.

The implications for research procurement, which comprises the greatest part of procurement by value, are currently being explored.

To help provide the HSRC with the capacity to monitor, evaluate and design responses to risk on an ongoing basis, in collaboration with internal audit, a structure for risk management has been identified. This structure will be in line with corporate governance best practice and involve only the use of existing capacity in order to avoid the need to appoint additional staff. The risk management and compliance responsibilities will be incorporated into those of the COO, while the current risk management and compliance officer's duties will be expanded to create the position of a chief risk officer. This will enable risk-related responsibilities to be cascaded down to staff in all business units.

8. Corporate social responsibility

The Council conceives the HSRC's social-responsibility obligations at four levels:

- intrinsically, as a non-profit public-sector entity, in the execution of its mandate;
- in the public-benefit orientation that informs the way in which it designs and executes projects and disseminates their results;
- in the conduct of its affairs, including its relation to its staff, as a public-sector employer; and
- the additional community-oriented activities it might undertake.

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At all four levels, the Council seeks to ensure that the HSRC is sensitive to the needs and interests of disadvantaged and marginalised groupings, usually by engaging with their representative organisations.

8.1 Social-benefit research mandate

The HSRC has social-responsibility obligations as an intrinsic part of its mandate, which is to benefit all South Africans through conducting and fostering policy-relevant social research. Thus, the research activities presented throughout this report, and in other sections of the HSRC's Annual Report, comprise the HSRC's reporting at the first level of corporate social responsibility defined above.

Selected examples of research-project topics specifically focused on disadvantaged and marginalised groups are:

- Disability studies
- The needs of the elderly
- Positive role-models of fatherhood
- Tracking and analysing poverty
- Food security and employment creation
- Social exclusion and the labour market
- The impact of HIV/AIDS on orphans and on vulnerable land rights and land tenure
- Orphans and vulnerable children affected by and infected with HIV/AIDS
- Gender violence and its relation to HIV
- A responsible alcohol service programme for urban and rural areas
- Community-based information systems
- Community arts centres, and
- Health and environment issues.

The introduction of two national initiatives aimed at addressing key issues of employment creation and education quality also serves to illustrate the HSRC's commitment to leveraging resources in addressing research issues which are intended to yield results that will influence future policy and good practice, eventually impacting on the quality of life of all. The likelihood of the research impact and use of results is furthermore intended to increase with the introduction of implementation networks involving a broad range of key stakeholders in critical aspects of the research planning, communication, execution, interpretation and implementation chain.

8.2 Distinctive research approach

At the second level, the HSRC's Research Ethics Committee ensures that researchers provide participants in research projects with sufficient, relevant and understandable information before asking them to give or withhold consent to participate.

The establishment of a cross-cutting Gender Development unit will help to "mainstream" gender considerations in the HSRC's research activities and organisational-development priorities. The results of an in-house gender audit undertaken in 2005/06 will inform further activities, including gender sensitivity training, in the HSRC during 2006/07.

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Participatory approaches in the conception, implementation and dissemination stages of research enable researchers, where it is appropriate, to obtain inputs to adapt their research, recommendations and research implementation strategies to the needs of beneficiaries and users of research.

The HSRC has been adopting extra avenues of dissemination to try to improve the uptake of its research by the public and possible beneficiaries: for instance, the issuing of publications free of charge on the Internet, the use of other media such as videos and photographic exhibitions, the distribution to all high schools of the quarterly "Review" containing accessible presentations of recent research outputs; and the translation of key parts of its Annual Report into official languages other than English. More regular engagement with decision-makers, including Parliamentary Portfolio Committees, is also envisaged.

In addition, the HSRC tries to impart research-driven social benefits in other ways. For example, several of its senior researchers serve on governing councils or advisory boards on the basis of their areas of specialised knowledge.

8.3 Organisational responsibility

The HSRC's endeavours to meet its social-responsibility obligations as an organisation and an employer are touched upon at several junctures in this Annual Report. Some key facets are recapitulated here, for their relevance to the economic, social and environmental aspects of the "triple bottom line":

- In its procurement policy and practice the HSRC is committed to the promotion of Black Economic Empowerment (BEE) and the advancement of black-owned small, medium and micro-enterprises (SMMEs). The HSRC has steadily widened the application of this approach, under the scrutiny of the Audit Committee on behalf of the Council.
- The HSRC is involved in research capacity development through its research intern scheme, and other forms of short-term appointments in a research environment. Support Service units such as the library and the HSRC Press provide workplace experience opportunities to other students.
- As part of its three-year Employment Equity strategy, the HSRC is rolling out an employment equity awareness strategy that includes an awareness campaign and training. A professional development framework has been developed and documented in preparation for implementation.
- With the assistance of a service provider, the HSRC has in place a wellness programme. This contains an AIDS intervention programme for all permanent employees and their immediate family members, including informative materials on the provision of anti-retroviral drugs and medical monitoring, and a 24-hour hotline. A successful employee wellness day was managed jointly by the Corporate Communications and HR units of the HSRC during 2005/06, and this is expected to become an annual event.
- On the environmental side, energy-saving initiatives are in place in the large Pretoria Building, as well as refuse recycling. More detailed reporting with regard to energy saving, including the introduction of benchmarks and savings targets for all three buildings of the HSRC, will receive attention during 2006/07.

8.4 Community-oriented activities

The previous Council's Report contained a detailed description of the HSRC's own "homelessness" initiative, which was informed by the need to reach a research-based and sustainable practical solution to the needs of homeless people who

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had been sheltering under the colonnades of the HSRC Building in Pretoria.

Following a period of consultations that involved meetings with the homeless people and their representatives, the DSD, Tshwane Metropolitan Council and several service-oriented, religious and other non-government organisations (NGOs), a solution has now been put in place. The Operations directorate of the HSRC remains involved in consultations aimed at sustaining the initiative.

Several research projects in the HSRC have also spawned initiatives aimed at empowering communities in addressing their own development needs. So, for instance, the SAHA research programme has recently appointed a team of community-based counsellors to ensure that people involved in research focusing on social aspects of HIV and AIDS have access to appropriate counselling and support services.

Through the multi-year, internationally funded CHAMP (Collaborative HIV/AIDS and Adolescent Mental Health Programme) project many lessons have been learned about ways to improve key processes, such as parent or caregiver communication with children about sensitive topics; parental monitoring; neighbourhood social control; and stigma in families exposed to the programme, compared to the matched control families. The communication and implementation networks that were established to foster community involvement in this important project have, through their interaction with researchers, decision-makers and one another, evolved into structures that may in future serve as a resource to address other community-based development challenges.

CHAMP now faces the challenge of disseminating the programme more widely to other areas where the need for community and school-based interventions has been identified. To this end, CHAMP now has successfully established a non-profit organisation, to survive the life of the project, to solicit the necessary funding from national and international sources for further intervention support.

