

ANNUAL FINANCIAL STATEMENTS

31 March 2004

CONTENTS

83	Annual Financial Statements
84	Report of the Auditor-General
86	Council's Report
116	Balance Sheet
117	Income Statement
118	Statement of Changes in Equity
119	Cash Flow Statement
120	Summary of Accounting Policies
123	Notes to the Annual Financial Statements
133	Report of the HSRC Audit Committee – 2003/04



ANNUAL FINANCIAL STATEMENTS

31 March 2004

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 2003/04 Annual Financial Statements set out on pages 86 to 132 were approved by the Council of the HSRC on 20 May 2004. In the Council's opinion the Annual Financial Statements fairly reflect the financial position of the HSRC at 31 March 2004 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 organisation's status.

A handwritten signature in black ink, appearing to read 'G.J. Gerwel', is written above a horizontal line.

Professor G.J. Gerwel
Chairperson: HSRC Council

A handwritten signature in black ink, appearing to read 'F.M. Orkin', is written above a horizontal line.

Dr F.M. Orkin
President and CEO

Pretoria, 20 May 2004



REPORT OF THE AUDITOR-GENERAL

to Parliament on the financial statements and the performance information
of the Human Sciences Research Council for the year ended 31 March 2004

1. Audit assignment

The financial statements as set out on pages 86 to 132, for the year ended 31 March 2004, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 3 and 5 of the Auditor-General Act, 1995 (Act No. 12 of 1995) and section 13(3) of the Human Sciences Research Act, 1968 (Act No. 23 of 1968). These financial statements, the maintenance of effective control measures and compliance with the relevant laws and regulations are the responsibility of the accounting authority of the Human Sciences Research Council. My responsibility is to express an opinion on these financial statements, based on the audit.

The performance information contained in the Council's report for the year ended 31 March 2004 as set out on pages 86 to 114 is the responsibility of the accounting authority. My responsibility is to provide an assessment of the fairness and consistency of the performance information of the Human Sciences Research Council (HSRC) against the predetermined objectives set out in the Human Sciences Research Council's strategic plan. My role is not to express an opinion on the appropriateness and relevance of the performance measures themselves nor to evaluate or comment on the entity's actual performance.

2. Nature and scope

2.1 Audit of financial statements

The audit was conducted in accordance with Statements of South African Auditing Standards. 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, and
- evaluating the overall financial statement presentation.

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations which came to my attention and are applicable to financial matters.

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

2.2 Audit of performance information

The Human Sciences Research Council has reported its performance on pages 112 to 114 of its Council's report, under the title "Table 6: Performance targets". My assessment covers only that section, but does not include all other pages of the Council's report. To assess this additional information adequately would require a separate examination. I did review the entire report for consistency with the performance information.

I assessed the performance information against the entity's predetermined objectives set out in the Human Sciences Research Council's strategic plan.

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



3. Audit opinion

3.1 Audit of financial statements

In my opinion, the financial statements fairly present, in all material respects, the financial position of the Human Sciences Research Council at 31 March 2004 and the results of its operations and cash flows for the year then ended in accordance with generally accepted accounting practice and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999).

3.2 Audit of performance information

In my opinion, the performance information furnished in terms of section 55(2)(a) of the Public Finance Management Act, 1999 (Act No. 1 of 1999) fairly presents, in all material respects, the performance of the Human Sciences Research Council for the year ended 31 March 2004 against predetermined objectives on a basis consistent with that of the preceding year.

4. Emphasis of matter

Without qualifying the audit opinion expressed above, attention is drawn to the following matters:

4.1 Internal audit

The Internal Audit Charter of the HSRC does not comply with Treasury Regulation 27.2.5 which requires that the purpose, authority and responsibility of the internal audit function must, in consultation with the Council, be formally defined in an audit charter and be consistent with the Institute of Internal Auditors definition of internal auditing. Furthermore, the internal audit function did not have a formal audit methodology as required by Treasury Regulation 27.2.6. During the 2003/04 financial year, the audit committee and the Council took the decision to outsource the internal audit function as from the 2004/05 financial year.

5. Appreciation

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

N. Manik
for Auditor-General

Pretoria
14 July 2004

COUNCIL'S REPORT

for the period ending 31 March 2004

1. Mandate and objectives of the HSRC

The mandate of the Human Sciences Research Council (HSRC) is derived from the Human Sciences Research 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 in 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, universities, technikons, colleges of 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 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.

It is planned to revise the Human Sciences Research Act over the next year or two to align it with current and future priorities as informed by the strategic reorientation and recent Institutional Review of the HSRC, national priorities and strategies with particular reference to the national R&D strategy; the White Paper on Science and Technology, other research-related policies, and relevant legislation such as the Public Finance Management Act (PFMA).

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 CEO of the HSRC, on a five-year contract, and s/he serves as a further, *ex officio* member.

More colloquially, and in this report, "the HSRC" is taken to refer to the wider organisation – including approximately 270 employees in five 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 from, and also reports to, the Department of Science and Technology (DST).

2.2 Members of the Council

The term of office of the Council appointed from 1 November 1999 expired on 31 October 2003. The Minister of Arts, Culture, Science and Technology extended this period by six months, to allow Council to receive and respond to the Report of the Institutional Review, which took place in October 2003. The Minister of Science and Technology subsequently extended Council's term of office by a further six months, until 31 October 2004.

Members of the Council during the 2003/04 period were:

- Professor G.J. Gerwel (Chair)
- Dr N.N. Gwagwa
- Mrs N. Jordan
- Professor W.E. Morrow
- Mr E. Motala
- Mrs P. Ntombela-Nzimande
- Mr M.V. Sisulu
- Dr F.M. Orkin (President and Chief Executive Officer of the HSRC)



Dr V.T. Maphai was a member of Council until 31 October 2003. At the conclusion of the reporting period there were three vacancies on the Council.

In March 2003 the Minister of Arts, Culture, Science and Technology called for nominations for suitable candidates to be considered for appointment to the next HSRC Council. The new Minister of Science and Technology will appoint this Council following due consultation and approval by Cabinet. The new Council's four-year term of office will start on 1 November 2004.

The Council met on 29 May 2003, 28 August 2003, 27 November 2003 and 16 February 2004.

2.3 Responsibilities of the Council

In terms of the PFMA, the Council is the accounting authority for the HSRC. The Act 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 were maintained in the organisation. Appropriate accounting policies, supported by reasonable and prudent judgements and estimates, were applied on a consistent basis.

The PFMA requires organisations funded with public money to formalise delegations. 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) of the ten research programmes and Corporate Services, which were approved on 29 May 2003. The preparation of onward delegations from the EDs to directors and other senior levels of staff was nearly completed by the end of the financial year.

On the basis of the Annual Financial Statements for 2003/04 and information regarding the forthcoming financial year, Council has every reason to believe that the HSRC will remain a going concern. It continues to receive substantial Parliamentary grant funding via the Science Vote (increased to R78,336m plus R4,5m ring-fenced grant for 2004/05). External research income targets are likely to be met or exceeded, based on historical evidence and a substantial amount of external income already secured in the form of longer-term research contracts or grants (an estimated amount of R61m for 2004/05 was already contracted by February 2004).

2.4 Subcommittees

The Council has five subcommittees: an Executive Committee, a Human Resources Committee, a Remuneration Committee, a Research Committee and an Audit Committee.

2.4.1 Executive Committee

On 31 March 2004 the Executive Committee comprised the following members:

Professor G.J. Gerwel (Chair)

Mr E. Motala

Dr F.M. Orkin (President and CEO)

Dr V.T. Maphai was a member of the Executive Committee until 31 October 2003. The Executive Committee did not need to meet during the year under review.

2.4.2 Human Resources Committee

On 31 March 2004 the Human Resources Committee comprised the following members:

Mrs N. Jordan

Dr F.M. Orkin (President and CEO)

Dr V.T. Maphai was Chairperson of the Human Resources Committee until 31 October 2003, whereafter the position of Chair became vacant. The Human Resources Committee met jointly with the Remuneration Committee on 29 May 2003, 28 August 2003, 27 November 2003 and 16 February 2004.

COUNCIL'S REPORT

for the period ending 31 March 2004 (continued)

2.4.3 Remuneration Committee

On 31 March 2004 the Remuneration Committee comprised the following members:

Professor G.J. Gerwel (Chair)
Mr E. Motala
Dr F.M. Orkin (President and CEO)

Dr V.T. Maphai was a member of the Remuneration Committee until 31 October 2003. The Remuneration Committee met jointly with the Human Resources Committee on 29 May 2003, 28 August 2003, 27 November 2003 and 16 February 2004.

2.4.4 Research Committee

On 31 March 2004 the Research Committee comprised the following members:

Professor G.J. Gerwel
Mrs N. Jordan
Professor W.E. Morrow
Mr E. Motala
Dr F.M. Orkin (President and CEO)

Dr V.T. Maphai was a member of the Research Committee until 31 October 2003. The Research Committee met on 23 January 2004. Members of the Research Committee also monitored and contributed to the HSRC Research Conference in June 2003.

2.4.5 Audit Committee

The members of the HSRC Audit Committee are appointed for a calendar year. During 2003/04 the Audit Committee comprised two specialist external members (plus one vacancy) and two members of Council.

The specialist members were:

Mr S.A.H. Kajee, BCompt (Hons) CIA AGA (SA) MBA (Chair)
Mr R.J. Page-Shipp, MSc

The members of Council on the Audit Committee were:

Dr N.N. Gwagwa
Dr F.M. Orkin (President and CEO)

The Audit Committee functions in accordance with the PFMA and associated Treasury regulations. Although the Audit Committee has not yet adopted formal terms of reference as outlined in the King Report, it 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, debtors' reports and the annual external audit report of the HSRC.

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.

Under the guidance of the Audit Committee, a strategic assessment of the HSRC's risk areas during its transition was conducted in 2001/02. This will be periodically revisited, with an initial follow-up exercise in April 2004. The Committee monitors risk management in the organisation on an ongoing basis (see section 7).

During 2003, a corporate governance review was undertaken by co-sourced internal audit partners. The report of this review was noted by Council and points for follow-up action were identified. In accordance with the requirements of the PFMA, a draft fraud prevention plan was prepared and a finalised version will be considered for approval by Council. The Audit Committee also supervised an Information Technology audit, undertaken by co-sourced internal audit partners.

It met on 8 May 2003, 7 August 2003, 18 November 2003 and 5 February 2004.

2.5 Research Ethics Committee

Council approved the establishment of a Research Ethics Committee (REC) in 2002, with the mandate to scrutinise 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 Council. It has ten internal representatives from the research programmes and five external members. It 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 April 2003. During the remainder of the financial year it met ten times and considered some 40 project proposals. All proposals were approved; some following incorporation of feedback from the Committee and re-submission. The REC revised the HSRC Code of Research Ethics in 2003/04. It successfully applied to the US Office of Research Protections for Federalwide Assurance within its first year of operation and was granted Institutional Review Board status. (Federalwide Assurance FWA 00006347 posted at <http://ohrp.cit.nih.gov/search/asearch.asp>.)

During 2003/04 the external Committee members were:

- Professor Peter Cleaton-Jones – Dental Research Institute, University of the Witwatersrand (Chair)
- Professor Martin Prozesky – Unilever Ethics Centre, University of Natal
- Dr Percy Mahlati – Senior Technical Advisor to the Director-General of the Department of Health
- Ms Khanyisha Nevhuthalu – Ethics Institute of South Africa
- Dr Martin Bulmer – University of Surrey, UK

The deputy chairperson of the Ethics Committee is Professor Linda Richter, a research executive 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 member of Council to serve on interview panels for executive directors, in accordance with an agreement reached with the Union in 1998.

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

No instances occurred of losses or irregularities as referred to in section 55(2)(b) of the PFMA, and defined in the Materiality Framework developed and agreed in terms of Treasury Regulations 28.1.5:

The Framework, adopted by 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 R432 665, or 0,25% of the overall budget for 2003/04;
- (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.

The organisation did not suffer any material losses through criminal conduct or any irregular expenditure and fruitless and wasteful expenditure that occurred during the financial year; thus there were no criminal or disciplinary steps taken as a consequence nor any losses recovered or written off.

COUNCIL'S REPORT

for the period ending 31 March 2004 (continued)

2.9 Review of the Human Sciences Research Council

During 2002/03 Council was entrusted by DST to provide terms of reference to, and receive the report of, a Panel appointed to undertake an independent Institutional Review of the HSRC. The Review was planned in 2002/03, and took place in 2003/04.

This undertaking was intended to assess the extent to which recommendations from the 1997 Institutional Review of the HSRC, and 1998 System-wide Review of all science councils, had been implemented. In addition, the following issues were raised in the terms of reference to the Review Panel:

- the relevance of the HSRC – the impact it is achieving and the appropriateness of its objectives;
- the performance of the HSRC in its sphere of operations nationally and internationally – its use of resources and production of outputs;
- how the HSRC is contributing, and can better contribute, to meeting South African and African development priorities;
- organisational issues, and
- possible implications or recommendations for a new name and Act for the organisation.

The Review Panel consisted of the following members:

Professor Akilagpa Sawyerr (Ghana), Chairperson

Dr Trevor Coombe (South Africa), Deputy Chairperson

Ms Pregs Govender (South Africa)

Professor Carolyn Hamilton (South Africa)

Professor Teboho Moja (USA and South Africa)

Mr James Mullin (Canada)

Dr Zavareh Rustomjee (South Africa)

Preparations for the Review were overseen by a planning committee, which included Mr Enver Motala as Council representative, Dr Trevor Coombe as local representative of the Review Panel, members of Executive Management and research EDs.

The Review took place from 29 September to 10 October 2003. During this time, members interacted extensively with dozens of internal and external stakeholders and were supplied with extensive documentation. The bulk of their work was done in Pretoria, but they also visited the HSRC office in Cape Town.

The Panel presented a draft of its report to members of the HSRC Council and Executive Management on 10 October. Feedback from this interaction was incorporated into the final report submitted to Council on 14 November 2003.

