

NATIONAL TREASURY BRIEFING TO THE STANDING COMMITTEE ON FINANCE ON THE 2012/13 ANNUAL REPORT

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national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Introduction

- The National Treasury is responsible for managing South Africa's national government finances, and draws its mandate from Chapter 2 of the Public Finance Management Act, together with Chapter 13 of the Constitution
- Treasury contributes directly to outcomes **4** (*Decent employment through inclusive economic growth*), **9** (*A responsive, accountable, effective and efficient local government system*) **11** (Creating a better South Africa and contributing to a better and safer Africa and a better World) and **12** (*An efficient, effective and development oriented public service and an empowered, fair and inclusive citizenship*)

Overview

- The recovery in the global economy remains fragile but on track with Europe, showing signs of recovery and the Emerging markets growing at more modest levels.
- South Africa's growth continues to be held back by supply constraints. Growth in Q1 was only 0.9 per cent due to disruptions in the manufacturing sector. Q2 growth rebounded to 3 per cent, but growth is expected to moderate in Q3.
- Higher levels of confidence and more rapid implementation of reforms are required to lift output and employment creation.
- The current account of the balance of payments remains above 6 per cent largely driven by investment expenditure by the public sector and increasingly, the private sector.
- Inflation in July was at 6.3 per cent. The weaker rand poses upside risks to the inflation outlook. At the same time administered prices remain a significant driver of inflation.
- Investment has been supported largely by government and state-owned companies. Government and state-owned companies spent 78 per cent of their R225.9 billion capital budget in 2012/13.

Major achievements

- The revised gross borrowing requirement of R219 billion was successfully financed.
- Revised local government equitable share and grant framework developed, taking into account 2011 census results.
- Six policy discussion papers relating to savings and retirement reform were published for public comment, during the reporting period.
- The National Capital Projects unit carried out substantive work on feasibility studies of energy supply.
- Legal establishment of the Government Technical Advisory Centre (GTAC) has been completed to consolidate the Treasury's support for implementation of government programmes. GTAC combines the Technical Assistance Unit, the PPP Unit and several provincial and municipal support programmes. Further work is in progress to focus activities on key priorities and large capital projects.
- City Support Programme introduced.

Sovereign rating developments

2012 / 13

Low Risk	Investment Grade	Moody's	S&P	Fitch	R&I
		Aaa	AAA	AAA	AAA
Aa1	AA+	AA+	AA+	AA+	
Aa2	AA	AA	AA	AA	
Aa3	AA-	AA-	AA-	AA-	
A1	A+	A+	A+	A+	
A2	A	A	A	A	
A3	A-	A-	A-	A- (stable outlook)	
Baa1 (-ve outlook)	BBB+	BBB+	BBB+	BBB+	
Baa2	BBB (-ve outlook)	BBB (Stable outlook)	BBB (Stable outlook)	BBB	
Baa3	BBB-	BBB-	BBB-	BBB-	
High Risk	Speculative \ Non-Investment Grade	Ba1	BB+	BB+	BB+
		Ba2	BB	BB	BB
		Ba3	BB-	BB-	BB-
		B1	B+	B+	B+
		B2	B	B	B
		B3	B-	B-	B-
		Caa1	CCC+	CCC+	CCC+
		Caa2	CCC	CCC	CCC
		Caa3	CCC-	CCC-	CCC-
		Ca	CC	CC	CC
		C	C	C	C
		D	D	D	D

Current rating
 Rating prior to downgrade
 First rating in 1994

- Moody's and S&P revised SA's credit rating downwards towards the end of 2012, with negative outlooks.
- Fitch followed by downgrading SA's credit rating in January 2013 with a stable outlook.
- R&I and Moody's subsequently affirmed SA's credit rating in mid-2013.

Concerns raised by major rating agencies

2012/13

- Fiscal targets are at risk, as a result of slow revenue growth and rising spending pressures.
- Expectations that growth will be slower than previously expected, insufficient to prevent already high unemployment rates from increasing further, thereby exacerbating social tensions.
- South Africa's external finances are also deteriorating.
- Slow progress on several long-standing structural issues contributes to South Africa's economic performance falling behind its peers.
- Slow implementation of infrastructure projects.
- Lack of coherence regarding the communication of the NDP implementation.
- Reduced investor confidence as a result of labour unrest in the mining sector.