The CHAMP project serves as an excellent example of good research leading not only to peer-reviewed publications but also to changes in the quality of life of people involved in the research project itself, through the introduction of relevant implementation networks, support structures and empowerment initiatives.

9. Events between the financial year-end and the publication of this report

- The Shareholder's Compact between the Council of the HSRC and the Minister of Science and Technology was signed in May 2006.
- Dr Sinfree Makoni and Dr Temba Masilela, respectively ED of SCI and head of the Policy Analysis unit, took office on 1 July 2006.
- Several initiatives aimed at staff development and support were introduced and strengthened. Examples include a leadership development programme, gender sensitivity courses, training of staff in media relations, the purchase of relaxation chairs to help relieve staff of stress, and work towards establishing a new cafeteria in the Pretoria Building.
- The establishment of a travel desk to form part of the new SCM unit.

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10. Achievement of performance targets

The year under review was both challenging and satisfying. A new CEO took office, a new vision and strategic approach was introduced, and internal restructuring took place without any job losses. At the same time, HSRC managers and staff managed to remain focused on the immediate tasks at hand: meeting financial targets and responding to client needs while continuing to deliver proposals, projects and publications to satisfy the needs of clients as well as the stringent requirements of academic excellence.

Performance targets for 2005/06 remained aligned with the COUPE strategy and associated indicators of performance. In preparation for a renewed and deepened focus on transformation and sustainability, detailed indicators and targets of performance were added.

The extent to which the HSRC responded to challenges, and performed against predetermined targets, can be summarised as follows:

The HSRC's strategic plan for 2005/06 and beyond prioritised, as one of its overarching financial objectives, a closer alignment between the HSRC's Parliamentary grant allocation and its external income. A 50 : 50 ratio is envisaged for 2009/10. This year, the HSRC moved closer to this strategic objective. Although it achieved lower than budgeted external income for the year, it placed itself under pressure to ensure that the financial year would not be concluded with a deficit. It is hoped that the Parliamentary grant allocations for 2007/08 and beyond will, in turn, be further increased to match the HSRC's levels of external income.

According to the COUPE strategy, the HSRC was meant to focus its activities on the achievement of six sentinel indicators. If these six are separated out from table 6 on pages 172-175, it is clear that the HSRC did exceptionally well in meeting, or exceeding each one of these targets for 2005/06. This represents excellent performance across a range of performance areas over time:

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	2000/01 baseline	2004/05 achievement	2005/06 achievement	2005/06 target	Remarks
CONTRACTS	21	64	58	63	✓ Item 3
OUTREACH	22	51	67	50	✓ Item 5(a)
USER NEEDS	24	43	51	33	✓ Item 6
PERFORMANCE: Equity	40	51	51	55	✗ Item 10(a)
PERFORMANCE: Efficiency	30	53	54	52	✓ Item 14
EXCELLENCE	0,23	0,99	0,86	0,75	✓ Item 19(a)

The HSRC scored five out of six in terms of its performance against the sentinel COUPE targets for 2005/06. The sentinel indicator for Performance: Equity (percentage of research staff – excluding interns and fieldworkers – who are black) remains a challenge. The HSRC is determined to improve on this indicator. A three-pronged approach has been identified in this regard: retain key staff, recruit new staff and build research capacity of interns and fieldworkers. If research interns and research fieldworkers are included in the analysis, the percentage of black staff in the “researcher” category is 61%.

Table 6 on pages 172 to 175 contains, in total, 51 detailed performance indicators and associated targets. Some of these detailed targets have been set for the first time for 2005/06, and some of them have been deliberately idealistic. The Council is satisfied that the HSRC has performed well in respect of each of these targets.

With an overall detailed score of 30 out of 51, the HSRC did well in responding to each of the targets it had set itself in a challenging year. Where targets have been missed, the margin was small, with the exception of the targets set for staff currently enrolled towards further studies.

With respect to specific indicators or groups of indicators against which performance has been lower than anticipated, the following should be noted:

- Achievement of external income targets (items 1, 2 and 12): The HSRC managed to contain expenditure to counter the relatively lower levels of external income achieved during 2005/06. More realistic external income targets will be set for some units, e.g. SAHARA, in future.
- Representativeness (items 9, 10 and 11): The overall staff complement was 65% black, as opposed to the target of 66% that had been set for the year. The recruitment, retention and development of suitable senior research staff from designated groups (item 10) is seen as a top priority for the HSRC. Challenges also remain at executive management level (item 11), where numbers are small and where movements of one or two persons have profound effects on percentages reported. The Council has already approved the appointment of two African, male EDs with effect from 1 July 2006.
- Qualification levels of research staff, and further studies (items 17 and 20): In most instances, the required percentages of staff with at least a master's or doctoral degree have been missed by a small margin. Other indicators of research excellence, particularly relating to publications, show that the calibre of HSRC research staff is excellent. The relative underperformance with regard to the targets set for staff enrolled towards further studies will be further analysed in 2006/07. Performance against this target is significantly better than past performance against

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for the period ending 31 March 2006

a similar target, expressed in terms of bursaries allocated to staff. This target will be adjusted in future to reflect a balance between institutional and individual aspirations, available levels of institutional support (financial as well as in terms of time to support studies) and individual commitment. The HR unit and the Capacity Development unit will play an important role in refining and possibly revising this indicator for future reference.

Institutional performance indicators and targets will be presented under PAITECS rubrics in future. The HSRC remains committed to identifying key areas requiring focused attention, in order to support ongoing institutional transformation, learning and growth. Individual and institutional performance management remains in place to ensure that our commitment to research excellence, quality, and integrity remains intact.

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TABLE 6: KEY PERFORMANCE INDICATORS AND TARGETS FOR 2005/06

No	Strategic objective	Key performance indicator	Target 2005/06	Performance 2005/06	Remark	Performance 2004/05	Performance 2003/04
	Contracts and earnings <i>Increasing research earnings</i>	("Financial investment perspective")					
1		Achievement of income target: Total income	R236 million	R217 million	Not achieved	R237 million	R187 million
2		Achievement of income target: External research income (<i>including ring-fenced funding</i>)	R141 million	R119 million	Not achieved	R140 million	R103 million
3	SENTINEL INDICATOR	Dependency ratio: External research earnings (<i>including ring-fenced funding</i>) as a percentage of total research earnings (Parliamentary grant plus external research earnings)	63%	58%	Target exceeded	64%	62%
4		Variance in budgeted expenditure: Surplus or deficit for year, as % of turnover	5%	0,7%	Target exceeded	2%	0,1%
	Outreach <i>Assertive outreach to universities and NGOs, locally and internationally</i>	("Stakeholder perspective")					
5	SENTINEL INDICATOR	% of research projects with external researcher participation	(a) 50% of all projects with income (b) 60% of projects with income \geq R 500 000 p.a.	a. 67% b. 89%	Target exceeded	51%	62%