In the Preface to the Review Report, the Chairperson of the Panel remarked on the openness of the review process, and concluded that "the HSRC of 2003 is a different and much better organisation than the HSRC of 1997", having earned the respect given to it for "the breadth, quality and relevance of its contributions to the study and practice of social development in South Africa".

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

- a proposed set of five "public purposes" for the HSRC, to inform deliberations on the fundamental purpose of the HSRC, as input to the preamble of the proposed new Act, and for setting of programme priorities;
- more systematic and sustainable models of research networking and collaboration in South Africa and Africa;
- operational issues, including the need to strengthen services and systems to support research activities in the various offices of the HSRC;
- ongoing and deepened transformation in the organisation and its research activities, taking into account gender and disability alongside race as particular concerns, and emphasising the special needs of previously disadvantaged and marginalised communities and individuals, and
- engaging with questions of data preservation, access to data and intellectual property as part of a public policy debate and process.



The Report was published and widely distributed for public comment in December 2003. It is also available on the HSRC's website at www.hsrc.ac.za.

Council recorded its appreciation to the members of the Panel in a Foreword to the Report, and pointed out that there were many recommendations that it readily accepted, whereas others would require further consultation and deliberation. Council affirmed that the task of the HSRC to foster collaborative research networks was not separable from, nor should it overweigh, the HSRC's continuing responsibility to undertake policy-relevant research in the social interest. In addition, the Council felt that the proposed public purposes of the HSRC required careful reflection and consultation before including them in new legislation. The financial and other implications of some recommendations would also need to be weighed before commitments could be made in such regard.

The recommendations of the Review Panel fed into the strategic research planning process of the HSRC at its November *lekgotla*, and helped it to identify strategic objectives for 2004/05.

At its February 2004 meeting, Council approved a scheme that summarised the main recommendations of the Review, identified steps to respond to the recommendations, setting provisional time frames and identifying responsible persons. The CEO and Executive Management of the HSRC will be taking this process forward, and report to Council on progress made.

A number of other science councils also held their reviews during the previous two years. A special meeting of COHORT, the Committee of Heads of Research and Technology Institutions, held on 4 March 2004, reflected on lessons learned from the recent reviews. This meeting was facilitated by the HSRC.

2.10 Strategic focuses of the Council's term

The Report of the previous Institutional Review of the HSRC, in 1997, had concluded that the organisation was overloaded with administrative staff, inward-looking, unrepresentative, beset by cumbersome procedures, and producing work of uneven relevance and quality. This Report effectively provided the transformation agenda for the new Council, which took office in 1999, and for the new CEO, who was appointed by the Council in 2000. The aim of the transformation was to equip the HSRC to respond better to its mandate, to undertake and to foster comprehensive policy-relevant research oriented towards development priorities in South Africa and the continent, especially as expressed in the needs of major Government and public-sector users.

The diagnoses of the 1997 Review, read in conjunction with the HSRC's mandate, indicated five major areas to the new Council and CEO in which far-reaching improvements had to be achieved: sustainability, networking, relevance, representivity and excellence.

To undertake these improvements, an action-oriented strategy was developed in consultation with HSRC research and support divisions as well as the Council and other stakeholders: the HSRC's five-part "COUPE" strategy, summarised in the vision of "Social science that makes a difference". The five components of the acronym are:

- Increasing **contract** earnings and grants from research foundations – achieved especially through large-scale, multi-project, interdisciplinary research programmes – in line with annual targets, to ensure the HSRC's financial sustainability.
- Undertaking assertive **outreach** to universities, NGOs and other research entities, locally and internationally, in order to build networks of collaboration in these programmes and their component projects.
- Ensuring the relevance of the programmes by focusing on the needs of **users** – especially of public-sector entities and Government departments at national, provincial and local level – for policy-relevant research and implementation monitoring.
- Enhancing organisational **performance**, in line with key performance indicators, in two key respects: improving representivity in regard to race, gender and disability through focused recruitment as well as capacity-building; and improving organisational efficiency with competitively sized, technologically equipped, service-oriented support functions.
- Achieving **excellence** in two related respects: by assuring the quality of research through publications as well as professional engagement; and advancing the qualifications of the researchers through professional development.

COUNCIL'S REPORT

for the period ending 31 March 2004 (continued)

The COUPE strategy is monitored through organisation-level Key Performance Indicators (KPIs), both quantitative and qualitative, developed within the well-known "balanced scorecard" framework at the instance of the DST. The indicators included in this Report are aligned with the simplified approach recommended by DST in 2003. A set of quantitative indicators is tabulated in section 10, and a subset of seven key indicators and associated targets is covered each year in the message from the CEO in the Annual Report.

The relevance of the measures is scrutinised each year by the HSRC Council and its Audit Committee. From time to time DST also requests extra coverage. Progress against annual targets is monitored by the CEO, who introduces additional measures where targets are not yet achieved (e.g. the introduction of a quota system to ensure representivity, and the inclusion of journal publications as a requirement in researchers' conditions of service).

During 2003/04, the Key Performance Areas (KPAs) of staff, which provide the framework for the annual setting of each staff member's performance objectives and the performance appraisal a year later, were aligned with the COUPE strategy. In this way, the system for managing and mentoring performance has been aligned to the strategic focuses of the wider organisation.

In addition, in terms of corporate governance, this was the first HSRC Council to be entrusted with the range of responsibilities outlined in the PFMA of 1999, the principles of the two King Reports on Corporate Governance and the Protocol on Corporate Governance in the public sector.

The Council's Report in the 2002/03 Annual Report included a cumulative overview of the major changes and achievements during the four years of its term of office until that time. This need not be repeated here. Rather, new developments in the latest financial year, with the necessary comparative historical context, are set out below. Broad organisational developments are outlined in section 3. The expansion of research, and the changing balance of contracts and grants, are presented in sections 4 and 5. Section 6 provides an overview of the growth and composition of the HSRC's staff complement. Sections 7 and 8 provide the reporting on the management of risk and corporate responsibility required by the PFMA. Section 9 mentions developments between the end of the financial year and the time of compilation. Section 10 tabulates the organisation's quantitative KPIs.

Council wishes to acknowledge the support of the Ministers and Deputy Ministers of Arts, Culture, Science and Technology during its term of office. Dr Ben Ngubane MP was the Minister over nearly all of the present Council's term of office. His encouragement and discerning guidance were warmly appreciated, as was the engagement of successive Deputy Ministers during that period, Mrs Brigitte Mabandla MP and Mrs Buyelwa Sonjica MP. The Director-General of the Department, Dr Rob Adam, and his officials have provided knowledgeable support and frank advice. The Council also wishes to recognise the energetic and committed work of the CEO, his research leaders and support management teams, and all the staff of the HSRC during this period of very rapid growth and transformation. The punctilious support of Council's secretary, Mrs Jurina Botha, is recorded with appreciation.

3. Organisational developments

Following the fundamental restructuring of the administration of the HSRC during 2001/02, and the subsequent re-alignment and extension of its ten research components, the ensuing years have seen a rapid expansion of activities from the various HSRC offices in South Africa as well as beyond its borders. This expansion has required continuous improvements in the support infrastructure. However, since most of the growth in the HSRC's income for this period has been derived from earnings made in a competitive environment, the improvements have had to be won within financial constraints, requiring efficiencies through better organisational systems or use of technology. Some of these developments in the last financial year are described below.

3.1 Consolidation of the organisation's administration and infrastructure

The rapid ontake of new research staff, more research projects, and more complicated contracting arrangements for national and international projects, coupled with the expansion of offices to five different sites – Bloemfontein, Cape Town, Durban,



Port Elizabeth and Pretoria – necessitated the provision of organisation-wide information and communication technology (ICT) and communications support. This massive development received priority in the 2002/03 budget year, when business processes were documented, infrastructural weaknesses identified, and mechanisms put in place to improve the flow of information.

The 2003/04 budget year saw the first phase of implementation of Project Insight, an incremental solution to deal with the requirements for more powerful systems and software. It was initially hoped to procure an integrated "enterprise resource planning" software system from one of the South African agents and installers of the major international providers. However, an exhaustive scoping and tendering exercise showed that this would be too costly. Project Insight is the HSRC's home-grown response to the funding constraints on the one hand, and on the other hand, the need for better alignment with internal user needs, using new "intelligent" packages that draw upon rather than replace existing software. However, as noted by the 2003 Review Panel, the pressures of ambitious research endeavours on support functions remain a challenge, and will thus remain on the agenda for 2004/05.

Project Insight has several other aspects. One has been the upgrading of the HSRC's "intranet", the internal website. The organisation's intranet provides a common platform to house policy-related information, answers to "frequently asked questions", access to electronic library indexes and holdings, and a portal to other resources and sites of use to researchers.

Tendering for a telephone switchboard that spans all the sites has been initiated, and arrangements have been discussed with Telkom for it to be integrated with the HSRC's national wide-area digital network.

Communication between the different HSRC offices is further supported by the video-conference facility linking Cape Town, Durban and Pretoria, which also provides for additional simultaneous linkages via telephone lines with the Bloemfontein and Port Elizabeth offices. These facilities are extensively used, and allow for significant savings in terms of researcher time and travel costs. They have also enabled staff and visitors to the various HSRC offices to participate in the popular bi-weekly HSRC research seminar series.

The refurbishment of most of the HSRC-occupied floors in the Pretoria building was completed. The new design has proved to be successful and popular. It allows for more light and shared spaces, supporting the HSRC's transformation to an open, collaborative research organisation. Refurbishment costs were provided for by deploying approved amounts from the surplus accumulated in previous budget years.

Also as part of Project Insight, simplified policies and procedures to guide financial, operational and human resources management in the HSRC are developed and updated in consultation with internal stakeholders, while ensuring that Government regulatory frameworks are adhered to.

A comprehensive VAT audit was undertaken by SARS in January 2003. All queries raised by SARS were resolved.

During 2003/04, the test sales and distribution arm of the HSRC, called Promark, was successfully outsourced. Preparation for the public tender involved an analysis of the instruments offered for sale, requirements of the Health Professions Council of South Africa, contractual arrangements involving intellectual property rights, and the interests of employees currently employed in Promark. A final agreement was signed with the successful tenderer in May 2004.

Senior appointments made in the support components during 2003/04 include new directors for Corporate Communications, Project Finance, and Operations. The Head: Library and Information Services was promoted to Director level, and a Contracts and Grants Co-ordinator was appointed to provide support with legal aspects of preparing and managing research contracts.

3.2 Management, communication and monitoring systems

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.

Executive directors held monthly "ED workshops" according to a structured agenda that specifically provides for discussions on major policy issues; periodic reports including financial statements and projections; shared organisational learning; and matters requiring co-ordination.

There were also fortnightly sessions among the top 30 research managers, to share new contacts, review tender opportunities, and consider the volume of work and other organisational demands on the research programmes.

COUNCIL'S REPORT

for the period ending 31 March 2004 (continued)

Well-attended research seminars were held almost weekly, with video-conference and telephone links among the centres, many also attended by interested staff from Government departments, NGOs and higher education institutions.

A Researcher Forum was established to enable researchers from all research programmes and offices to raise and discuss matters of common interest, including policies and practices affecting productivity and professional development. The draft constitution of the Forum also provides for two representatives to attend ED workshops, and meetings of the HSRC Council. Elected representatives from all research programmes attended the first meeting on 16 October 2003, when an executive committee was chosen.

Two large *lekgotlas* involving EDs, senior research and support staff, as well as all the representatives on the Researcher Forum, were held before the end of the financial year. The November *lekgotla* identified broad researcher strategies and concerns, by paying particular attention to recommendations of the HSRC Review Panel, as well as national research priorities emerging from Government's Ten Year Review report. The January *lekgotla* focused in more detail on funding allocations and targets, proposed project portfolios of the research programmes, methodological issues and identification of potential areas of overlap and collaboration between the various research programmes.

Members of the Council's Research Committee attended one or both days of the January *lekgotla*, and interacted with HSRC staff on some of the themes emerging from group and plenary discussions, during the concluding session of the *lekgotla*. These discussions informed the setting of some broad parameters of the work programme for 2004/05. The CEO thereafter finalised Parliamentary grant allocations, external income targets, and vacancies for appointments with representivity quotas, for the individual research programmes. Each programme then convened review panels, with outside experts, to scrutinise major projects drawing upon the Parliamentary grant.

The first HSRC Research Conference was held over two days, on 12 and 13 June 2003, at a conference centre near the Johannesburg airport. The introductory session involving a panel of "critical friends" invited lively discussions on the nature of social science research, and the role of the HSRC in the research landscape. Nearly two-thirds of HSRC researchers and interns, as well as external collaborators involved in HSRC projects read or heard approximately 100 papers in parallel streams providing complementary research topics, methodologies and insights.

The arrangement of a "Happy Hour" at the close of business on the first Friday of the month was sustained, at which information was shared on recent achievements of the organisation. The annual event to recognise the achievements of colleagues receiving doctoral degrees or long-service awards took place in November 2003.

By the end of the review period, six of the ten research programmes were headed out of the Cape Town and Durban offices. The Bloemfontein office was officially launched in June 2003, and the research presence in Port Elizabeth was maintained.

HSRC staff have access to collective bargaining in terms of the recognition agreement between Management and the Public Servants Association (PSA) signed on 9 May 2002. In addition to the annual salary negotiations, regular meetings between the Union and Management were held that finalised a sabbatical leave policy, the HIV/AIDS wellness and support programme, and reviewed the performance management system.

3.3 Judicial proceedings filed during the year

In terms of labour relations, three legal matters dating from 2001/02 and earlier are still in process.

The HSRC was involved in two further court cases. One involved outstanding payments in excess of R1m for a completed research contract. Following summary judgement in favour of the HSRC, the outstanding amount was recovered. The other case led to an interdict against a publishing house that reprinted a directory of development organisations, unlawfully using records obtained from a database conceived, funded and developed in the HSRC.