Treasury's view

- Our fiscal policy is anchored to ensure SA's public finances remain sound and that the country avoids the debt trap observed in Europe
- National Treasury published the first Budget that gives expression to the NDP
- The first iteration of the country's long term fiscal report was completed.
- Approaches have been developed to finance projects identified by the Presidential Infrastructure Coordination Commission.
- Government is proactively addressing challenges in the mining and other sectors.

Programme 2: Economic Policy, Tax, Financial Regulation and Research

(Divisions – Economic Policy & Tax & Financial Sector Policy)

- Revised carbon tax policy paper was finalised and released on 2 May 2013.
- A road map towards implementing the “Twin Peaks” model was published on 1 February 2013.
- The 2012 Alliance for Financial Inclusion Global Policy Forum was successfully hosted.
- Significant progress made on the development of models such as the Tools for Tax Analysis, SAGE Model, Supply side of GDP Model, Re-estimated behavioural equations etc.
- The Modelling and forecasting Unit continues to produce regular forecasts for the Budget and MTBPS as well as a Long-term forecast and estimation of potential of growth.
- On-going work and monitoring done on capital flows and global risks, monetary policy variables and engagement with stakeholders on consumer credit issues.
- *Refer to page 36 for the narrative and page 39 for the tables of the Annual Report*

Programme 3: Public Finance & Budget Management

(Division 1 – Budget Office)

- Provided comprehensive analysis of performance measurements and reporting by departments and entities in line with improved guidelines emphasising cost effectiveness and enhanced performance management.
- A personnel costing model to assess medium- to long-term sustainability of remuneration budgets and to assist in improving management of remuneration budgets has been developed.
- Quarterly remuneration bulletin has been introduced as a monitoring tool.
- Comprehensive employee compensation guidelines were developed with the aim of improving the accuracy of personnel costing in the national and provincial spheres of government, and to assist departments and entities to budget accurately for personnel.
- The design, coordination and management of the 2013 budget process have been adapted to improve the budget decision-making process in line with the budget framework adopted and to enhance the quality of the various budget documents published.
- *Refer to page 43 for the narrative and page 54 for the tables of the Annual Report*

Programme 3: Public Finance and Budget Management

(Division 2 – Public Finance)

- Public Finance division is responsible for liaison with national departments on budgeting and expenditure monitoring issues, and supports the Minister of Finance in policy advice and inter-departmental correspondence and consultation.
- The division supports the function group committees of the Medium Term Expenditure Committee (MTEC), which are responsible for advise on expenditure allocations and consolidated expenditure estimates
- Preparation of the *Estimates of National Expenditure* is done in conjunction with other departments, and includes information on public entities in the detailed vote chapters (on website)
- Expenditure monitoring activities include preparation of quarterly expenditure reports on all votes, which are submitted to the Standing Committee on Appropriations
- Large projects under review in 2012/13 included Eskom's investment programme, the proposed Grand Inga hydroelectric scheme, infrastructure investment in liquid fuels, and feasibility reviews of the nuclear build programme, the Manganese railway project, the Durban-Gauteng rail corridor.

Programme 3: Public Finance and Budget Management

(Division 3 – Intergovernmental Relations)

- The review of the local government equitable share formula was accelerated for implementation from the 2013 MTEF to coincide with the release of the new 2011 census data obtained from Stats SA. The new local government equitable share formula together with updates from the 2011 Census was introduced from the 2013/14 financial year.
- City Support Programme implementation:
 - Developed the Integrated City Development Grant for rollout in 2013/14 as a performance grant that provides financial incentives *(for metropolitan municipalities to integrate and focus their use of available infrastructure investment to achieve a more compact urban spatial form)*
 - Initiated the development of built environment performance indicators with the metros and national departments
- Introduced a framework for performance incentive in provincial infrastructure grants. The approach will encourage and reward adoption of good infrastructure planning and asset management practices. This will embed the Infrastructure Delivery management system through extended technical support to the departments involved .

Programme 3: Public Finance and Budget Management

(Division 3 – Intergovernmental Relations) - continued

- Invoked section 216(2) of the Constitution against nine municipalities across four provinces for consistently acting outside the legislative framework government local government; the National Treasury must enforce compliance to this legislative framework (measures) and may stop the transfer of funds to an organ of state if that organ of state commits a serious or persistent material breach of those measures.
- Finalised Version 3 of the Standard Chart of Accounts (SCOA) for local government which informed extensive consultation sessions with various role-players and stakeholders; SCOA Version 4 will subsequently be finalised prior to the publication of the Regulations for formal public comment.