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No	Strategic objective	Key performance indicator	Target 2005/06	Performance 2005/06	Remark	Performance 2004/05	Performance 2003/04
User Needs <i>Focusing the research on user needs, especially of government "clusters" for policy-relevant research</i>		("Customer perspective")					
6	SENTINEL INDICATOR	Known successful proportion of total competitive tender/funding applications submitted, at May	33%	51%	Target exceeded	43%	40%
7		"User-driven approach" – % of research projects that are partially or fully externally funded	60%	79%	Target exceeded	67%	60%
8		Free media coverage	R20 million	R70,4 million	Target exceeded	R46 million	R23 million
Performance – equity:		("HR and Transformation perspective")					
9		Overall staff representativeness			Almost achieved	63%	60%
		a. % Black staff: overall	66%	a. 65%	Achieved	39%	53%
		i. % African	45%	i. 41%	w.r.t.	14%	
		ii. % Coloured	12%	ii. 15%	coloured, Indian	10%	
		iii. % Indian	9%	iii. 9%	Still too high w.r.t. female		
		b. % female staff: overall	53%	b. 57%	Not achieved	58%	
		c. % staff with a disability: overall	2%	c. 1%		1%	
10	SENTINEL INDICATOR (a)	Research staff representativeness (interns and fieldworkers excluded)			Not achieved w.r.t. black, African	51%	51%
		a. % Black research staff	55%	a. 51%	research staff with a disability	31%	
		i. % African	36%	i. 27%		9%	
		ii. % Coloured	9%	ii. 12%		11%	
		iii. % Indian	10%	iii. 12%	Achieved w.r.t. coloured, Indian female	43%	38%
		b. % female research staff	45%	b. 48%		1,5%	(new for 04/05)
		c. % research staff with a disability	2%	c. 1,7%			

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No	Strategic objective	Key performance indicator	Target 2005/06	Performance 2005/06	Remark	Performance 2004/05	Performance 2003/04
11		Executive management representativeness (EDs, COO & CEO) a. % Black executive managers i. % African ii. % Coloured iii. % Indian b. % female executive managers c. % disabled executive managers	66% 25% 8% 33% 42% Not set	a. 55% i. 9% ii. 9% iii. 36% b. 45% c. N/a	Not achieved w.r.t. race Achieved w.r.t. gender	50% 17% 0% 33%	(new for 04/05) 42% 33% 0%
Performance – efficiency:							
12		(“ Organisational perspective”) Productivity of HSRC investment in its employees: External research earnings per head (all permanent and longer-term contract staff)	R448 000	R424 630	Not achieved	R486 000	R394 768
13		Share of payroll spent on researcher salaries	61%	61%	Achieved	62%	72%
14	SENTINEL INDICATOR	Proportion of researchers in total staff	52%	54%	Target exceeded	53%	58%
15		Overhead efficiency: Ratio of non-overhead costs to total costs	0,70	0,71	Target exceeded	0,75	0,72
16		Salaries to total expenditure	48%	52%	Target exceeded	47%	44%
Excellence:							
Achieving excellence in research							
17		(“ Innovation and Learning perspective”) Human capital: Proportion of researchers (excluding interns and fieldworkers) with master's and doctoral degrees a. All researchers b. Black researchers	92% 92%	a. 90% b. 87%	Not achieved	92% 91%	91% 89,2%

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for the period ending 31 March 2006

No	Strategic objective	Key performance indicator	Target 2005/06	Performance 2005/06	Remark	Performance 2004/05	Performance 2003/04
17		i. % African ii. % Coloured iii. % Indian c. Female researchers	92% 92% 92%	i. 91% ii. 79% iii. 86% c. 89%			87,8%
18		Number of books, journal articles, reports (per average senior researcher head) a. All researchers b. Black researchers i. African ii. Coloured iii. Indian c. Female researchers	3,0 3,0 3,0 3,0 3,0	a. 3,79 b. 4,32 i. 3,37 ii. 4,50 iii. 6,69 c. 4,02	Achieved and exceeded	2,9 1,8	3,2 2,1
19	SENTINEL INDICATOR (a)	Number of refereed journal articles per average senior researcher head a. All researchers b. Black researchers i. African ii. Coloured iii. Indian c. Female researchers	0,75 0,6 0,6 0,75 0,6	a. 0,99 b. 1,03 i. 1,00 ii. 1,08 iii. 1,08 c. 0,93	Achieved and exceeded	0,79 0,47	0,66 0,38
20		Staff enrolled towards relevant further qualifications: a. Research staff enrolled towards master's or doctoral degrees, as percentage of research staff without such degrees b. % of interns enrolled towards master's or doctoral degrees c. % of administrative staff enrolled towards higher education qualifications	60% 70% 40%	a. 33% b. 65% c. 15%	Not achieved overall	42% 44% Not recorded	New indicator: Not recorded

Statement of Financial Performance for the period ending 31 March 2006

	Notes	2006 R'000	2005 R'000
Continuing operations			
Research revenue	1	113 896	136 607
Research cost	4	(53 687)	(63 314)
Gross research income		60 209	73 293
Parliamentary grants	2	85 130	79 198
Parliamentary grants ring-fenced	2	5 000	4 000
Other income	3	12 977	17 603
		163 316	174 094
Administrative expenses	5	(51 853)	(60 676)
Staff costs	6	(95 412)	(89 721)
Other operating expenses	7	(9 150)	(12 720)
Depreciation	8	(5 383)	(6 183)
Surplus for the year		1 518	4 794

Statement of Financial Position

for the period ending 31 March 2006

	Notes	2006 R'000	2005 R'000
Assets			
Non-current assets			
Property, plant and equipment	9	81 617	49 494
Investment property	10	-	-
		81 617	49 494
Current assets			
Inventory	11	2 023	1 474
Trade and other receivables	12	20 304	33 603
Prepayments and advances	13	1 162	128
Cash and cash equivalents	14	15 903	30 375
		39 392	65 580
Total assets		121 009	115 074
Net assets and liabilities			
Capital and reserves			
Capital and income funds		76 468	46 994
Deferred income	18	4 331	5 003
		80 799	51 997
Non-current liabilities			
Provisions	21	8 086	7 472
		8 086	7 472
Current liabilities			
Trade and other payables	19	8 163	9 899
Income received in advance	20	23 961	45 706
		32 124	55 605
Total net assets and liabilities		121 009	115 074