3.4 Developments in the research programmes

The structure and leadership of the ten research programmes is shown in Table 1.



Research Programme	Label	Executive Director
Assessment Technology and Education Evaluation	ATEE	Dr Anil Kanjee (Dr Vijay Reddy)
Child, Youth and Family Development	CYFD	Professor Linda Richter
Democracy and Governance	D&G	Professor Roger Southall
Employment and Economic Policy Research	EEPR	Dr Miriam Altman
Human Resources Development	HRD	Dr Andre Kraak
Integrated Rural and Regional Development	IRRD	Mr Mike de Klerk
Knowledge Management	KM	Professor Michael Kahn
Social Aspects of HIV/AIDS and Health	SAHA	Dr Olive Shisana
Social Cohesion and Integration	SCI	Professor Wilmot James (Mr Adrian Hadland)
Surveys, Analyses, Modelling and Mapping	SAMM	Dr Udesch Pillay

Table 1: Research Programmes

During 2003/04, two executive directors were on extended leave. Dr Vijay Reddy was appointed Acting Executive Director for the Assessment Technology and Education Evaluation Research Programme for the period August 2003 to July 2004 while Dr Anil Kanjee was on sabbatical leave at the Educational Testing Service in Princeton, USA. Mr Adrian Hadland deputised for Professor Wilmot James of the Social Cohesion and Integration Research Programme during his part-time visiting fellowship at California Institute for Technology from August 2003 to July 2004.

At the year-end *lekgotlas*, questions were identified of overlap among the three research programmes handling education-related topics, and possible confusion among users and funders. After extensive consultations among EDs and the research staff immediately involved, the Education Policy Research Programme was closed, and its staff and research projects redeployed in three cognate research programmes from June 2003.

In accordance with a new accelerated representivity policy, recommended to Council by the executive directors, Professor Adam Habib was appointed ED-designate – to be the successor of Professor Roger Southall from 1 April 2004 in the Democracy and Governance Research Programme. Professor Southall will continue as a Distinguished Research Fellow.

During 2003/04, research EDs further developed and consolidated their research programmes. Three senior appointments were made at director level: two in SAHA, and one in CYFD. The next section contains more information on trends and developments in the research activities of the programmes, and highlights are covered near the beginning of this Annual Report.

By March 2004, the end of the reporting period, the number of researchers in the HSRC had grown from 130 to 156, rising from 52% to 58% of all staff over the past three years. New permanent appointments were mostly made at specialist levels, further improving overall qualification and experience levels.

Junior researchers were mainly appointed in contract positions, of one to three years' duration, in new project-based research-internship programmes that were started in several of the research programmes. These junior researchers were involved in research projects and benefited from mentoring from experienced researchers while pursuing their formal studies at universities. Funding for some of the internship positions was obtained from international foundations.

The large number of interns (fluctuating around 30) outweighed the increase in specialists from 84 to 89. As a result, the proportion of the latter in the overall researcher complement decreased from 65% to approximately 57%. The improvements in the proportions of black and female researchers are dealt with in section 6.

The ten research programmes were set up to be multi-disciplinary, cross-cutting and flexible and oriented to development problems and user needs. They are proving to function well in terms of intra-institutional collaboration. Recent examples of collaboration between research programmes in the HSRC include IRRD and D&G on regional resource flows in Africa; CYFD, SAMM and D&G on a rural education project (funded by the Nelson Mandela Foundation); HRD and EEPR on the HRD Directory (funded by a

COUNCIL'S REPORT

for the period ending 31 March 2004 (continued)

ring-fenced allocation from DST); KM and ATEE on mathematics and science education; SAHA and EEPR on the impact of HIV/AIDS in the health sector (funded by the CDC and Department of Health, via Medunsa), and SCI and SAHA on aspects of AIDS and stigma.

Collaboration with outsider institutions, notably universities, has also been maintained in more than half the projects, and is discussed subsequently.

4. Review of research activities

Many of the research projects carried out by the ten research programmes of the HSRC are summarised in the Highlights near the beginning of the Annual Report. More details on the purpose, activities, users and impact of the research are provided in the subsequent sections devoted to each of the programmes. This part of the Council's Report concentrates instead on the financial and other aspects of the HSRC's research process and systems: the relationship of the Parliamentary grant to external earnings, improvements in the composition of the external earnings, trends in the mix of projects by size, outreach to research collaborators, the enhanced publication and communication of results, and investments in research infrastructure to ensure its sustainability.

4.1 Earnings from research contracts and grants

Aspects of the COUPE strategy that was described in section 2.10 seek to assure the financial sustainability of the HSRC, by focusing on tenders and grant applications for large-scale applied social research projects. The level of earnings from the resulting contracts and grants is a key indicator of the HSRC's progress (among the many measures covered below in section 10). The growth in this indicator has been dramatic, since the CEO introduced the COUPE strategy and corresponding organisational developments on taking office in mid-2000/01.

Annual earnings from research contracts and grants, i.e. from activities that were invoiced to users before the end of the respective financial year, have risen in nominal terms from R6m in 1999/2000, through R16m in 2000/01 – when COUPE was initiated – to R28m in 2001/02, R61m in 2002/03, and R103m (including a R5m ring-fenced grant from DST for the national HRD project) in 2003/04, the year under review. The blue bars in Figure 1 illustrate the trend of three consecutive years of strong growth in research earnings. The projected research-earnings target for 2004/05 is also shown (including a R4,5m ring-fenced grant from DST for a centre for science and technology indicators).

The research earnings amount of R103m for 2003/04 is noteworthy in three respects: it represents a 66% nominal increase over the previous year; it surpasses the target of R95m; and it now clearly exceeds the Parliamentary grant income. The latter is shown for recent years in nominal terms by the grey bars in Figure 1. The assigned Parliamentary grant for 2004/05 is also shown.

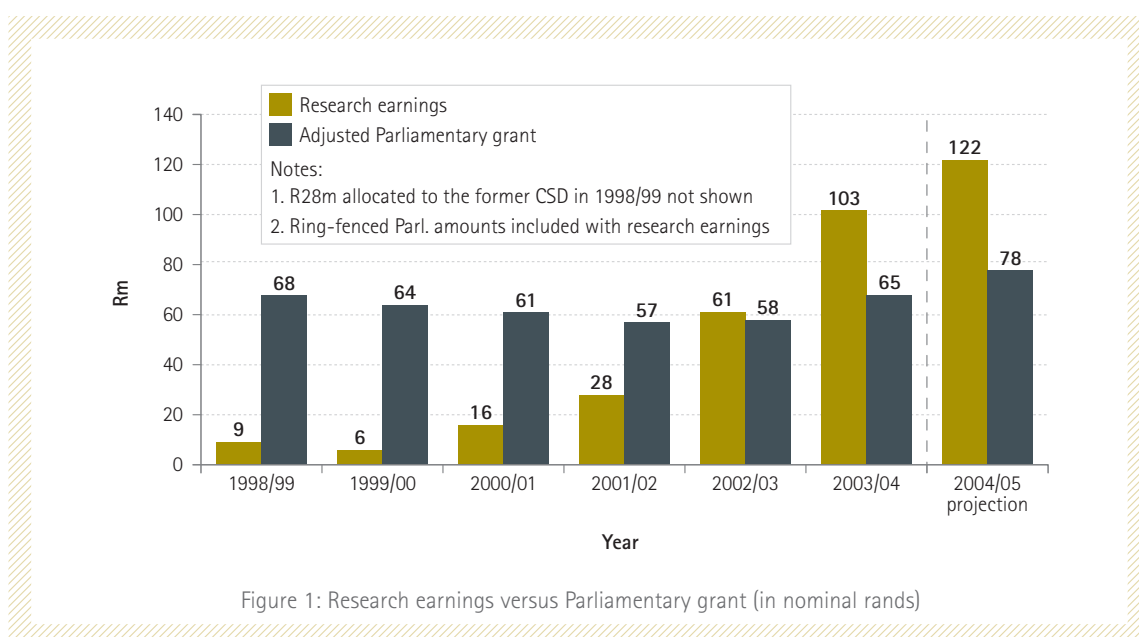


Figure 1: Research earnings versus Parliamentary grant (in nominal rands)



The Parliamentary grant, assigned in terms of the Government's Medium Term Expenditure Framework, was R66,105m for 2003/04 (excluding the R5m ring-fenced amount for the national HRD strategy), compared to R60,087m in 2002/03. In other words, the Parliamentary grant for 2003/04 increased slightly in real terms, i.e. 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.

Adjusted in this way, the Parliamentary grant for the year 2003/04 is R65,562m, shown in the top row of Table 2 below (and compared there to R58,505m for 2002/03). 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, leverage donor funds in shared undertakings, create infrastructure, build external networks and internal capacity, and update technology.

The research income from contracts and grants of approximately R103m for 2003/04 mentioned above appears in Table 2 as separate lines: contract income totalling R97,578m (from SA Government departments, other South African sources, and international funding sources including foundation grants); plus the special HRD project grant of R5m. In addition, other lines in Table 2 show the HSRC's income from various other sources: notably commercial services of R2,825m, as well as product sales, rent and interest.

When all these revenues from sources other than the Parliamentary grant are summed, and taken as a share of total HSRC revenue, the proportion is found to have increased (compared to the previous year) for each of the past four years: from 31,1% through 44,0% to 57,2% and 64,9%.

This increased reliance on income sources other than the Parliamentary grant enabled the HSRC to expand its researcher capacity and be able 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 too-large external income targets and taking on an unsustainably large research complement onto permanent payroll.

For instance, it will be seen in section 4.2 below that the HSRC only wins a proportion of the tenders it applies for; and it is selective about those it does choose to apply for, in requiring that they display substantial social-scientific content. Even so, the size of the likely market for applied or policy-relevant social-scientific research is not limitless, and other parties such as tertiary institutions are expanding their interest in it. 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. In the meantime 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.

COUNCIL'S REPORT

for the period ending 31 March 2004 (continued)

Funding source	2003/04				2002/03	
	Budget	Actual	Variance budget vs actual	% of total	Actual	Actual 2003/04 vs actual 2002/03
	R'000	R'000	R'000	%	R'000	%
Parliamentary grant – core funding	64,928	65,562	634	5%	58,505	12%
Utilised for research	0	62,267	62,267	457%	51,392	21%
Utilised for institutional costs	0	3,838	3,838	28%	8,695	-56%
Deferred income	0	(543)	(543)	-4%	(1,582)	-66%
Project-specific (ring-fenced) Parliamentary grant	5,000	5,000	0	0%	5,000	0%
External contract funding – Government	90,284	97,578	7,294	53%	56,179	75%
Income from intellectual property (patents, royalties, etc.)	1,216	111	(1,105)	-8%	181	-39%
Commercial services	500	2,825	2,325	17%	2,537	11%
Non-operational income: rent received	7,480	8,515	1,035	8%	7,419	15%
Non-operational research income – profit from sales	1,706	4,819	3,113	22%	2,935	46%
Non-operational research income – investment income	2,400	2,743	343	3%	4,081	-33%
TOTAL	173,514	187,153	13,639	100%	136,837	37%

Table 2: HSRC income for 2003/04 and 2002/03

Profit from sales – covering books, computerised programmes and tests – increased compared to 2002/03. This growth rate is largely due to a new approach to publishing, discussed in more detail in section 4.5. Following a tendering process in 2002/03, the sales of test materials in which the HSRC has no research interest will be relinquished to a retail agency from June 2004, as part of retaining the organisation's strategic focus on research.

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. One among many examples from the 2003/04 budget year is a contract with a total worth of R21m with the Education Labour Relations Council, to be applied over three years. The result is that the HSRC commenced the 2003/04 and 2004/05 financial years with approximately half of the target for external research earnings already under contract.

4.2 Changing composition of research earnings

During 2003/04, the HSRC responded to a broad range of tender and grant opportunities. Information on 128 new funding applications submitted in this period was captured by the Business Development Unit during the year (110 in 2002/03). The overall success rate among these 128 proposals, as known by May 2004, was 73% (compared to 50% in 2002/03). The HSRC understands that this is well above the average of international standards for similar development-research organisations, and is partly attributable to the HSRC's selective responses to such opportunities, and partly to the quality of the submissions.

For example, of some twenty opportunities that may typically be scrutinised at the fortnightly Research Business Meetings, perhaps three or four would be seriously considered as scientifically substantial, and in alignment with the HSRC's areas of research expertise and potential external collaborators. Following such deliberations, HSRC researchers might eventually respond to none, one, or perhaps two of the competitive tender opportunities or calls from foundations that arose during that fortnight. Opportunities discussed at these meetings are then tracked in terms of response and success rate. Information on



other funding applications, such as those initiated by the HSRC, are also recorded, but sometimes only after they have been submitted and evaluated. The 2003/04 budget year saw the introduction of a new research management information system, enabling the HSRC to keep better track of all proposals that have been submitted.

The tenders 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. Usually working in conjunction with external collaborators, some 53 proposals of this kind were recorded during the 2003/04 financial year (73 in 2002/03). The success rate, on information available at May 2004, was 40% (compared to 33% in 2002/03). This rate is one of the half-dozen key indicators tracked by the CEO in his Annual Report message. If only South African competitive tender applications are taken into account, some 44 tender proposals were submitted, of which 14 were known successes by May 2004 – a success rate of 32% (compared to 25% in 2002/03).

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 selective in their responses to such invitations, requiring that their participation would add competitive advantage to the proposal, and that the proposal itself should once again fit in with HSRC research priorities and the development needs of South Africa.

Potential funders are increasingly approaching the HSRC with direct requests of this kind. Some are follow-ups, after successful completion of an earlier project. Others represent "restricted tender opportunities" where a number of potential service providers are requested by the potential funder to submit proposals. Fifty-four of the tender or grant applications recorded in 2003/04 were prepared at the request of the potential funder or collaborator (26 in 2002/03) – a clear indication that the HSRC is increasingly being considered a "first port of call" by its users. Of these, 98% were known to be successful by May 2004.