Programme 4: Asset & Liability Management

- Guarantees provided to South African Airways (R5.006 billion), South African Express (R539 million), Land Bank (R1 billion) and extended the term of the existing R1.85 billion guarantee to Denel
- R7.9 billion capital support for the DBSA over the MTEF period and the Land Bank recapitalised with R200 million
- Total Government guarantees issued to state owned companies amounts to R471.9 billion of which R179.4 billion has been utilised
- Net debt, provision and contingent liabilities amounted to 51.4 per cent of GDP as at 31 March 2013
- The ongoing broadening of the coordination of public sector cash increase the portfolio of cash available for bridging finance
- South Africa's included in the World Government Bond Index
- Publication of the inaugural annual debt management report
- *Refer to page 72 for the narrative and page 76 for the tables of the Annual Report*

Programme 5: Financial Accounting & Reporting

(Division 1 – Office of the Accountant-General)

- Accounting Support & Reporting unit assisted with the improvement of financial management in various departments, municipalities and public entities through accounting support plans and training interventions.
- The departmental guide to preparing financial statements was converted into an accounting standard, and other research and development activities were undertaken such as guidelines on annual report content, and a template on the preparation of financial statements in terms of the Standards on GRAP.
- Internal audit strategic support plans were developed and implemented to assist institutions in enhancing effectiveness of their units and committees.
- Risk management assisted institutions with training for monitoring and oversight functions
- The Capacity Building unit developed a Public Finance Management talent pipeline policy, framework and practice notes on PFM recruitment, development and retention strategies
- Financial management maturity assessments were conducted and forwarded to the SCOPA and SCoF and final revisions made.
- 27 forensic investigation reports were produced and 39 cases referred to the Anti-Corruption Task Team. 20 Arrests have been made and disciplinary hearings are in progress with the support of DPSA in Limpopo provincial departments under section 100 intervention.
- *Refer to page 87 for the narrative and page 92 tables of the Annual Report*

Financial Management Improvement

Financial Management Improvement across all of government remains a key priority. Initiatives in 2012/13 included:

- Implementation of assessments and diagnostics to assist managers in executing their financial management responsibilities.
- Guidance and technical support to departments are increased on an annual basis.
- Capacity Building for financial management improved significantly.
- Enhancements of financial systems to accommodate assets and inventory functionality.
- Reimplementation of SCOA.
- On-going training, education and development interventions.

Programme 5: Financial Accounting & Reporting

(Division 2: Specialist Functions)

- User Requirement Specification for the Preferential Procurement Policy Framework Act (PPPFA) was completed, developed and tested successfully.
- The Preferential Procurement Regulations (2011) have become applicable to all state-owned enterprises with effect from 7 December 2012.
- Of 35 transversal contracts due for renewal, 14 were renewed, 15 taken over by the National Department of Health, 4 expired.
- The Transversal Systems (BAS, LOGIS, PERSAL & VULINDLELA) were available for 99% of the time (exceeding the 98% target).
- *Refer to page 90 for the narrative and page 92 for the tables of the Annual Report*

Programme 6: International Financial Relations

The Division continued to advance interests of SA in bilateral and multilateral engagements, with a strong focus on economic development of the African continent. Some of the **highlights** in 2012/13, include:

International

- Actively engaged in lobby for reform of the international financial architecture and focus of global discourse on impact of advanced country policies on emerging markets;
- Strengthened the operations of the SA, Nigeria, Angola constituency in the World Bank, and African constituency in the IMF.
- Strengthened cooperation with other departments to enhance advancement of SA policy imperatives in BRICS and G20;
- Participation in successful SA-hosted BRICS Summit
- Forged relations with a select number of BRICS, G20, African and Nordic Finance Ministers.