Statement of Changes in Net Assets for the period ending 31 March 2006

	Income funds			Capital funds	Deferred income	Total
	Surplus funds	"Own-risk" insurance fund	General reserve			
	R'000	R'000	R'000	R'000	R'000	R'000
Balance at 1 April 2004	(5 040)	400	16 000	42 059	5 865	59 284
Transfer to general reserve	(8 219)	-	8 219	-	-	-
Net surplus for the year	4 794	-	-	-	-	4 794
Allocated from income during the year	-	-	-	-	(4 764)	(4 764)
Allocated from general reserve	-	-	(11 219)	-	-	(11 219)
Portion of Parliamentary grant utilised to acquire depreciable fixed assets for the year	-	-	-	-	3 902	3 902
Balance at 1 April 2005	(8 465)	400	13 000	42 059	5 003	51 997
Transfer to general reserve	8 365	-	-	-	-	8 365
Revaluation surplus	-	-	-	32 991	-	32 991
Net surplus for the year	1 518	-	-	-	-	1 518
Allocated from income during the year	-	(400)	-	-	(3 551)	(3 951)
Allocated from general reserve	-	-	(13 000)	-	-	(13 000)
Portion of Parliamentary grant utilised to acquire depreciable fixed assets for the year	-	-	-	-	2 879	2 879
Balance at 31 March 2006	1 418	-	-	75 050	4 331	80 799

Cash Flow Statement

for the period ending 31 March 2006

	Notes	2006 R'000	2005 R'000
Cash flows from operating activities			
Cash receipts from customers		229 549	232 173
Cash paid to suppliers and employees		(240 684)	(258 929)
Cash utilised in operations	22	(11 135)	(26 756)
Interest paid		-	-
Net cash outflows from operating activities		(11 135)	(26 756)
Cash flows from investing activities			
Proceeds on disposal of property, plant and equipment		215	12 969
Proceeds from investment		1 191	458
Acquisition of property, plant and equipment		(4 743)	(4 643)
Net cash (outflows)/inflows from investing activities	23	(3 337)	8 784
Net decrease in cash and cash equivalents		(14 472)	(17 972)
Cash and cash equivalents at the beginning of the year		30 375	48 347
Cash and cash equivalents at end of the year	14	15 903	30 375

Accounting Policies

for the period ending 31 March 2006

Basis of presentation

The financial statements have been prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP) including any interpretations of such statements issued by the Accounting Practices Board, with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board replacing the equivalent GAAP Statement as follows:

Standard of GRAP

GRAP1: Presentation of financial statements
 GRAP2: Cash flow statements
 GRAP3: Accounting policies, changes in accounting estimates and error

Replaced Statement of GAAP

AC101: Presentation of financial statements
 AC118: Cash flow statements
 AC103: Accounting policies, changes in accounting estimates and errors

1. Terminology differences:

Standard of GRAP

Statement of financial performance
 Statement of financial position
 Statement of changes in net assets
 Net assets
 Surplus/deficit for the period
 Accumulated surplus/deficit
 Contributions from owners
 Distributions to owners
 Reporting date

Replaced Statement of GAAP

Income statement
 Balance sheet
 Statement of changes in equity
 Equity
 Profit/loss for the period
 Retained earnings
 Share capital
 Dividends
 Balance sheet date

2. The cash flow statement can only be prepared in accordance with the direct method.
3. Specific information such as:
 - (a) receivables from non-exchange transactions, including taxes and transfers;
 - (b) taxes and transfers payable;
 - (c) trade and other payables from non-exchange transactions; must be presented separately on the statement of financial position
4. The amount and nature of any restrictions on cash balances is required to be disclosed. Paragraph 11 – 15 of GRAP1 has not been implemented as the budget reporting standard is in the process of being developed by the international and local standard setters. Although the inclusion of budget information would enhance the usefulness of the financial statements, non-disclosure will not affect fair presentation.

Accounting Policies

for the period ending 31 March 2006

Revenue

Revenue includes investment and non-operating income exclusive of value-added taxation. Revenue that resulted from the rendering of research and related services is acknowledged at the stage of completion, determined according to the percentage cost to date in relation to the total estimated cost of the project. Revenue from the sale of goods is recognised when significant risk and rewards of ownership of goods are transferred to the buyer. Revenue arising from royalties is recognised on an accrual basis in accordance with the substance of the relevant agreement.

Parliamentary grants received

Baseline grant

Parliamentary grants are accounted for in the period to which each grant relates.

Grants for depreciable and non-depreciable assets

Depreciable assets

Current year Parliamentary grants in respect of depreciable assets (excluding buildings) are allocated to income over the period of and in proportion to the depreciation, which is written off against such assets. A corresponding amount in respect of the relevant non-depreciable assets disposed of during the year is also allocated to income in the period in which it is disposed of. The balance of the Parliamentary grant not recognised in the statement of performance is disclosed as deferred income.

Non-depreciable assets

Parliamentary grants in respect of non-depreciable assets are allocated to income when received. A corresponding amount is then transferred from income funds to capital funds as an appropriation of accumulated funds per the statement of changes in net assets.

Accounting Policies

for the period ending 31 March 2006

Property, plant and equipment

Freehold land and buildings

Freehold land and buildings are accounted for separately.

Freehold land

Land has an unlimited useful life and therefore is not depreciated.

Buildings

Buildings will be treated as owner occupied property, owner occupied property will be stated at fair value less depreciation.

The owner-occupied property will be depreciated at 2% per annum.

Valuation method

A valuation of owner-occupied property will be performed every three years based on the income capitalisation method. The market value is determined from the ability of the property to produce a rental income taking into account the expenses to produce the rental income which is capitalised at a market-related rate and taking into account the risk, age and condition of the property with existing buildings. Any surpluses that occur due to the revaluation of land and buildings are directly allocated to capital funds.

Equipment

Artwork is treated as an investment and is not depreciated and carried at cost.

All other types of equipment are stated at cost and depreciated on the straight-line basis over their estimated useful lives.

The annual depreciation rates applied to the various categories of equipment are:

Motor vehicles	25%
Office furniture	20%
Computer and other equipment	33,3%
Library books and manuscripts	33,3%
Software	50%

All assets that were bought with donor funds or grants, except freehold land and buildings, and that were donated to the community on termination of the project were depreciated fully over the lifetime of the project.

Investment property

Investment property is property held to earn rentals. Investment property is stated at fair value and a valuation will be performed every three years based on the income capitalisation method. The fair value is determined from the ability of the property to produce a rental income, taking into account the expenses to produce the rental income which is capitalised at a market-related rate and taking into account the risk, age and condition of the property with existing buildings. Any surpluses that occur due to revaluation of the investment property are directly allocated to the capital funds.

Accounting Policies

for the period ending 31 March 2006

Inventories

Inventories are valued at the lower of cost price or net realisable value. The net realisable value is the net of the selling price, during normal business, less any completion costs or selling costs. Cost is determined on the weighted average method. Inventories are made up of one category, namely publications.