More recently, the HSRC has started to reap the benefits of submitting proposals to international and national foundations or grant-making agencies in response to their open calls for proposals. These allow applicants to determine the research problem and approach within a specified broad thematic area. Some 21 funding applications of this kind were recorded in 2003/04 (37 in 2002/03), of which a remarkable 95% (84% in 2002/03) were known to be successful by May 2004.

The following two figures show how the composition of external sources of research funding has changed over the past years, in terms of income realised per year.

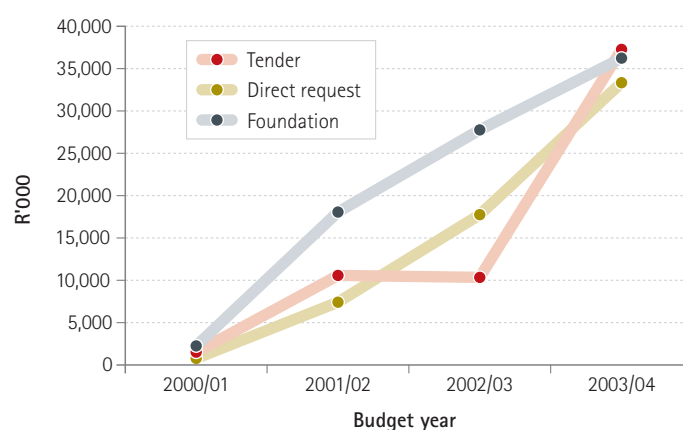


Figure 2: Categories of external research earnings

COUNCIL'S REPORT

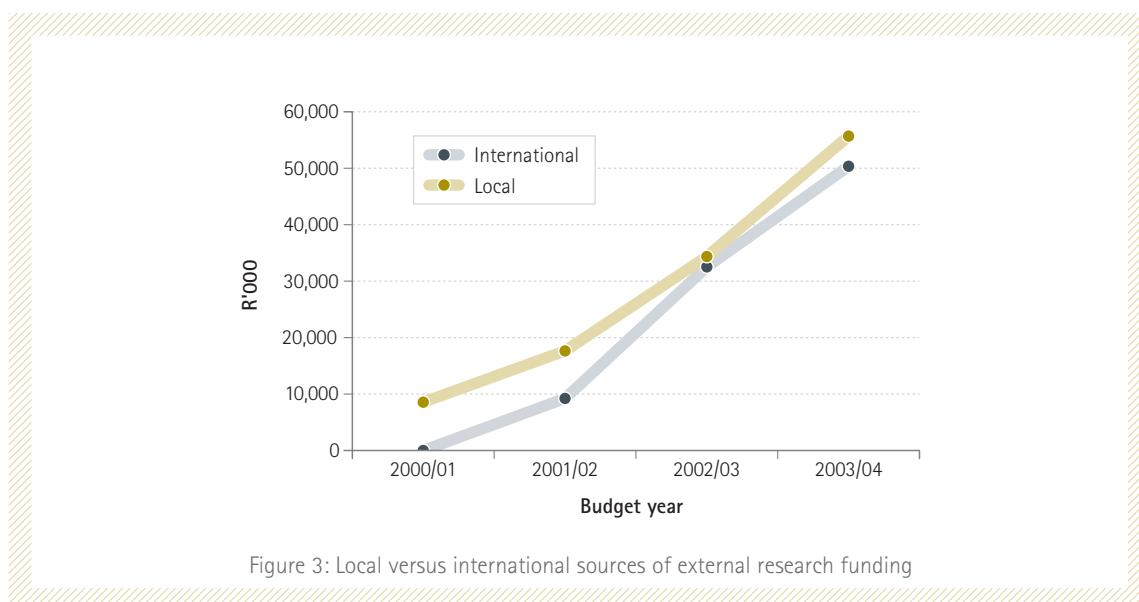
for the period ending 31 March 2004 (continued)

The blue, green and red lines in Figure 2 show the increases in the proportions of HSRC research earnings from a range of external funding sources. The green line, representing user-defined competitive tenders, shows that the HSRC and its external collaborators are doing very well in addressing user needs, in an environment of highly competitive South African tenders and international (predominantly US) "competitive calls". The increase, after a plateau of a year, represents some successful Government tenders that were very large.

The rising red line, representing direct requests, indicates that HSRC-led research is increasingly being regarded by users as of a high quality and relevant to their needs. Many of these externally-funded projects were commissioned following the successful completion of earlier work, or following the HSRC's submission of an "expressions of interest" statement with an indication of organisational capability, in response to a general open call. The majority of these projects involve external collaborators.

The rising blue line reflects applications initiated within the HSRC for grants to foundations and development agencies. It illustrates the HSRC's improved profile among such entities. The importance of these researcher-driven applications, that tend to be larger and longer-term than average, and produce more scientific publications, is that they balance user-driven projects, which tend to be smaller and shorter-term. This funding mix has helped the HSRC to maintain a sound balance, as it has expanded, between work oriented to national priorities and social-scientific development, and work oriented to the immediate needs of the market.

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, to approximately half of all external research income. 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 tertiary institutions and NGOs. The purple line in Figure 3 shows how the level of external income from international sources has risen over the last four financial years.



The increased volume of work brought in has been handled partly by the extended complement of senior researchers, described in section 6, and also by taking advantage of partnerships with universities and technikons, research NGOs, and private sector consultancies. These relationships are described further in section 4.3.

The mix of tenders, requests and grants described in this section, and of local and international sources, has ensured the HSRC's growth and financial sustainability by ensuring the relevance of the organisation to its users, and vice versa. 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 2003/04, 303 research projects were running, compared to 250 in the previous financial year. Of these, 277 (compared to 138 in 2002/03) were completed within the year.

The recorded expenditures on 248 of the projects were less than R100 000 each. However, the major share of research earnings continues to be accounted for by longer-term, large-scale, externally-funded projects. This is illustrated in Table 3. This table displays the amounts received during the reporting year, to a total of R60,3m, for the top 14 projects funded entirely or largely by external funds or grants, that were initiated or continued by the HSRC during 2003/04. In other words, approximately 5% of the 303 projects running in 2003/04 contributed almost 60% of the total external research earnings of R103m for the year. Most of these projects extend over two to three years. This is a positive indication of the sustainability of the COUPE strategy.

Project	Funder	Rm 2003/04
Care of orphans and vulnerable children in Botswana, South Africa and Zimbabwe	W.K. Kellogg Foundation	21,0
Rural schools and education in South Africa	Nelson Mandela Foundation	6,7
Impact of HIV/AIDS on education	Education Labour Relations Council	5,4
Dfid SAHARA resource network: Evidence-based policy-making and co-ordinators	UK Department for International Development (Dfid)	5,0
HRD ring-fenced grant from DST	Department of Science and Technology	5,0
Assessment Modeling Initiative (AMI) (continuation)	Research Triangle Institute	2,8
Centre for S&T indicators	Department of Science and Technology	2,5
SATPOR (Technology transfer for poverty reduction)	Department of Science and Technology	2,3
Developing an equity and development profile of ICT in South Africa	Department of Communications	2,2
Birth to Twenty study	Wellcome Trust	1,6
Labour Market skills development programme	Department of Labour, EU Labour Market Skills Programme	1,5
Quality Learning Project (QLP)	JET	1,5
SADC national prevalence studies: four countries	European Union	1,4
Umsobomvu Youth Survey	Umsobomvu Youth Fund	1,4
Total		60,3

Table 3: Top 14 projects funded entirely or largely by external revenue

In the funders and users of the research, the table shows an impressive mix of national and local government departments, public-sector entities, and overseas and South African foundations or research collaborators. This diversity is a product partly of the outreach element of the COUPE strategy, discussed in section 4.4 below, and partly of the excellent networks of the HSRC research leaders.

4.4 Outreach to collaborators and stakeholders

A recommendation in the 1997 review of the HSRC by the Department of Arts, Culture, Science and Technology (DACST), was that the organisation should reach out more vigorously to the research community locally and abroad: in universities, technikons, NGOs, fellow science councils and parastatals, and the private sector.

Since then, collaboration with researchers outside the HSRC has become quite frequent, in research projects with

COUNCIL'S REPORT

for the period ending 31 March 2004 (continued)

Parliamentary as well as external funds. The relationships span South Africa, SADC, the rest of Africa and the industrialised countries. During 2003/04, 62% of 249 HSRC projects in the project information database listed institutional or individual collaborators. In financial terms, some R28,9m was paid out for research activities. HSRC projects across the range, but especially the larger ones, involved significant collaboration with researchers with specialised knowledge or networks in areas of mutual interest.

Collaboration with fellow science councils in projects and planning forums has also expanded – with the CSIR on R&D survey work, the mission in DST's R&D strategy on science and technology for poverty reduction (SATPOR) and local-government capacity-building; with the MRC on work related to HIV/AIDS and health promotion; with Mineral and Metallurgical Technology (MINTEK) in terms of resource-based technology clusters; and with the Agricultural Research Council (ARC) on land and food security issues.

The 2003 Review Report noted the improvements in these regards, especially at the level of shared projects; and urged that these collaborations now be deepened with more institutional and sustained arrangements. Among the ED-led task teams taking forward the Review findings, two teams are considering viable models to strengthen networking, and to expand the overall capacity for policy-relevant and applied research among institutions. Particular reference is being given to emerging research organisations and HDIs in South Africa and the region. The HSRC is mindful of the need to remain flexible and responsive to user needs, by not locking itself into exclusive collaborative agreements with particular universities or partner organisations, and by ensuring that agreements are relevant to its mandate to address issues of national or regional importance.

Currently the HSRC reaches out in multiple 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 have invited special meetings with the HSRC to identify common areas of interest, seek inputs with strategic planning, and plan joint approaches to donor organisations to help fund important research-driven initiatives.

In some of these instances, the relationship is captured in memoranda of understanding (MoUs) that provide for mutual input in planning processes, and support to each other in the form of financial or expert contributions. Because such agreements may have unexpected implications, particularly in terms of financial and infrastructural requirements, each case is considered at top-management level. Mutually beneficial models involving HEIs are being contemplated, on the basis of successful project relationships such as SATPOR.

The collaborative approach is reflected in the composition of the recently-established HSRC Research Ethics Committee, which benefits from the participation of professional persons attached to universities, NGOs, private practice and international organisations as well as experts within the organisation.

Outreach to users, collaborators and funders is underpinned by a number of institutional support structures:

- The burgeoning Publishing Division and Corporate Communications are covered in sections 4.5 and 4.6 below.
- The Business Development Unit now subscribes to Internet-based alerting services, and provides for structured sharing of collaborative opportunities.
- The vacant Directorship of International Relations has been re-advertised.
- The CEO has started following up possible peer organisations with similar mandates in developing countries, identified in the 2003 Review, to consider opportunities for collaboration.

4.5 Publishing and publications

The 2001/02 Annual Report mentioned the development of a new, not-for-profit publishing and dissemination strategy, emphasising the widest possible dissemination of the HSRC's output not only in print but through a website that would provide free access and downloading to electronic versions of all HSRC publications. The 2002/03 Annual Report reflected the early implementation of the new strategy within the HSRC. This comprised recruiting a team of publishing specialists, establishing operational systems, and introducing quality control measures for published output. Simultaneously, a significant number of publications were produced.

During the 2003/04 reporting year the HSRC Publishers have rapidly delivered on the goals of their ambitious publishing



strategy as high-quality, non-profit publishers of HSRC and other outputs for the "public benefit". Key organisational and marketing achievements in this regard include the following:

- an international distribution network, to ensure its publications reach all corners of the globe, by entering agreements with reputable distributors of academic publications;
- co-publication agreements on select titles with publishers ranging from established academic houses, such as Cambridge University Press, to specialist social-science publishers, such as the Nordic Africa Institute;
- the establishment of an Editorial Board, with senior HSRC and external academic members, to commission and consider reports from external reviewers on proposed publications;
- a planned initiative to bring seminal Francophone texts, published by CODESRIA, to Anglophone researchers;
- significant visibility for the HSRC's research output via conference exhibits, book launches, workshops developed around publications and media coverage of publications;
- joint marketing efforts, such as shared international exhibitions, with other social science research organisations;
- bookshops' increasing willingness to stock HSRC titles, and agreement from major retail outlets such as Amazon.com to list HSRC publications.

In line with its dissemination approach, HSRC Publishers offers free electronic publications online. Perhaps because of rather than despite this approach, orders for printed publications have grown substantially. For the year under review 7 327 HSRC publications were bought, representing an increase of 217% from the 2 308 sold in the previous year. In addition, 5 900 publications were sold to co-publishers. Therefore a total of 13 227 publications produced by the HSRC entered the market during this period. The turnover from publications amounted to R2,4m in 2003/04, and the net income R1,4m represents an increase of 151% on the previous year's net income from publications of R557 000.

A comprehensive list of HSRC publications is provided elsewhere in the 2003/04 Annual Report. Statistics from the publications list are summarised in Table 4. The benefits of employing more, and more senior researchers are reflected in the number, range and quality of publications produced in the course of 2003/04. The total number of publications per average researcher head has increased from 2,4 in 2002/03 to 3,2 in 2003/04, and the number of refereed journal articles per average researcher increased to 0,67 – once again exceeding the new stretch target of 0,60 for 2003/04.

Category	No. in 2003/04	No. in 2002/03
Books and chapters in HSRC books	91	45
Books and chapters in non-HSRC books	41	76
Journal articles	115	74
<i>Refereed</i>	74	66
<i>Non-refereed</i>	41	8
Research reports to clients/users	104	89
Total	351	284

Table 4: Publications

4.6 Corporate Communications

A new Director of Corporate Communications was appointed in September 2003. The Marketing Manager of HSRC Publishers had been part-time Acting Director since December 2002.

The new Director took up the challenge of improving internal communication, put by the 2003 Review, by conducting an audit of the various existing channels, and then establishing an internal electronic newsletter. Called "HearSay", it updates staff on organisational and topical issues. She also commenced the development of a comprehensive communications strategy.