Africa

- Engagement in Africa premised on economic opportunities, institutional reform; and outreach;
 - Participate in development of regional economic integration strategies and infrastructure financing mechanisms;
 - Negotiating changes to SACU revenue-sharing formula with BLNS countries;
 - Support to AfDB constituency office, and facilitated the opening of a Regional Resource Centre of the AfDB;
 - Strengthened PFM outreach programmes through CABRI.
- *Refer to page 102 for the narrative and page 105 for the tables of the Annual Report*

Programmes 7: Civil & Military Pensions, Contributions to Funds and Other Benefits

This programme primarily relate to fiscal transfers

- **Programme 7 (Civil and Military Pensions)** deals with the payment and administration of special pensions, military pensions, other statutory pensions, and post-retirement medical subsidies. More information is available on page 110 of the Annual Report.
- Migration of post-retirement medical employees to a financially sustainable medical scheme.
- *Refer to page 109 of the Annual Report*

Programme 8: Technical & Management Support and Development Finance

- The Technical Support and Management and Development Finance programme provides specialised infrastructure development planning and implementation support and technical assistance to aid capacity building in the public-sector.

Highlights include:

- The *Technical Assistance Unit (TAU)* supported 85 projects, 70 % national and 30% provincial.
- The *Public Private Partnership (PPP)* unit focused on concluding partnership agreements, increasing oversight capacity and promoting capital investment, especially in the social sector.
- The *Neighbourhood Development Partnership Programme (NDPP)* implemented the following key projects:
 - Focus on a strategic planning and investment framework to transform the spatial form of South Africa's larger urban centres.
 - Best practice documentation and internal operational systems established.
 - Introduction of a project pipelining concept for capital project prioritisation and implementation budgeting.
 - Unlocking R1.1 billion in leveraged funding through its Capital Grant Funds.
- *Refer to page 113 for the narrative and page 118 for the tables of the Annual Report*

Programme 8: Technical & Management Support and Development Finance - continued

- Infrastructure delivery Management Programme Foundation and Executive courses developed and rolled out in collaboration with the University of Pretoria to support institutionalisation good practises introduced through IDIP toolkit and Infrastructure Delivery Management System.
 - 112 government officials trained on infrastructure best practices (foundation) and 39 senior government officials (executive).
- The *Infrastructure Skills Development Grant* was implemented in 11 municipalities and trained 273 graduates. There were 3 Water Boards (Rand Water, Umgeni and Lepelle) who in partnership with some municipalities, provide training support to engineering graduates and mentors.
- The *Jobs Fund*, has to date issued three calls for proposals . Two of the funding rounds have been completed and a third funding round will be completed in December 2013. To date R3.418 billion has been allocated to 66 projects; and an additional R3.518 billion has been leveraged from project partners.

Jobs Fund

Progress - 2012/13

	INDICATORS	1 st Call for Proposals	2 nd Call for Proposals (Preliminary)	TOTAL
APPROVED PORTFOLIO	Number of Approved Projects	37	29	66
	Jobs Fund Grant Value	R 1.760 bn	R 1.657 bn	R 3.418 bn
	Contributions leveraged	R 1.545 bn	R 1.973 bn	R 3.518 bn
	Permanent Jobs Target for Approved Projects	72 831	27 693	100 524
	Placement Target for Approved Projects	39 178	17 016	56 194
	Training Target for Approved Projects	91 817	20 495	112 302
	Average grant size per project	R 47.585 m	R 57.155 m	R 51.790 m

Refer to page 117 for the narrative in the Annual Report

Programme 1: Administration

This programme provides leadership, strategic management and administrative support to the department.

Highlights include:

- Improved NT's risk maturity level and maintained the zero tolerance stance on corruption.
- Moderated by independent assessors as the best government department in terms of financial management practices.
- Strategic sourcing and its economies of scale yielded a 12% cost reduction.
- The internship programme recruited an additional 42 interns at 31 March 2013, bringing the total to 72.
- *Refer to page 28 for the narrative and page 31 for the tables of the Annual Report*

Human Capital

- Total staff complement of 1189: 56 % female, 80% black.
At senior management level: 67% black and 42% female.
- Reduced vacancy rate from 9.5% in 2011/12 to **8.2%** in 2012/13.
- Of 180 offers made, 164 were accepted while 16 were declined.
 - *Reasons advanced for declining offers relate to salaries, counter offers, and other developmental career choices such as further study.*
- A total of 121 critical skills positions were filled during the financial year.
- National Treasury achieved 1% of the 2% target for attracting employees with disabilities.
- The initiatives provided through the Employee Health and Wellness programme were fully utilised, with 670 first time users in addition to regular users.
- At the end of 2012/13, 54% of Directors, 41% of Chief Directors and 40% of DDGs participated in the Leadership development programme.