Operating leases

Lease agreements are classified as operating leases where substantially the entire risks and rewards incident to ownership remain with the lessor. Lease income is recognised on a straight-line basis over the lease term. Costs incurred in earning lease income are charged against income. Initial direct costs incurred specifically to obtain the operating lease are written off when incurred.

Post-employment benefit cost

Pensions are provided for employees by means of three separate pension funds to which contributions are made. With regard to the Human Sciences Research Council Pension Fund (HSRCPF), and with effect from 1 April 1992, previous and current service costs and adjustments based on experience and additional funding for retired employees are acknowledged in the income statement as soon as the liability is known. With regard to the Associated Institutions Pension Fund (AIPF) and the Temporary Employees Pension Fund (TEPF), only the Council's contributions to the pension funds are recognised in the income statement.

Deferred income

Parliamentary grants in respect of certain depreciable assets are allocated to income over the period of, and in proportion to, the depreciation written off against such assets. A corresponding amount in respect of the relevant non-depreciable assets disposed of during the year is allocated to income in the period in which it is disposed of. The balance of Parliamentary grants not recognised in the income statement is disclosed as deferred income. Other funds, including previous year surplus funds that are utilised in respect of the acquisition of depreciable assets are not treated as deferred income.

Foreign currency transactions

Transactions in foreign currencies are accounted for at the rate of exchange ruling on the date of the transaction. Liabilities in foreign currencies are accounted for at the rate of exchange ruling at the balance sheet date, or at the forward rate determined in forward exchange contracts. Exchange differences arising from conversion are recognised in the income statement in the period in which they occur.

Post-retirement medical aid benefits

The HSRC contributed voluntary to post-retirement medical aid benefits of specific employees who opted to remain on the previous conditions of service when the benefit was terminated and the HSRC does not provide for post-retirement medical aid benefits to employees.

Accounting Policies

for the period ending 31 March 2006

Capital funds

A Parliamentary grant in respect of non-depreciable assets is allocated to income when it is received. A corresponding amount is then transferred from income funds to capital funds as an appropriation of accumulated funds per the statement of changes in equity. Other funds, included previous years' surplus funds, that are utilised in respect of the acquisition of non-depreciable assets are not accounted for in capital funds.

Provisions

Provisions are raised when a present legal or constructive obligation exists as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Financial instruments

Financial instruments carried on the balance sheet include cash and bank balances, receivables and trade payables. These instruments are generally carried at their estimated fair value. Receivables are carried net of the estimate of doubtful receivables.

Related parties

The Human Sciences Research Council operates in an economic environment currently dominated by entities directly or indirectly owned by the South African Government. As a result of the constitutional independence of all three spheres of government in South Africa, only parties within the national sphere of government will be considered to be related parties.

Key management is defined as being individuals with the authority and responsibility for planning, directing and controlling the activities of the entity. We regard all individuals from the level of Executive Director up to the Council as key management per the definition of the standard.

Close family members of key management personnel are considered to be those family members who may be expected to influence, or be influenced by key management individuals in their dealings with the entity.

Other related party transactions are also disclosed in terms of the requirements of the standard. The objective of the standard and the financial statements is to provide relevant and reliable information and therefore materiality is considered in the disclosure of these transactions.

Notes to the Annual Financial Statements

for the period ending 31 March 2006

	2006 R'000	2005 R'000
1 Research revenue		
An analysis of the HSRC's revenue is as follows:		
Rendering of services:		
Private Sector	9 613	16 159
Public Corporations	4 297	10 777
Public Sector	31 672	30 210
International Funding Agencies	66 152	62 257
National Funding Agencies	722	16 302
Professional services	1 440	902
Total	113 896	136 607
2 Parliamentary grants		
Grant allocation 2005:		
Parliamentary grants	84 458	80 060
VAT portion	12 335	-
Parliamentary grant – Ring-fenced	4 500	4 500
	101 293	84 560
Parliamentary grant	85 130	79 198
Parliamentary grant received	84 458	80 060
Plus: transferred from deferred income	672	(862)
Special Parliamentary grant	5 000	4 000
Special Parliamentary grant	4 500	4 500
Plus/(Less): rolled over portion	500	(500)
Total	90 130	83 198
3 Other income		
Rental income	6 067	8 501
Profit on disposal of assets	-	6 081
Product sales	718	998
Investment income	1 191	458
Other	5 001	1 565
Total	12 977	17 603

The HSRC's rental income is derived from rental of office space and parking to the Department of Social Development and also from rental of conference facilities.

Notes to the Annual Financial Statements

for the period ending 31 March 2006

	2006	2005
	R'000	R'000
4 Cost of sales		
Direct labour expense	17 211	19 825
Direct research cost	36 476	43 489
Total	53 687	63 314
5 Administrative expenses		
General and administrative expenses	50 723	60 312
Auditor's remuneration	1 093	751
Audit fees – external	593	751
– internal	500	-
Net foreign exchange losses/(gains)	37	(387)
Total	51 853	60 676
6 Salaries and benefits		
6.1 Wages and salaries	87 609	82 564
Defined pension contribution plan expense	95	72
Defined contribution plan	7 164	6 513
Social contributions (employer's contributions)	64	21
Official unions and associations	64	21
Post-retirement medical benefit	480	551
Total	95 412	89 721
6.2 Non-benefit portion of salaries in cost of sales	17 211	19 825
Total	112 623	109 546

Notes to the Annual Financial Statements

for the period ending 31 March 2006

<i>Council members and executive management remuneration</i>					
	Fees for services as Council members	<i>Managerial services</i>			Total
		Basic salary	Bonuses and performance-related payments	Retirement fund and medical aid contributions	
2006	R	R	R	R	R
<i>Council members of the HSRC</i>					
Ms P.N. Gasa*	3 200	258 136	-	-	261 336
Professor G.J. Gerwel (Chair)	35 352	-	-	-	35 352
Dr P. Gobodo-Madikizela	38 552				38 552
Professor W.E. Morrow	40 914	-	-	-	40 914
Mr M.E. Motala	25 048	-	-	-	25 048
Mr S.M. Pityana	5 379	-	-	-	5 379
Mr M.V. Sisulu	7 258	-	-	-	7 258
Professor E.C. Webster	13 868	-	-	-	13 868
Ms P. Ntombela Nzimande	5 637				5 637
Mr T. Makwetu	18 829				18 829
<i>Executive member</i>					
Dr F.M. Orkin (President and CEO of the HSRC) (1/4/05–31/7/05)	-	817 521	507 339	64 732	1 389 592
Dr O. Shisana (President and CEO of the HSRC) (1/8/05 – 31/3/06)		770 752	79 040	110 071	959 863
<i>Senior management</i>					
Executive Directors **	-	7 201 503	1 040 398	1 136 601	9 378 502

* Ms P.N. Gasa was contracted as an external service provider to a specific project at the time of her appointment as a member of Council. Her contracted obligations to that project will continue until its conclusion.