The Deputy Director of Corporate Communications assumed responsibility for media liaison, and with the assistance of the

COUNCIL'S REPORT

for the period ending 31 March 2004 (continued)

Director, a media strategy was put in place in November. This incorporated a suggestion by Council, namely to interact more with community newspapers and regional radio stations in order also to reach people living in townships and rural areas. In addition to coverage by the national radio stations such as SAfm, news reports on research findings were also broadcast at various times on a dozen community stations.

The year under review saw a steady increase in media coverage. This emanated not only from Corporate Communications, but from the whole of the HSRC, culminating in media coverage of an estimated advertising value equivalent of R4,5m in March 2004 alone. The electronic media monitoring service that measures media, radio and television coverage for the HSRC reported an estimated free coverage to the value of R22,9m for 2003/04, compared to R3,3m during 2002/03, and R1,2m in 2001/02.

Other highlights included the following:

- the continued issue of the *HSRC Review*, a quarterly news bulletin, to parliamentarians, donors, funders, NGOs, diplomats, and 6 000 high school libraries;
- support for the launch of some research reports and books – for example the presentation to media and MPs of voting intentions for the 2004 elections covered in the new annual South African Social Attitudes Survey, and the launch of the *Human Resources Development Review 2003*;
- the organising of several major events, such as the 2002/03 Annual Report launch, several conferences or workshops, the 2003 year-end function, and the monthly "Happy Hour" for staff members;
- provision of graphics-design support to all the research programmes and several exhibitions.

Plans for 2004/05 include a "climate" survey among HSRC staff, a survey in collaboration with the Human Resources Directorate to establish communication needs within the HSRC, staff perceptions and wishes regarding the HSRC as a workplace, and the prevalence of conditions for successful user-oriented research production.

4.7 User, stakeholder and media analyses

As background information for the 2003 HSRC Institutional Review, in August-September 2003 the HSRC commissioned two reputable external service providers to undertake three independent investigations: a user-satisfaction survey; a survey of perceptions among other important HSRC stakeholders; and a survey among research staff who had recently completed projects that were submitted to major clients. In addition, research executive directors provided examples of the impact or implementation of research findings, from their own programmes. These investigations were complemented by a content analysis of reports in the media on the HSRC, conducted by in-house qualitative research specialists.

A high-level summary, integrating the findings from the complementary studies, was prepared for the convenience of members of the Review Panel. This summary, with the reports of the individual studies, was made available to the Panel in October 2003. The findings of the commissioned studies were discussed by the CEO and executive directors, for specific action where relevant.

The *Sunday Times* newspaper reported findings of an independent poll in which the HSRC was the only science council that non-profit organisations recognised for making the strongest contribution to development. This finding is captured in the latest edition of the *Corporate Social Investment Handbook*, now in its sixth edition. Another perception survey of state-owned enterprises conducted by the publication, *Professional Management Review*, ranked the HSRC sixth under the category of highest rated state-owned enterprises, and the highest of all statutory science councils.

Broad trends emerging from the user, stakeholder, impact and media studies were as follows:

- The HSRC meets the expectation that its activities and research are focused on a broad range of societal problems.
- It interacts vigorously with a diverse group of funders, users, sponsors and stakeholders.
- The impacts of this work are varied but, on the evidence from the various studies, substantial, and are often quite immediate or direct.
- Broadly speaking, the findings of the five research reports suggest the HSRC occupies a strong position with regard to its reputation, the quality of its work and the abilities and ethical standards of its researchers.
- Areas for improvement included the management of the relationship with the user during projects, follow-up analysis, and further transformation in respect of staffing profile.



4.8 Investments in research infrastructure

Surpluses accumulated during previous budget years were further deployed during 2003/04 according to the framework approved by the Minister. Three major instances are mentioned here.

The refurbishment of the floors occupied by the HSRC in its Pretoria building started in 2003/04. Occupied since 1987, the building was in need of upgrading and improvements. Six floors were refurbished. The effective use of shared open space and more light in office areas reflect the new image of the HSRC.

At the same time, infrastructural upgrades in terms of computer network and telephone communication facilities could receive attention. Network cabling was replaced with CAD 5 cables in Pretoria to improve speed and reliability.

Project Insight, described elsewhere in section 3.1, was launched. Its various aspects help to provide an integrated management and information support structure to enhance research and research collaboration in the HSRC's demanding, devolved and decentralised milieu.

5. Financial results and sustainability

During 2003/04, the HSRC's turnover, i.e. total revenue, was R187,153m, a 36,7% increase over the R136,837m of 2002/03. The annual increase was 36,1% between 2001/02 and 2002/03. (This growth is shown in the Income Statement on page 117.) As before, the increase was attributable mainly to the substantial growth in research contract and grant earnings, shown at Table 2 in section 4.1.

Total expenditure increased by 27,2% between 2002/03 and 2003/04 (compared to 60% between 2001/02 and 2002/03). Employee cost, the largest cost component, increased by 28,7% in 2003/04, compared to 70% in 2002/03, when the HSRC invested heavily in the recruitment of high-level researchers and managers. One can see from the above that the growth of income and expenditure for 2003/04 was controlled, and within the context of the HSRC's strategic plan.

Overall expenditure in 2003/04 was R187,363m. This resulted in a deficit of R0,210m for 2003/04 (compared to a deficit of R10,477m at the end of 2002/03). During 2003/04 the funding of strategic research projects from previously accrued surpluses, as approved by the Minister, was undertaken in two instances, involving augmentation of their budgets. These were the background research for the Ten Year Review commissioned by the office of the Presidency (R0,5m), and research on human rights indicators (R0,25m). If this investment of R0,75m is applied to the deficit of R0,210, a net surplus of R0,540m is realised for the year.

The Cash Flow Statement on page 119 shows a net outflow of R17,4m for the 2003/04 financial year. This was mainly caused by spending from projects that received monies in previous financial years and capital projects approved by the Minister that included the upgrading of the HSRC building in Pretoria.

The Parliamentary grant allocation for the 2003/04 financial year is broken down in Table 5. The table excludes the R5m ring-fenced grant from DST for the HRD project.

	2004	2003
	R'000	R'000
Parliamentary grant as per income statement	65,562	58,505
Plus (minus): Net adjustment in respect of deferred income	(0,543)	1,582
Total	66,105	60,087

Table 5: Parliamentary allocation

The Balance Sheet on page 116 shows that at 31 March 2004 the HSRC had total assets of R134,416m (R134,868m in 2002/03), and current liabilities of R75,132m. The HSRC continues to receive state funding – R78,336m for 2003/04 plus a new ring-fenced grant of R4,5m for research on S&T indicators. The HSRC begins the next financial year with firm commitments for external income in excess of R60m. On these three criteria, it should accordingly remain a going concern.

COUNCIL'S REPORT

for the period ending 31 March 2004 (continued)

The HSRC provides administrative support for the Institute for Indigenous Knowledge Systems in South Africa (IIKSSA). It received an amount of R2,5m, earmarked for the second phase of the Institute's activities. This is not included in the R70,030m received in terms of the MTEF allocation for 2003/04.

6. Human resources

The HSRC's staff complement at the end of the 2003/04 financial year was 267, which is 35 more than the previous year-end total of 232. During the year, 77 new appointments were made in total, with natural attrition (contracts expiring, resignations and retirements on pension) accounting for the difference.

Sixty of these appointments were made in research positions. Representivity in terms of race, gender and areas of expertise were key considerations alongside the HSRC's normal requirements in terms of qualifications, publications and experience.

The proportion of researchers in the total staff, and the proportion of researchers who are black, are among the seven key indicators highlighted in the CEO's annual message.

After two years of strengthening senior research capacity, the HSRC is now in a position to provide mentorship and career development opportunities to research staff in junior and middle ranks. Twenty-two research interns joined the HSRC in the year under review. At 31 March 2004, the HSRC was providing opportunities to 28 interns. These appointments are for periods ranging from one to three years, and are specifically aimed at building research capacity in an applied social science environment. Most interns are registered at universities for Masters degrees, but some for Doctorates. The internship programme, developing from initiatives started in research programmes, will enable the HSRC to achieve and sustain strategic objectives related to equity, excellence and future impact.

By 31 March 2004, 58% of HSRC staff were in research positions, compared to 56% at 31 March 2003. This means that the strategic target of "60% research staff by '04" has almost been achieved, despite the need to appoint more staff in administrative positions to support enlarged research operations and logistics in the new HSRC offices countrywide.

Among researchers, the percentage of blacks in the researcher complement improved from 48% in 2002/03 to 60% (from 63 to 93 people) in the reporting year. If interns are excluded, the percentage has improved from 46% to 51%. Having met this important race representivity target for the first time in 2002/03 (with the help of setting specific race quotas as part of the annual budgeting for each research programme), the HSRC remains committed to steadily improving representivity at all levels. Female researchers comprise 44% of the research complement, and 38% of non-intern research staff. Gender representivity among researchers – highlighted as a possible cause for concern by the 2003 Review Panel – will receive attention in the 2004/05 year.

Among administrative staff, the percentage of blacks increased slightly from 60% in 2002/03 to 61% in 2003/04. In terms of gender, 67% of administrative staff are female.

Changes in representivity at the higher levels occur more slowly because of the small numbers of people involved and low attrition. Among administrative staff of Deputy Director and above the percentage of blacks rose appreciably from 39% to 49% (from 9 to 18 people); among researchers of specialist rank and above, the percentage improved only marginally, from 39% to 40%. The new quotas will help to accelerate progress at this level.

Among senior administrative staff, women increased their share from 46% in 2001/02 to 57% in 2002/03 and 68% in 2003/04. Among senior researchers, the big improvement in female representation was made during the initial restructuring, from 18% in 2000/01 to 33% in 2001/02. Since then, the improvement has been slower, to 35% in 2003/04. The latter stratum, and possible gender differences between research and administrative career paths, require specific attention.

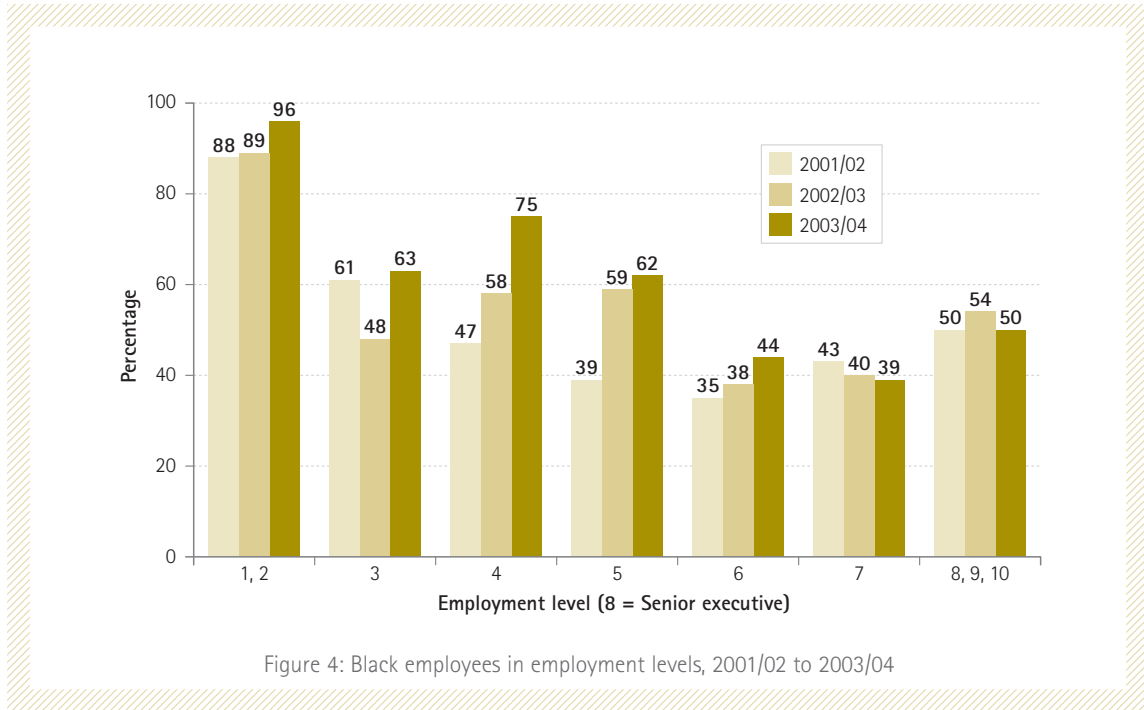


Figure 4: Black employees in employment levels, 2001/02 to 2003/04

The proportions of black staff per employment level are shown in Figure 4, for the current and previous reporting periods. The proportion has improved at most levels, and appreciably at middle levels 4 to 6 (for example, level 5 is Assistant Director or Chief Researcher). Even so, advances at senior levels started from a low base, so there remains room for further improvement, as the Institutional Review noted. At these levels, especially, there is the contradictory constraint of undesirable competition with universities, as the Review also noted. The solution, in the longer term, lies in increasing supply, with progress up the ranks from Masters and Doctoral interns.