** Executive Directors of the HSRC as on 31 March 2006 are listed below.

Dr R. Maharaj	Dr U. Pillay
Dr A. Kanjee	Professor L.M. Richter
Dr A.H. Kraak	Professor A.M. Habib
Dr M.A. Altman	Dr L.C. Rispel
Professor M.J. Kahn	Dr X.M.T. Mangcu (1/4/05 – 31/12/05)
Dr O. Shisana (1/4/05 – 31/7/05)	Mr M.J. de Klerk

Notes to the Annual Financial Statements for the period ending 31 March 2006

	2006	2005
	R'000	R'000
7 Other operating expenses		
Staff training and development	1 033	1 000
Legal fees	532	1 237
Maintenance, repairs and running costs	5 942	8 247
- Property and buildings	1 400	2 262
- Machinery and equipment	3 460	4 126
- Other maintenance, repairs and running costs	1 082	1 859
Reversal of inventory write-down	-	(73)
Entertainment expense	277	173
Fruitless and wasteful expenditure	3	135
Other	1 363	2 001
Total	9 150	12 720
8 Depreciation		
- Buildings	1 236	1 177
- Computer and other equipment	2 699	4 049
- Vehicles	406	186
- Software	190	55
- Office furniture and fittings	852	715
- Library books	-	1
Total	5 383	6 183

Notes to the Annual Financial Statements

for the period ending 31 March 2006

9 Property, plant and equipment

	Total	Land	Buildings	Artwork	Motor vehicles	Office furniture	Computer and other equipment	Software	Library books, manuscripts
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
2006									
Opening net carrying amount	49 494	2 986	39 324	240	698	2 710	3 536	0	0
Gross carrying amount	85 268	2 986	42 808	240	1 046	6 206	26 881	372	4 729
Accumulated depreciation	(35 774)	0	(3 484)	0	(348)	(3 496)	(23 345)	(372)	(4 729)
Revaluation	32 991	2 152	30 839	0	0	0	0	0	0
Additions	4 743	0	651	0	429	482	2 396	785	0
Transferred to investment property	0	0	0	0	0	0	0	0	0
Disposal and adjustments	(228)	0	0	0	(146)	0	(82)	0	0
Carrying amount	(541)	0	0	0	(212)	0	(326)	0	(3)
Accumulated depreciation	313	0	0	0	66	0	244	0	3
Depreciation	(5 383)	0	(1 236)	0	(406)	(852)	(2 699)	(190)	0
Closing net carrying amount	81 617	5 138	69 578	240	575	2 340	3 151	595	0
Gross carrying amount	122 461	5 138	74 298	240	1 263	6 688	28 951	1 157	4 726
Accumulated depreciation	(40 844)	0	(4 720)	0	(688)	(4 348)	(25 800)	(562)	(4 726)
2005									
Opening net carrying amount	51 080	2 986	40 493	236	180	1 631	5 497	57	0
Gross carrying amount	80 820	2 986	42 800	236	371	4 417	24 910	372	4 728
Accumulated depreciation	(29 740)	0	(2 307)	0	(191)	(2 786)	(19 413)	(315)	(4 728)
Additions	4 642	0	8	4	727	1 793	2 109	0	1
Transferred to investment property	0	0	0	0	0	0	0	0	0
Disposal and adjustments	(45)	0	0	0	(24)	0	(21)	0	0
Carrying amount	(194)	0	0	0	(52)	(4)	(138)	0	0
Accumulated depreciation	149	0	0	0	28	4	117	0	0
Depreciation	(6 183)	0	(1 177)	0	(185)	(714)	(4 049)	(57)	(1)
Closing net carrying amount	49 494	2 986	39 324	240	698	2 710	3 536	0	0
Gross carrying amount	85 268	2 986	42 808	240	1 046	6 206	26 881	372	4 729
Accumulated depreciation	(35 774)	0	(3 484)	0	(348)	(3 496)	(23 345)	(372)	(4 729)

Notes to the Annual Financial Statements

for the period ending 31 March 2006

9 Property, plant and equipment (continued)

The Land is register as Stand 3242 Pretoria, measuring 7 655 m², Registration division JR, Transvaal and is situated at 134 Pretorius Street, Pretoria. The building consists of a reception area, offices, parking area, conference centre and a cafeteria built on land above. The valuation was conducted by an independent valuer, Mr Nico Fenwick of Fenwick Valuations with reference to the income capitalisation method. Transactions involving the sale of other buildings were investigated as an alternative basis of valuation but were not used because of uncertain comparability. Under the income capitalisation method, the market value is determined from the ability of the property to produce a rental income, taking into account the expense to produce the rental income, capitalised at a market-related rate, taking into account the risk, age and condition of the property with existing buildings.

The rental income is based on the ability of the building to produce market-related income stream-based on market-related rentals, and it is based on a five-year lease period with an escalation of 10% per year.

10 Investment property

	2006 R'000	2005 R'000
Opening balance at fair value	-	6 850
- Disposals	-	(6 850)
Closing balance at fair value	-	-

Riviera, Pretoria: Portion 58 (a portion of Portion 14), of the farm Rietfontein 321, measuring 2,3371 hectares, and the remaining portion of Stand 233, measuring 7 189 m², registration division JR, Transvaal, situated at 185 Rose Street, Riviera, Pretoria. The property was leased out under an operating lease. An independent external valuator, Fenwick Valuations, carried out a valuation on 28 March 2002 to determine the open market value between a willing seller and a willing buyer, as on the date of valuation. The property was valued at R6,85 million. The investment property was sold in March 2005 with approval from the Department of Science and Technology and National Treasury.

11 Inventories

Finished goods	2 023	1 474
Total	2 023	1 474

Inventory consists of publications carried at net realisable value

Notes to the Annual Financial Statements

for the period ending 31 March 2006

	2006 R'000	2005 R'000
12 Trade and other receivables		
Trade receivables	21 565	35 525
Less: Provision for doubtful debts	(1 261)	(1 922)
	20 304	33 603
Other receivables – VAT	-	-
Total	20 304	33 603
13 Prepayments and advances		
Prepayments	1 162	128
Total	1 162	128

14 Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term, highly liquid investments, that are held with registered banking institutions with maturities of three months or less and that are subject to insignificant interest rate risk. The carrying amount of these assets approximates to their fair value.

Cash at bank	1 644	1 276
Cash on hand	30	29
Short-term investments	14 229	29 070
Total	15 903	30 375
Included in the short-term investments are the following funds invested on behalf of donors:-		
Conflict and governance facility	503	-
Ford Foundation	338	675
Department of Social Development	808	-
Canadian International Development Agency	880	-
DGIS (Netherlands Dutch Directorate-General for International Cooperation)	-	763
WK Kellogg Foundation	7 601	21 438
	10 130	22 876
HSRC's funds	4 099	6 194
	14 229	29 070
Cash at bank	1 644	1 276
Cash on hand	30	29
Total	15 903	30 375

As required in section 7(2) and 7(3) of the Public Finance Management Act, the National Treasury has approved the local bank where bank accounts are held.

Notes to the Annual Financial Statements for the period ending 31 March 2006

15 Pension funds

Pension benefits are provided by membership of the Associated Institutions Pension Fund (AIPF), the Government Employees Pension Fund (GEPF) and the HSRC Pension Fund (HSRCPF). The AIPF and GEPF are government institutions. The state has assumed responsibility for any under-funding of these funds. The HSRCPF is a defined benefit and a defined contribution retirement fund that provides lump-sum payments and pensions to retiring staff and/or their dependants as well as death and disability benefits. The HSRCPF is registered in terms of the Pension Funds Act 1956 (as amended).

The administrators of the fund, ABSA Consultants and Actuaries, completed an additional interim valuation of the fund to coincide with the HSRC financial year-end, on 31 March 2006. For the purpose of this valuation, the assets in respect of the defined contribution members (198 members) were taken into account at full market value as these members are now entitled to the full market value of their investments achieved under the HSRCPF. The total value of the assets of the defined contribution members, as at the valuation date, amounted to R50,569 million.

With regard to the pensioners and the three members entitled to defined benefits, the assumptions made regarding the expected trajectory of the HSRCPF included no of deaths, withdrawals or early retirements. These assumptions as well as expected rates of salary increase, return on investment and operational costs, were used to calculate the discounted value of the accrued liabilities for all of the defined benefit members on the interim valuation date for comparison with the available assets of the HSRCPF. (See table below.) On this basis the accrued liability of the HSRCPF to these members as at the additional interim valuation date amounted to R1,516 million.

Pension fund valuation:

	Defined benefit pension fund	
	2006 R'000	2005 R'000
Present value of funded liabilities	1 516	1 282
Future value of plan assets	(7 955)	(5 946)
Funded status	(6 439)	(4 664)
Actuarial gains	1 637	184
Net asset	(4 802)	(4 480)
Number of members	5	5

The apportionment of the surplus will be completed with the finalisation of the statutory valuation of the fund for October 2005, therefore the asset cannot be determined at 31 March 2006.

Principal actuarial assumptions:

	2006	2005
	%	%
Valuation rate	7,4	7,9
Inflation rate	4,6	4,1
Salary increase rate	5,6	5,1
Expected investment return rate	8,4	7,6

Notes to the Annual Financial Statements

for the period ending 31 March 2006

15 Pension funds (continued)

Pension fund members:

	HSRC defined benefit pension fund	HSRC defined contribution fund
	%	%
Members as a percentage of total employment	1,06	69,96
Contribution rate	25,80	23,43
Members contribution (% of pensionable salary)	7,90	7,50
Employer contribution (% of pensionable salary)	19,70	15,93

16 Post-retirement medical benefits

Defined Contribution Plan:

As from 1 August 1997, post-retirement medical benefits are provided by membership of a Provision Fund (Fund) administered by Liberty Life of Africa Limited.

The HSRC, for staff who did not belong to the medical aid scheme on 1 August 1997, contributes a monthly amount of R100 on behalf of the members to the Fund. The HSRC, for staff who joined the service of the HSRC after 1 April 1998, irrespective of whether they joined the medical aid scheme or not, contributes an amount of R100 per month on behalf of the members to the Fund. The Fund value as at 31 March 2006 was R9,872 million.

Voluntary contributions:

Currently the HSRC contributes voluntary to the current continuation members (97 members) an average amount of R482 per month. There are two members in active employment who are entitled to this contribution after continuation as at 31 March 2006. If this contribution was guaranteed by the HSRC, the actuarial accrued liability would have been R4,662 million.

Notes to the Annual Financial Statements

for the period ending 31 March 2006

17 Uncovered foreign currency monetary items

At 31 March 2006 the HSRC had the following foreign exchange currency transactions not covered by forward exchange contracts.

Year				Year			
2006				2005			
British pound	Euro	US dollar	British pound	Australian dollar	Canadian dollar	Euro	US dollar
'000	'000	'000	'000	'000	'000	'000	'000
20	27	175	0,5	3	8	3	34
Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand
'000	'000	'000	'000	'000	'000	'000	'000
220	198	1 077	6	12	41	16	207

18 Deferred income

Government grants received, to be recognised in future accounting periods

Balance at the beginning of the year

Portion of grant used for depreciable assets

Less: allocated to Income Statement

Portion of grant used for depreciable assets

2006	2005
R'000	R'000
5 003	5 865
2 879	3 902
7 882	9 767
(3 551)	(4 764)
4 331	5 003

19 Trade and other payables

Trade creditors

VAT input

Deposits

Total

7 093	9 600
954	183
116	116
8 163	9 899

The Council considers that the carrying amount of trade and other payables approximates to their fair value.

20 Income received in advance

Advances

Closing balance

23 961	45 706
23 961	45 706

Income received in advance relates to research work still to be completed in the new financial year.

Notes to the Annual Financial Statements

for the period ending 31 March 2006

21 Provisions

	Salary and related expense provision	Legal cost	Total
	R'000	R'000	R'000
Opening balance	7 243	229	7 472
Utilisation of provisions during the year	-	-	-
Unused amounts reversed during the year	-	-	-
Provisions made during the year	614	-	614
Less: current portion of provision	-	-	-
Closing balance	7 857	229	8 086

The leave pay and bonus provision relates to the HSRC's estimated liabilities arising as a result of services rendered by employees.

22 Reconciliation of profit/(loss) before taxation to cash generated from/(utilised in) operations

	2006 R'000	2005 R'000
Profit before taxation	1 554	4 794
Adjusted for:		
- Allocation to retained earnings	(13 400)	(11 219)
- Depreciation on property, plant and equipment	5 383	6 183
- Restatement of income	8 365	
- Loss/(profit) on disposal of property, plant and equipment	14	(6 081)
- Investment income	(1 191)	(458)
- Increase/(decrease) in provisions	614	(82)
- Deferred income	(672)	(862)
Operating cash flows before working capital changes	667	(7 725)
Working capital changes	(11 802)	(19 031)
- Increase in inventories	(549)	(250)
- Decrease/(increase) in receivables	12 265	(6 052)
- Decrease in payables	(23 518)	(13 229)
Cash utilised in operations	(11 135)	(26 756)

Notes to the Annual Financial Statements

for the period ending 31 March 2006

	2006 R'000	2005 R'000
23 Net cash from/(used in) investing activities		
Interest received	1 191	458
Proceeds on disposal of property, plant and equipment	215	(29)
Acquisition of property, plant and equipment	(4 743)	(4 642)
Disposal of investment property	-	12 997
Cash from/(used in) investing activities	(3 337)	(8 784)

24 Operating lease arrangements

The HSRC has leased office space to the Department of Public Works at 134 Pretorius Street, Pretoria for a period of 60 months, effective from 1 May 2001. A new lease is to be signed, effective from 1st of May 2006 for a period of three years. The projected lease payment is R0,65 million per month. The contract is expected to include an annual escalation of 8% in the rental.