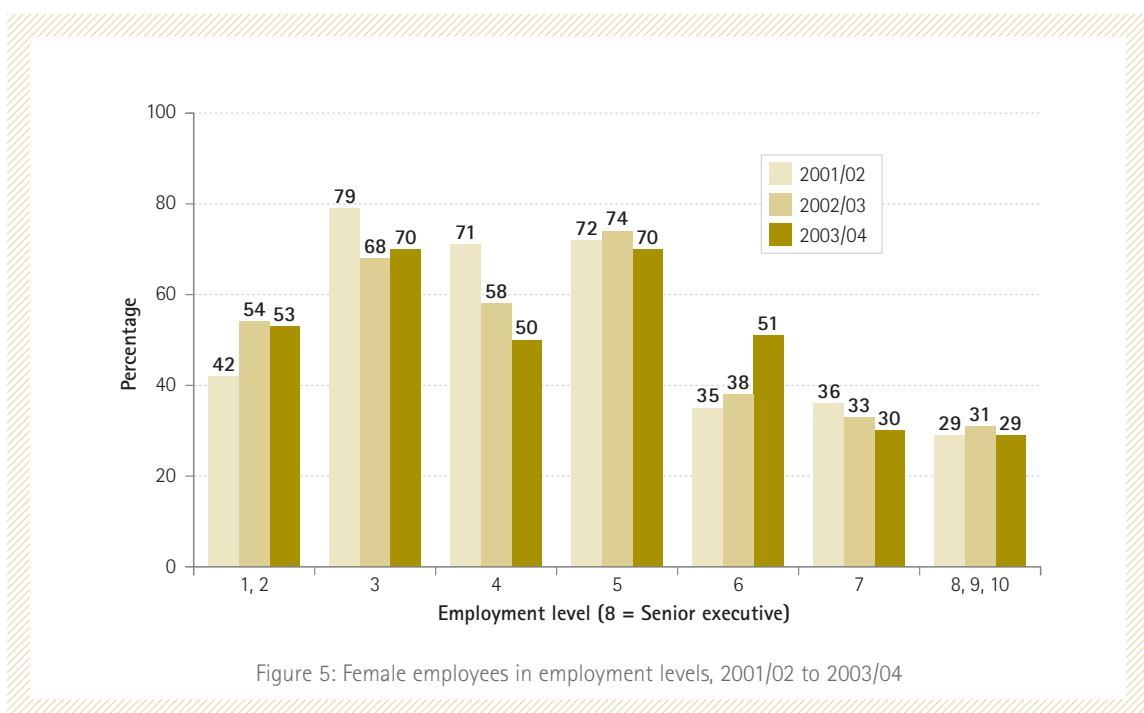


Figure 5: Female employees in employment levels, 2001/02 to 2003/04

COUNCIL'S REPORT

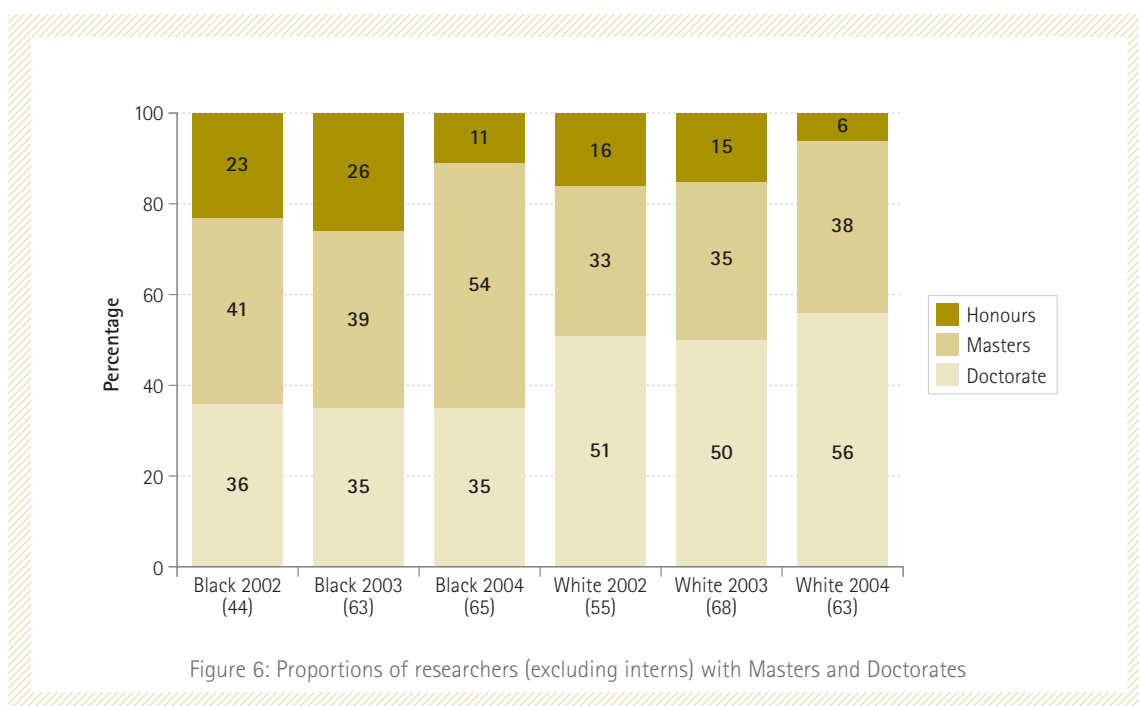
for the period ending 31 March 2004 (continued)

The proportions of female staff per employment level are shown in Figure 5, for the 2001/02, 2002/03 and 2003/04 years. The most noticeable increase is among upper professionals, but not at the managerial levels. The considerations developed above are also applicable here. Attention to these processes will be paid by the recently appointed Head of the HSRC's new Gender Co-ordination Unit, reporting jointly to the CEO and one of the research EDs.

Disabled people comprise less than 1% of the staff, whereas 2% is the target for Government departments. Quotas in this regard too were implemented in the budgeting cycle occurring at year-end, and suitable candidates in both the research and administration sides of the organisation were due to be interviewed. The aim is to improve this proportion in recruiting for the remaining vacancies.

Among researchers, there have been noteworthy changes in proportions of staff with Masters or Doctoral degrees. If all research staff are taken into account, the proportion of all research staff with either a Masters or Doctoral degree deteriorated slightly from 80% to 78% during this period. The apparent decline in qualification levels of black research staff is however directly related to the new strategy of taking on junior researchers as interns. Figure 6 shows the trend in terms of percentages for black and white researchers. When research interns are excluded from the analysis, 91% of the research staff (94% for white, 89% for black, and 88% for female) have a Masters or Doctoral degree, and the proportions have steadily improved.

During 2003/04, several policy documents supporting the broad aims of integrated employment equity, professional development and career pathing were developed and approved. A policy to enable accelerated recruitment of suitable black candidates at the level of Executive Director was approved, with a first Executive Director-designate being appointed on 1 January 2004. The consultative process to further revise and update the integrated employment equity plan will continue in 2003/04, beginning with a workshop for senior management.



During 2003/04, in-house research experts and external consultants were involved in the development of a Direct AIDS Intervention Strategy (DAIS) for the HSRC. Staff members as well as their immediate family now have access to voluntary testing, counselling, anti-retroviral drugs and medical support provided by an external professional service organisation, in tandem with the provisions of the staff medical aid scheme. Explanatory literature and a 24-hour telephone "hotline" are part of the service.



In May and June 2003, the annual performance appraisals were again conducted. All qualifying staff were evaluated against objectives previously agreed with supervisors, and their supervisors' recommendations were reviewed by the respective ED and finally moderated by the CEO with the EDs. An improved appraisal form was introduced. It aligned the individual staff members' objectives with the COUPE framework, and better distinguished the reviewing of performance for the previous year from the setting of new objectives for the ensuing year. More than 60% of eligible staff received some or other form of performance-based award: a half- or full-merit award, an increase of a notch on the salary scale, or a rank promotion. The proportion was similar in 2002/03. At the request of the Union, a written policy including guidelines and procedure was evolved and discussed with them, to cover both the ongoing performance management of staff, and the annual appraisal system.

7. Strategic risk assessment

The Audit Committee monitors risk and risk management in the HSRC on an ongoing basis. During the year under review, the CEO periodically reported on progress made with actions taken to mitigate risks in the organisation. Various initiatives, workshops and meetings were conducted during the year to create awareness of the risk profile within the organisation and, where required, introduce measures.

A risk assessment was commissioned and conducted in 2001 because the HSRC was aware that, in initiating far-reaching transformation, it would be substantially changing its risk profile. On the basis of the report, a three-year audit plan was formulated, including three undertakings: the development of a fraud prevention plan, a corporate governance review and an audit of Information Technology. These were completed with the help of the different out-sourced audit partners and internal stakeholders during the past year. Recommendations for institutional implementation were prepared and approved by the Audit Committee and referred to Council.

The final phase of the risk assessment that concentrates on the post-restructuring was postponed, at the recommendation of the Audit Committee, to ensure that a sufficient period of consolidation had elapsed for stable assessments. It will be conducted during April 2004. It will include a re-run of the 2001 control culture exercise among senior managers, to allow for comparison of the status of controls and systems as the scale and variety of activities has increased.

The outcomes of this assessment will then feed into workshops with EDs and managers of the separate research programmes, to establish in more detail the distinctive and common respects in which they encounter risk. A tender was completed during the year for a co-sourced internal audit partner to handle this next stage together with an outside partner with specific experience in the research field; and then to offer relevant training to staff. Once the training stage has been completed, EDs will increasingly take over the process of risk identification and outcome, under the guidance of the CEO and Audit Committee.

Notable aspects of risk in the day-to-day operation of the HSRC are related to research quality, and to the professional management of large contracts. The latter includes changes in the environment such as currency rate fluctuations and new regulations.

- To manage risk with respect to the quality of the research process, the following systems are in place: peer-review mechanisms at various stages of research planning, execution and production; provision for ongoing professional development of research staff (160 hours per year specifically allocated to professional writing, and provision for sabbatical and study leave); and scrutiny of proposals by the Research Ethics Committee, and of books to be published, by the Editorial Board of the HSRC Publishers and its independent reviewers. Also important is the emphasis on recruiting top-level research specialists of acknowledged professional stature to lead programmes and sections, who set and monitor professional research standards; and the provision for mentoring and internships within research programmes towards sustaining research quality into the future.
- With regard to contract management, all new research agreements with clients as well as with service providers are scrutinised and finalised in consultation with the new co-ordinator of contracts and grants in the Business Development Unit, prior to signature. Large agreements are referred to the CEO. Meetings and workshops on potentially problematic

COUNCIL'S REPORT

for the period ending 31 March 2004 (continued)

issues, such as intellectual property arrangements, are held with staff in all offices. The implementation of Project Insight is also providing systems and procedures, such as a projects database and templates for key aspects of agreements, to enhance good practice.

- Other aspects of financial risk management, such as potential currency fluctuations and changes in the public-sector regulatory environment are monitored and dealt with by the ED of Corporate Services, the Finance Department and the CEO. Information sessions and workshops are held with staff members as required. The insurance coverage of the HSRC with various service providers is revised and updated on an annual basis.

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 distinctive way in which it frequently designs and executes projects and disseminates their results;
- in the conduct of its affairs, and in particular its relation to its staff, as a public-sector employer;
- in the additional community-oriented activities it might undertake.

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 contribute to the benefit of all South Africans through conducting and fostering policy-relevant social research. Thus, the research activities presented throughout this annual document comprise the HSRC's reporting at the first level of corporate social responsibility defined above.

Particularly relevant are the many instances of the evident impact of project findings and implementation by users, recounted in the sections allotted to each of the research programmes.

Selected examples of projects specifically focused on disadvantaged and marginalised groups are:

- Disability studies
- The needs of the elderly
- Fatherhood – positive role models
- Including women in peace-making
- Contract farmers and small-scale agriculture
- Poverty and development challenges in small towns
- Food security and employment creation
- Social exclusion and the labour market
- Impact of HIV/AIDS on land rights and land tenure
- Improving banking services for the rural poor
- Tracking and analysing poverty
- Orphans and vulnerable children affected and infected by HIV/AIDS
- Gender violence and its relation to HIV/AIDS
- Responsible alcohol service programme for urban and rural areas
- Community-based information systems
- Community arts centres

The list illustrates how the HSRC contributes through its core social-research activities – conducted in the national, provincial and local spheres – to the "triple bottom line" of economic prosperity, social development and environmental sustainability.

The HSRC imparts research-driven social benefits in other ways. Several of its senior researchers serve on governing councils or advisory boards on the basis of their specialities. In addition, the HSRC has "incubated" projects or services that are hived off when this is appropriate. An example is the HSRC's Southern African Regional Poverty Network, SARPN, whose



primary activity is a web-based repository of development-related information that attracts thousands of "hits" a day. It is presently being reconstituted as an independent organisation governed by a trust, so that it can assume a regional identity and tap a broader range of funding sources.

8.2 Distinctive research approach

At the second level, three examples illustrate the distinctive approach we frequently apply. In the study of rural education for the Nelson Mandela Foundation, at the **conception** stage the researchers had *imbizos* with the rural communities involved to help identify the processes and articulate the concerns that the study would take up. At the **implementation** stage, in the three-country study focusing on the needs of orphans and vulnerable children affected and infected by HIV/AIDS, the HSRC works in tandem with partner NGOs and CBOs in gathering research-based evidence of good practice. In addition, novel modes of **dissemination** such as videos, used in communities and shown on national television, have improved the communication of results to people who want to learn from them.

Two additional considerations regarding the HSRC's research approach are:

- the organised attention given to research ethics, through the now internationally-accredited Research Ethics Committee that scrutinises all proposals;
- the recent establishment of a Gender Co-ordination Unit, and the appointment of a Head at senior level, reporting both to the CEO and a research ED, to ensure the "mainstreaming" of gender considerations in the HSRC's research activities and organisational-development priorities.

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 may be recalled, covering the economic, social and environmental parts 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). This approach is monitored and steadily broadened by the HSRC Council Audit Committee.
- The HSRC is involved in research capacity-development through its rapidly growing research intern scheme. Interns, predominantly drawn from previously disadvantaged communities, receive salaries on one- to three-year contracts. They are mentored during their engagement in HSRC projects, which furnish the material for their Masters or Doctoral degrees at universities. Support service units such as the library provide workplace experience opportunities to students.
- In the coming year, as part of formulating its next three-year employment equity strategy, the HSRC is rolling out an employment equity awareness strategy including 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 direct AIDS intervention programme for all permanent employees and their immediate family members, including informative material, a wellness programme, the provision of anti-retroviral drugs and medical monitoring, and a 24-hour hotline.
- On the environmental side, energy-saving initiatives are underway in the large Pretoria building, as well as refuse-recycling.

8.4 Community-oriented activities

In lieu of profit to direct towards community-support activities as part of its social-responsibility undertakings, the HSRC can offer organisational or research capabilities. A community-development need for these capabilities has become pressingly evident on, literally, the HSRC's doorstep. The colonnade in front of the HSRC building provides nightly shelter to a growing number of homeless people, rising recently to as many as 200 people. Because there are no ablution facilities, by morning the area presents a health and environmental hazard, which the HSRC has handled by daily cleaning. The response of the authorities hitherto was confined to instructing the HSRC to build a perimeter fence, which would only have shifted the problem elsewhere.

COUNCIL'S REPORT

for the period ending 31 March 2004 (continued)

Prompted by a well-researched profile of the homeless people by members of its Integrated Rural and Regional Development Research Programme, the HSRC has taken up the issue as a development project. With the help of an experienced community-organisation facilitator, it has adopted a multi-faceted approach.

Consultations with the homeless people have been held, their suggestions and preferences noted, and their particulars taken. Those with entitlement are being directed to public housing. For the balance, a process has been initiated to engage the authorities responsible at national, provincial and metro level, via a series of regular and well-attended stakeholder meetings, towards the provision of alternative accommodation, possibly in the form of an overnight facility in one or other unused public building nearby.

It is hoped to emulate a successful shelter model operating in Johannesburg, which has support from the authorities, residents and the church. That shelter accommodates 100 people overnight, and provides food and ablutions to a further 150 each morning. A similar facility in the HSRC's quadrant of the CBD would also serve as a pilot project for Pretoria.

In addition, as a "corporate research project", the HSRC has conceived a national study of the causes and dimensions of the broader problem of homeless people in South Africa. The several research programmes that will be involved have assigned some of their funds from the 2004/05 Parliamentary grant.

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

- The new Minister of Science and Technology, Mr Mosibudi Mangena MP, re-appointed the present Council of the HSRC for another six months until 31 October 2004.
- Professor Adam Habib took office as Executive Director of the Democracy and Governance Research Programme on 1 April 2004. The previous incumbent, Professor Roger Southall, continues in the Research Programme as Distinguished Research Fellow.
- The first meeting of the Editorial Board of the HSRC Publishers took place in May 2004.
- The CEO was mandated by Council to undertake the annual negotiations regarding the inflationary increase of the salary scale.

10. Achievement of performance targets

The progress of the organisation against quantitative targets, as reflected in this section, is one of the ways in which its performance is monitored. The CEO, the top management and Council are kept informed of progress so as to take corrective action when required. Adjustments to the indicators or targets are also considered as organisational developments unfold. The HSRC's actual performance on key indicators – as measured against previous performance and annual targets – is summarised in Table 6.

The targets are set each year in the Key Performance Indicator (KPI) Report of the HSRC submitted to the Minister's National Advisory Council on Innovation (NACI), via the DST. That document also includes qualitative indicators.

During 2003/04, DST commissioned a study to evaluate its use over the past few years of "balanced scorecard" reporting in Annual Reports and KPI Reports by science councils. Based on the recommendations of this study, future reports from science councils will include a more streamlined set of common key indicators, with optional indicators identified by individual councils to address more specific objectives. With the exception of the newly introduced item 11 (percentage of female research staff), the indicators in Table 6 are similar to those reflected in 2002/03. Some of these will be omitted or amended in due course.

The HSRC exceeded or was on target for 15 of the 18 KPIs for which targets had been set. Some targets have been exceeded by a substantial margin, such as item 8, free media coverage.

We comment on each of the instances where targets have not been met. With regard to item 7, the percentage of projects with external funding, it should be noted that this indicator does not sufficiently differentiate between smaller and larger projects. This indicator will be revised for future reference.

The percentage of staff on study bursaries, item 19, remained at the same relatively low level. With the introduction of the



new, integrated professional development programme for staff, it is expected that the HSRC bursary scheme will be upgraded, encouraging more staff to participate in the scheme.

Item 15, the proportion of researchers in the total staff complement, is increasing towards the target of 60%, alternatively decreasing towards the target of 40% of administrative staff, notwithstanding the need to provide additional administrative support to the various sites of the HSRC.

COUNCIL'S REPORT

for the period ending 31 March 2004 (continued)

Strategic objective	Key performance indicator (KPI)	Target 2003/04	Performance 2003/04	Performance 2002/03
Contracts and earnings: Increasing research earnings	("Financial Investment perspective")			
1.	Achievement of income target: Total income	R 160m	R 187,1m	R 136,8m
2.	Achievement of income target: External research income	R 95m	R 102,578m	R 61,179m
3.	Dependency ratio: External research earnings as a percentage of total research earnings (Parliamentary grant plus external research earnings)	59%	62%	50%
4.	Known successful proportion of total competitive tender/funding applications submitted, at May	34%	40%	33%
5.	Variance in budgeted expenditure: Surplus or deficit for year, as % of turnover	5%	0,1%	1,1%
Outreach: Assertive outreach to universities and NGOs, locally and internationally	("Stakeholder perspective")			
6.	Percentage of research projects with external researcher participation	55%	62%	51%
User needs: Focusing the research on user needs, especially of Government "clusters" for policy-relevant research	("Customer perspective")			
7.	"User-driven approach" – percentage of research projects that are partially or fully externally funded	70%	60%	54%
8.	Free media coverage	R 10m	R 22,9m	R 3,3m
Performance – equity:	("HR and transformation perspective")			
9.	% black staff: overall	60%	60%	53%
10.	% black research staff	50%	60% (incl. interns) 51% (excl. interns)	48%
11.	% female research staff	Not set	44% (incl. interns) 38% (excl. interns)	51%
Performance – efficiency:	("Financial perspective" and "Organisational perspective")			
12.	Share of Parliamentary allocation spent on research	90%	97%	86%
13.	Productivity of HSRC investment in its employees: External research earnings per head (all permanent and longer-term contract staff)	R 365 000	R 394 768	R 263 702
14.	Share of payroll spent on researcher salaries	67%	72%	64%
15.	Proportion of researchers in total staff	60%	58%	56%
Excellence: Achieving excellence in research	("Organisational perspective" and "Innovation and learning perspective")			
16.	Human capital: Proportion of researchers with M and D degrees	85%	78% (incl. interns) 91% (excl. interns)	80%
17.	Number of books, journal articles, reports (per average researcher head)	2.5	3.2	2.4
18.	Number of refereed journal articles per average researcher head	0.6	0.67	0.55
19.	Percentage of permanent staff receiving study bursaries	15%	8,5%	8,2%

Table 6: Performance targets



NOTES

A series of horizontal dashed lines for writing notes.

BALANCE SHEET

as at 31 March 2004

	Notes	2004 R'000	2003 R'000
Assets			
Non-current assets			
Property, plant and equipment	1	51,080	45,928
Investment property	2	6,850	6,850
Current assets			
Inventories	3	1,724	970
Trade and other receivables	4	26,415	15,306
Cash and cash equivalents	5	48,347	65,814
Total assets		134,416	134,868
Funds and liabilities			
Capital and reserves			
Income funds		11,360	13,203
Capital funds		42,059	42,059
Deferred income	6	5,865	6,408
Current liabilities			
Payables and accruals		67,578	66,293
Provisions	7	7,554	6,905
Total funds and liabilities		134,416	134,868



INCOME STATEMENT

for the year ended 31 March 2004

	Notes	2004 R'000	2003 R'000
Revenue	8	187,153	136,837
Research and related income		100,403	58,716
Government grants		65,562	58,505
Special government grants		5,000	5,000
Other operating income		16,188	14,616
Less expenditure	8	(187,363)	(147,314)
Employee cost		(83,370)	(64,731)
Depreciation		(5,696)	(4,265)
Subcontractors		(47,981)	(31,660)
Other operating expenditure		(50,316)	(46,658)
Deficit for the year		(210)	(10,477)

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2004

R'000	Income funds			Capital funds	Deferred income	Total
	Surplus funds	"Own-risk" insurance fund	General reserve			
Balance at 31 March 2002	5,280	400	18,000	42,059	4,826	70,565
Previously reported	5,946	400	18,000	42,059	4,826	71,231
Correction of previous year error	(666)					(666)
Allocated to income during the year					(3,537)	(3,537)
Net deficit for the year	(10,477)					(10,477)
Portion of Parliamentary grant utilised to acquire depreciable fixed assets for the year					5,119	5,119
Transfer from general reserves to income funds	2,000		(2,000)			-
Balance at 31 March 2003	(3,197)	400	16,000	42,059	6,408	61,670
Allocated to income during the year	(1,633)				(4,514)	(6,147)
Net deficit for the year	(210)					(210)
Portion of Parliamentary grant utilised to acquire depreciable fixed assets for the year					3,971	3,971
Balance at 31 March 2004	(5,040)	400	16,000	42,059	5,865	59,284



CASH FLOW STATEMENT

for the year ended 31 March 2004

	Notes	2004 R'000	2003 R'000
Cash flows from operating activities			
Cash receipts from grants		68,928	63,505
Cash receipts from customers		101,838	69,077
Cash paid to suppliers and employees		(180,486)	(94,395)
Cash (utilised)/generated by operating activities	13	(9,720)	38,187
Interest received		2,743	4,081
Net cash (outflow)/inflow from operating activities		(6,977)	42,268
Net cash outflows from investing activities		(10,490)	(10,788)
Additions to property, plant and equipment		(11,508)	(10,819)
- Motor vehicles		(112)	(112)
- Office furniture		(1,065)	(888)
- Computer, video-conferencing and other equipment		(2,906)	(6,420)
- Refurbishments		(7,419)	(3,367)
- Library books and artwork		(6)	(32)
Proceeds from the sale of property, plant and equipment		1,018	31
Net (decrease)/increase in cash and cash equivalents		(17,467)	31,480
Cash and cash equivalents at beginning of year		65,814	34,334
Cash and cash equivalents at end of year	5	48,347	65,814

SUMMARY OF ACCOUNTING POLICIES

for the year ended 31 March 2004

Basis of presentation

The Annual Financial Statements have been prepared on the historical cost basis in accordance with general accepted accounting practice and incorporate the following principal accounting policies, which have been consistently applied in all material respects with those of the previous financial year, unless otherwise stated.

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 estimate 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 land and 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 income statement 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 income statement. Freehold land and buildings (owner-occupied property), now subject to depreciation, was previously classified as a non-depreciable asset and was treated according to this policy.

Property, plant and equipment

Freehold land and buildings

Freehold land and 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, capitalised at a market-related rate, 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 equipment is stated at cost and depreciated on the straight-line basis over its estimated useful life.

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



SUMMARY OF ACCOUNTING POLICIES

for the year ended 31 March 2004 (continued)

Motor vehicles	25%
Office furniture	20%
Computer and other equipment	33.3%
Library books and manuscripts	33.3%
Software	50%

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, capitalised at a market-related rate, 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.

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 the following categories:

Test sales

Reading aids

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. Cost incurred in earning lease income is 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 is 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

SUMMARY OF ACCOUNTING POLICIES

for the year ended 31 March 2004 (continued)

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 does not provide for post-retirement medical aid benefits to employees with the exception of specific employees who opted to remain on the previous condition of service when the benefit was terminated.

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 income statement. Freehold land and buildings (owner-occupied property), now subject to depreciation, was previously classified as a non-depreciable asset and treated according to this policy. Other funds (including previous year 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 doubtful receivables.



NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2004

1. Property, plant and equipment

2004	Total	Land and buildings	Artwork	Motor vehicles	Office furniture	Computer, video-conference and other equipment	Software	Library books, manuscripts
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Opening net carrying amount	45,928	36,967	230	123	1,056	7,272	245	35
Gross carrying amount	70,995	38,367	230	305	3,782	23,211	372	4,728
Accumulated depreciation	(25,067)	(1,400)	0	(182)	(2,726)	(15,939)	(127)	(4,693)
Additions	11,508	7,419	6	112	1,065	2,906	0	0
Adjustments	(660)	0	0	0	(119)	(538)	0	(3)
Carrying amount	(1,683)	0	0	(46)	(430)	(1,207)	0	0
Accumulated depreciation	1,023	0	0	46	311	669	0	(3)
Depreciation	(5,696)	(907)	0	(55)	(371)	(4,143)	(188)	(32)
Closing net carrying amount	51,080	43,479	236	180	1,631	5,497	57	0
Gross carrying amount	80,820	45,786	236	371	4,417	24,910	372	4,728
Accumulated depreciation	(29,740)	(2,307)	0	(191)	(2,786)	(19,413)	(315)	(4,728)

2003	Total	Land and 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
Opening net carrying amount	39,385	34,300	209	49	452	4,308	0	67
Gross carrying amount	60,317	35,000	209	193	2,894	17,304	0	4,717
Accumulated depreciation	(20,932)	(700)	0	(144)	(2,442)	(12,996)	0	(4,650)
Additions	10,819	3,367	21	112	888	6,048	372	11
Adjustments	(11)	0	0	0	0	(11)	0	0
Carrying amount	(141)	0	0	0	0	(141)	0	0
Accumulated depreciation	130	0	0	0	0	130	0	0
Depreciation	(4,265)	(700)	0	(38)	(284)	(3,073)	(127)	(43)
Closing net carrying amount	45,928	36,967	230	123	1,056	7,272	245	35
Gross carrying amount	70,995	38,367	230	305	3,782	23,211	372	4,728
Accumulated depreciation	(25,067)	(1,400)	0	(182)	(2,726)	(15,939)	(127)	(4,693)

Land and buildings

Freehold land and buildings consists of Stand 3242, situated at 134 Pretorius Street, Pretoria, at valuation value in 2001.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2004 (continued)

2. Investment property

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 square meters, Registration division JR, Transvaal, situated at 185 Rose Street, Riviera, Pretoria. The property is 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 R6,850 million.