	Up to 1 year		1 to 5 years	
	2006 R'000	2005 R'000	2006 R'000	2005 R'000
Future minimum lease payments expected to be received	7 866	5 339	17 608	448

Investment property

	2006 R'000	2005 R'000
Rental income	-	2 468
Direct operating expenses	-	62

The HSRC has leased office space from Old Mutual Assurance Company (South Africa) Limited at Plein Street, Cape Town, Portions of the 10th, 14th and 16th floors and the entire 12th and 13th floors for a period of seven years, effective from 1 October 2005. The lease payment is R0,126 million per month. The contract is expected to include an annual escalation of 9% in the rental.

	Up to 1 year		1 to 5 years		More than 5 years	
	2006 R'000	2005 R'000	2006 R'000	2005 R'000	2006 R'000	2005 R'000
Future minimum lease payments	1 728	826	9 885	10 340	-	1 272

Notes to the Annual Financial Statements for the period ending 31 March 2006

24 Operating lease arrangements (continued)

The HSRC also leased property in Durban from Alliance Properties the lease agreement expired on 30 April 2006, the new lease agreement is expected to be signed in June 2006 and it should be effective as from 1 May 2006 and the lease period is expected to be three years. The lease payment is expected to be R0,038 with a 10% escalation clause.

	Up to 1 year		1 to 5 years	
	2006	2005	2006	2005
	R'000	R'000	R'000	R'000
Future minimum lease payments	423	-	1 106	-

A lease agreement was signed with Standard Bank for lease of a vehicle, the agreement was made effective from 4 October 2005 and for a period of three years. An amount of R 0,123 million (incl. vat) was paid upfront and the lease payment is R0,003 over 38 months.

	Up to 1 year		1 to 5 years	
	2006	2005	2006	2005
	R'000	R'000	R'000	R'000
Future minimum lease payments expected to be received	36	-	55	-

25 Capital expenditure

Approved by management, but not yet contracted

The capital expenditure is to be financed as follows:

Internally-generated funds

	2006 R'000	2005 R'000
Approved by management, but not yet contracted	4 100	3 200
Internally-generated funds	4 100	3 200

Notes to the Annual Financial Statements

for the period ending 31 March 2006

	2006 R'000	2005 R'000
26 Financial instruments		
Financial instrument asset		
Bank balances	15 903	30 375
Trade receivables	20 304	33 603
Total financial instrument assets	36 207	63 978
Financial instrument liability		
Trade payables	8 163	9 899
Other adjustments	649	881
VAT liability	(970)	(184)
Total financial instrument liability	7 842	10 596

27 Financial risk management

Interest rate risk

The Council invests surplus cash on fixed notice deposits for periods of 32 days. Interest rates on these deposits are fixed for the period of investment. Other funds are kept in the current and call accounts at variable interest rates.

Liquidity risk

The Council maintains sufficient funds available in call and current accounts to meet its three-month cash-flow requirements. Temporary surplus cash is invested in fixed deposits.

Credit risk management

The Council invests temporary cash surpluses with a major South African bank of high standing.

28 Related parties

The Human Sciences Research Council is one of 3A schedule National Public Entities in terms of the Public Finance Management Act (Act 1 of 1999 as amended) and therefore falls within the national sphere of government. As a consequence the Human Sciences Research Council has a significant number of related parties being entities that fall within the national sphere of government.

Unless specifically disclosed these transactions are concluded on an arm's length basis and the HSRC is able to transact with any entity.

Notes to the Annual Financial Statements

for the period ending 31 March 2006

28 Related parties (continued)

Transactions with related entities

The following is a summary of transactions with related parties during the year and balances due at year-end:

2006

	Services rendered	Services received	Amount due from	Amount due to
	R'000	R'000	R'000	R'000
Major public entities	4 904	0	1 391	-
National government business enterprises	184	244	155	-
	5 088	244	1 546	-

2005

	Services rendered	Services received	Amount due from	Amount due to
	R'000	R'000	R'000	R'000
Major public entities	7 360	1	59	-
National government business enterprises	430	123	217	-
	7 790	124	276	-

Report of the Human Sciences Research Council (HSRC) Audit Committee - 2005/06

Report of the Human Sciences Research Council (HSRC) Audit Committee – 2005/06

We are pleased to present our report for the financial year ended 31 March 2006.

Audit Committee responsibility

The Audit Committee reports that it has complied with its responsibilities arising from section 38 of the *Public Finance Management Act, 1999*. This report has been prepared according to the Treasury Regulations for public entities issued in terms of the PFMA and promulgated in Gazette 7372 on 25 May 2002. The HSRC is listed as a national public entity in Schedule 3A of the Act.

Audit Committee members and meetings

The entity's accounting authority, the HSRC Council, appointed the present Audit Committee members on 9 February 2006. During the year under review (2005/06) the Committee consisted of Messrs T. Makwetu (Council member and Chairperson), and R.J. Page-Shipp (specialist member), Professor W.E. Morrow (Council member), and Ms R. Xaba (specialist member). The President of the HSRC, Dr O. Shisana (CEO and Council member) is an *ex officio* member of the Audit Committee.

The Audit Committee met on 23 May 2005, 25 July 2005, 7 November 2005 and 2 February 2006. In addition to the above members, persons attending Committee meetings by standing invitation include the Internal Auditor, the Chief Financial Officer and representatives of the Office of the Auditor-General and its agent. Where necessary, the Committee met separately with external and internal auditors.

The effectiveness of internal control

The system of internal control is effective as the various reports of the internal auditors, the Audit Report on the Annual Financial Statements, and the management letter of the Auditor-General have not reported any significant or material non-compliance with prescribed policies and procedures.

Report of the Human Sciences Research Council (HSRC) Audit Committee - 2005/06

Evaluation of Financial Statements

The Audit Committee has reviewed the Annual Financial Statements of the HSRC (including the Council's Report), the Report of the Auditor-General and periodic reports submitted to the Audit Committee by the Internal Audit section of the organisation. In the context of our understanding, the Committee is satisfied that the major financial risks of the entity are appropriately managed and that the financial statements are a fair reflection of the HSRC's activities in the last fiscal year. The Audit Committee concurs and accepts the conclusions of the Auditor-General on the Annual Financial Statements and is of the opinion that the audited Annual Financial Statements be accepted and read together with the report of the Auditor-General.



T. MAKWETU
Chairperson of the Audit Committee
Human Sciences Research Council
Pretoria

31 July 2006