	2004 R'000	2003 R'000
Opening net carrying amount	6,850	6,850
Transferred from property, plant and equipment	0	0
Fair value adjustment gain	0	0
Closing net carrying amount	6,850	6,850
3. Inventories		
Merchandise (Reading aids, test sales, publications)	1,724	970
	1,724	970
4. Trade and other receivables		
Trade debtors	22,885	12,066
Balance as at year-end	25,741	17,867
Provision for bad debts	(2,856)	(5,801)
South African Revenue Service (VAT)	3,530	3,240
	26,415	15,306
5. Cash and cash equivalents		
Bank balances	8,940	6,789
Call deposits	39,352	58,851
Cash on hand	55	174
	48,347	65,814
6. Deferred income		
Government grants received, to be recognised in future accounting periods		
Balance at the beginning of the year	6,408	4,826
Portion of grant used for depreciable assets	3,971	5,119
	10,379	9,945
Less: allocated to Income Statement	(4,514)	(3,537)
Portion of grant used for depreciable assets	5,865	6,408



NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2004 (continued)

	2004 R'000	2003 R'000
7. Provisions		
Provision – Redundant stock at year-end	0	0
Balance at the beginning of the year	0	751
Additional provision during the year	0	0
Utilised during the year	0	(751)
Provision – Staff leave and bonuses	6,594	5,346
Balance at the beginning of the year	5,346	3,033
Additional provision during the year	1,248	2,313
Utilised during the year	0	0
Provision – Severance packages	0	0
Balance at the beginning of the year	0	144
Additional provision during the year	0	0
Utilised during the year	0	(144)
Provision – Legal cost	960	1,559
Balance at the beginning of the year	1,559	1,261
Additional provision during the year	(351)	298
Utilised during the year	(248)	0
	7,554	6,905
8. Net deficit for the year		
Net deficit is arrived at after taking into account the following items:		
Research and related income		
Contract income	97,578	56,179
Commercial services	2,825	2,537
	100,403	58,716
Government grants		
Parliamentary grant	65,562	58,505
Parliamentary grant received	66,105	60,087
Less: transferred to deferred income	(543)	(1,582)
Special Parliamentary grant	5,000	5,000
	70,562	63,505
Other income		
Sundry income	1,840	1,147
Investment income	2,743	4,081
Rent received	8,515	7,419
Profit from sales	3,090	1,969
Property, plant and equipment	358	20
Inventories	2,732	1,949
	16,188	14,616

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2004 (continued)

8. Net deficit for the year (continued)

	2004 R'000	2003 R'000
Audit fees		
Current year	589	350
	589	350
Depreciation of fixed assets		
Motor vehicles	55	38
Office furniture	371	284
Computer and other equipment	4,143	3,073
Land and buildings	907	700
Software	188	127
Library books and manuscripts	32	43
	5,696	4,265
Staff costs	76,993	59,559
Retirement benefit cost	5,714	4,609
Defined contribution plan	5,594	4,513
Defined benefit plan	120	96
Post-retirement medical benefit	591	606
Severance packages	72	(43)
Over-provision in previous year	0	(108)
Previous year provision	0	0
Payments on previous year provision	0	0
AIPF provision	72	65
AIPF payment	72	65
AIPF provision on payment due	0	0
Provision for retrenchments 2003	0	0
	83,370	64,731
Professional and consultancy fee	3,162	2,566
Foreign exchange differences included in the net deficit for the year	0,634	0,016

Fruitless expenditure

The Council paid an amount of R419,674 for interest to Diners Club on overdue balances and R2,716 for IPAT on royalties. The system error that led to interest being paid was corrected to prevent such an incident from recurring.



NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2004 (continued)

8. Net deficit for the year (continued)

Council members and executive management remuneration

2004	Fees for services as Council members	Managerial services			Total
		Basic salary	Bonuses and performance-related payments	Retirement fund and medical aid contributions	
	R	R	R	R	R
Council members of the HSRC					
Professor G.J. Gerwel (Chair)	13,584	-	-	-	13,584
Dr N.N. Gwagwa	-	-	-	-	-
Mrs N. Jordan	811	-	-	-	811
Dr V.T. Maphai	-	-	-	-	-
Professor W.E. Morrow	7,302	-	-	-	7,302
Mr E. Motala	16,822	2,160	-	-	18,982
Mrs P. Ntombela-Nzimande	-	-	-	-	-
Mr M.V. Sisulu	-	-	-	-	-
Executive member					
Dr F.M. Orkin (President and CEO of the HSRC)	-	948,201	193,219	167,571	1,308,991

Rentals in respect of operating lease

The HSRC has leased office space to the South African Local Government Association (SALGA) at 134 Pretorius Street, Pretoria for a period of 60 months effective from 1 June 1999. The lease payment is currently R58 160 per month. There is an escalation clause of 10% per year in the contract. The lease agreement is renewable at the end of the lease term.

	Up to 1 year		1 to 5 years	
	2004	2003	2004	2003
	R	R	R	R
Future minimum lease payments	971,592	756,080	3,886,368	4,857,960

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. The lease payment is currently R355 409 per month. There is an escalation clause of 8% per year in the contract. The lease agreement is renewable at the end of the lease term.

	Up to 1 year		1 to 5 years	
	2004	2003	2004	2003
	R	R	R	R
Future minimum lease payments	4,606,092	4,577,671	6,909,138	10,730,986

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2004 (continued)

8. Net deficit for the year (continued)

Operating lease in respect of investment property

The HSRC has leased office space to the Department of Public Works at 185 Rose Street, Riviera, Pretoria for a period of 60 months, effective from 1 August 2002. The lease payment is currently R168 047 per month. There is an escalation clause of 10% per year in the contract. The lease agreement is renewable at the end of the lease term.

	Up to 1 year		1 to 5 years	
	2004	2003	2004	2003
	R	R	R	R
Future minimum lease payments	2,320,352	2,151,004	5,607,498	7,927,842

Investment property

	2004	2003
	R'000	R'000
Rental income	2,219	2,016
Direct operating expenses	0,099	0,099

9. 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 state-controlled which assumed responsibility for under-funding of these funds. The HSRCPF is a defined benefit and a defined contribution plan that provides lump sum payments and pensions to retirees or their dependants as well as death benefits. The HSRCPF is registered in terms of the Pension Fund Act 1956 as amended.

The fifth statutory actuarial valuation report of the HSRCPF was completed, effective from 1 October 2001. On the first day of October in each subsequent year an interim valuation will be completed. At the 1 October 2003 interim valuation date there were 186 members in the HSRCPF, consisting of 180 defined contribution members and six defined benefit members. Seven members are currently entitled to benefits from the HSRCPF of which five members had paid-up benefits and two are current pensioners. 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 2004.

For the purpose of the interim valuation, the assets in respect of the defined contribution members (180 members) were taken into account at full market value as these members are now entitled to the full market value investment return achieved under the HSRCPF after the implementation of investment choices. The total value placed on the assets in respect of the defined contribution members as at valuation date amounted to R33,006m.

With regard to the pensioners and the members entitled to defined benefits under the HSRCPF (six members), assumptions were made regarding the expected experience of the HSRCPF in respect of deaths, withdrawals, rates of salary increase, early retirements as well as the expected yield on the assets of the HSRCPF and operational costs. The assumptions were used to calculate the discounted value of the accrued liabilities for all the defined benefit members of the HSRCPF as at interim valuation date for comparison with the available assets of the HSRCPF. The assumptions used in this valuation differ from those used in previous valuations in respect of withdrawal, early retirement and mortality. In view of the remaining members the assumption was made that none of the aforementioned will take place. The accrued liabilities to these members as at interim valuation date amounted to R2,021m.

The accrued liabilities of the five members with paid-up benefits in the HSRCPF as a statutory valuation date amounted to R0,272m. The accrued liability of the two members receiving current pensions in the HSRCPF as at statutory valuation date amounted to R0,214m.



NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2004 (continued)

9. Pension funds (continued)

Pension fund valuation:

	Defined Benefit Pension Fund	
	2004 R'000	2003 R'000
Present value of funded liabilities	2,021	1,780
Future value of plan assets	(5,513)	(3,975)
Funded status	(3,492)	(2,195)
Actuarial losses	(744)	(1,800)
Net asset	(4,236)	(3,995)
Number of members	6	4

The apportionment of the surplus will be completed with the next statutory valuation of the fund in October 2004, therefore the asset cannot be determined at 31 March 2004.

Principal actuarial assumptions:

	2004 %	2003 %
Valuation rate	9,0	9,1
Inflation rate	5,0	5,9
Salary increase rate	6,5	6,9
Expected investment return	9,2	9,1

Pension fund members:

	HSRC Defined Benefit Pension Fund %	HSRC Defined Contribution Fund %
Members as a percentage of total employment	2,25	67,42
Contribution rate	25,80	23,43
Members	7,70	7,50
Employer	18,10	15,93

10. Post-retirement medical benefits

An actuarial valuation of the cost of post-retirement medical benefits due to all employees, determined in April 1997, indicated a total liability of R22,2 million. 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, Policy Number 232193. The Fund is actuarially valued every three years after which benefit statements are provided to members showing their and the HSRC's contributions together with the interest earned.

The membership and funding of the Fund are as follows:

The HSRC, for members of staff older than 30 years of age on 1 August 1997 who belonged to the medical aid scheme and who selected the defined contribution basis of funding, pays an actuarially calculated lump sum as well as further monthly predetermined contributions into the individual member's accounts in the Fund. Contributions are revised annually and, although likely to increase each year, the HSRC's maximum contribution increase is capped at 13% per

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2004 (continued)

10. Post-retirement medical benefits (continued)

year. The HSRC, for members of staff younger than 30 years of age on 1 August 1997 who belonged to the medical aid scheme and who selected the defined contribution basis of funding, contributes a monthly amount of R300 on behalf of the member of the Fund. These monthly contributions are kept to the same level annually.

The value of the members' accounts in the Fund for both categories of members as at valuation date, 1 September 2000, amounted to R7 500 136,27.

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 member to the Fund. These monthly contributions are kept to the same level annually. The value of the members' accounts in the Fund at valuation date, 1 September 2000, amounted to R49 342,64. 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 member to the Fund. The value of the members' accounts in the Fund at valuation date, 1 September 2000, amounted to R121 937,59.

The lump sum, if applicable, and monthly contributions paid by the HSRC, represents the HSRC's total obligation in this regard towards the members' post-retirement medical costs. When the member leaves the service or dies while employed by the HSRC, the contributions plus applicable growth are, according to a vesting scale, payable to the staff member. A reserve account has been established in terms of the Fund. The account is maintained by contributions paid from time to time by the HSRC and may, subject to the approval of the administrator, management committee and the necessary approval of the Commissioner for Inland Revenue, be used to provide for an increase in the level of benefits on retirement, in retirement, on death or on withdrawal or to stabilise the cost to the HSRC of providing future benefits under the Fund. The value of the reserve account, at valuation date, 1 September 2000, was R785 002,11.

The Fund value as at 31 March 2004 was R6 673 048,23. The next actuarial valuation will be performed on 1 September 2004.

11. Uncovered foreign currency monetary items

At 31 March 2004 the HSRC had the following foreign exchange currency transaction not covered by forward exchange contracts.

2004	2003
US Dollar	US Dollar
'000	'000
538	42
Rand	Rand
'000	'000
3,500	336

12. Contingent liabilities

Litigations and claims

At 31 March 2004 there were pending labour-related cases between the HSRC and retrenched employees. The most recent estimate indicated that retrenched employees have instituted claims amounting to R2 177 039 against the HSRC. The HSRC is of the opinion that no liability will be incurred in this respect.



NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2004 (continued)

13. Reconciliation of net deficit to cash generated from operations

	2004 R'000	2003 R'000
Net deficit	(210)	(10,477)
Adjustments for:		
Provisions	649	1,716
Deferred income	(543)	1,582
Depreciation	5,696	4,265
Allocation to grant	(1,633)	-
Profit on sale of property, plant and equipment	(358)	(20)
Interest on investment	(2,743)	(4,081)
Operating surplus/(deficit) before operating capital changes	858	(7,015)
Working capital changes	(10,578)	45,202
(Increase)/Decrease in inventories	(754)	202
Increase in trade and other receivables	(11,109)	(1,736)
Increase in trade payables and accruals	1,285	46,736
Cash (utilised)/generated by operating activities	(9,720)	38,187

14. 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.

15. Capital expenditure

	2004 R'000	2003 R'000
Approved by management, but not yet contracted	18,472	2,683
The capital expenditure is to be financed as follows		
Internally-generated funds	18,472	2,683

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2004 (continued)

16. Spending of surplus as approved by National Treasury

Approval was obtained from National Treasury for the utilisation of surplus funds on specific projects as identified by the HSRC. The Council through the CEO subsequently approved the application of unspent funds from certain categories to extra expenditure on prioritised research and capital expenditure projects. The Council consequently requested the application of more flexible categories to the surplus. The Department of Science and Technology supported the request to National Treasury and both the Department and National Treasury approved the application.



REPORT OF THE HUMAN SCIENCES RESEARCH COUNCIL (HSRC) AUDIT COMMITTEE — 2003/04

We are pleased to present our report for the financial year ended 31 March 2004.

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 27 November 2003.

During the year under review (2003/04) the Committee consisted of Messrs S.A.H. Kajee (specialist member and Chairperson), and R.J. Page-Shipp (specialist member), and Dr N.N. Gwagwa (Council member). The accounting officer of the HSRC, Dr F.M. Orkin (CEO and Council member) is an *ex officio* member of the Audit Committee. The vacancy for a specialist member on the Committee since Ms P. Mnxasana's resignation at the end of March 2003 is expected to be filled in May 2004.

The Audit Committee met on 8 May 2003, 7 August 2003, 18 November 2003 and 5 February 2004. In addition to the above members, persons attending Committee meetings by standing invitation include the Head of Internal Audit, 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, the matters of emphasis and management letter of the Auditor-General have not reported any significant or material non-compliance with prescribed policies and procedures.

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 Head of Internal Audit 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.

S.A.H. KAJEE

Chairperson of the Audit Committee

Human Sciences Research Council

Pretoria

31 July 2004