Outcome: Expenditure

2012 / 13

Programmes R' 000s	2012/13 Final Budget	2012/13 Final Outcome	Variance	% Variance
<u>Operational Budget & Expenditure</u>				
P 1 Administration	319,867	296,742	23,125	7.23%
P 2 Economic Policy, Tax, Financial Regulation and Research	106,508	95,234	11,274	10.58%
P 3 Public Finance and Budget Management	204,159	183,784	20,375	9.98%
P 4 Asset and Liability Management	82,807	78,205	4,602	5.56%
P 5 Financial Systems and Accounting	614,350	567,361	46,989	7.65%
P 6 International Financial Relations	31,295	29,967	1,328	4.24%
P 8 Technical Support and Development Finance	149,284	143,939	5,345	3.58%
Total Operational Budget & Expenditure	1,508,270	1,395,233	113,037	7.49%
<u>Transfers Budget & Expenditure</u>				
P 2 Economic Policy, Tax, Financial Regulation and Research	16,000	16,000	-	-
P 3 Public Finance and Budget Management	37,268	37,268	-	-
P 4 Asset and Liability Management (Land Bank)	200,000	200,000	-	-
P 5 Financial Systems and Accounting	71,985	71,985	-	-
P 6 International Financial Relations	1,010,474	973,084	37,390	3.70%
P 7 Civil and Military Pensions, Contributions to Funds and Other Benefits	3,351,760	3,343,603	8,157	0.24%
P 8 Technical Support and Development Finance	1,850,352	1,850,352	-	-
P 9 Revenue Administration	9,149,374	9,149,374	-	-
P10 Financial Intelligence and State Security	3,982,121	3,982,121	-	-
Total Transfers Budget & Expenditure	19,669,334	19,623,787	45,547	0.23%
Operating Budget & Expenditure as a % of Total Vote 10	7.12%	6.64%	71.28%	
Transfers Budget & Expenditure as a % of Total Vote 10	92.88%	93.36%	28.72%	
TOTAL VOTE 10 BUDGET & EXPENDITURE	21,177,604	21,019,020	158,584	0.75%

Transfers exclude transfers to employees for leave gratuities and skills development levy which included under operational expenditure and include payment for financial assets.

Outcome: Economic Classification

Per Economic Classification R' 000s	2012/13 Final Budget	2012/13 Final Outcome	Variance	% Variance
Compensation of Employees	614,675	589,746	24,929	4.06%
Goods and Services	717,037	667,905	49,132	6.85%
Payment for Financial Assets	200,000	325,222	(125,222)	(62.61%)
Transfers and Subsidies	19,434,478	19,263,666	170,812	0.88%
Payment for Capital Assets	211,414	172,481	38,933	18.42%
Total per Economic Classification	21,177,604	21,019,020	158,584	0.75%

Outcome of the AG Audit report

- Unqualified audit report but with emphasis of matter

Restatement of corresponding figures: As disclosed in the notes to the financial statements, the corresponding figures for 31 March 2012 have been restated as a result of amendments made to the Government Employees Pension Law, effective 1 April 2011 to bring into effect the change in dispensation with respects to non-statutory forces.

- Other matter on the report.

Despite the existence of the business agreement between National Treasury and SITA for the IFMS project, the service level agreement was not appropriately concluded.

Main Reasons for Spending Deviations

- **Personnel Vacancies (R24.9m):**

Progress has been made in reducing the departmental vacancy from 9.5% in 2011/12 to 8.2% in 2012/13 . This is a progressive improvements taking the 2010/11 vacancy rate of 14%.

- Challenges faced in attracting the right skills for the identified positions especially in Public Finance and Tax and Financial Sector Policy; Some of the additional challenges resulted from change in priorities across the organisation, which lead to a number of vacancies being placed on hold; and
- 8.8% of offers made have been turned down for various reasons as salaries, counter offers, and other developmental career choices.

- **Savings and lagging in operational spending (R88.1m):**

Savings on Limpopo Section 100 intervention due to the province taking over the remainder of the expenditure

Savings on economic and policy research consultants & travel and stationery costs were implemented due to cost saving measures

Lagging on spending due to the Integrated Financial Management Systems project implementation delays.

- Main challenge – technological vendors, infrastructure acquisition and SITA organisational capacity losses. Management did a changed management to focus on COTS solution to delver the project on revised time.

- **Savings on transfer budget (R45.6m):**

Common Monetary Area Compensation

The underspend on the CMA was mainly due lower circulation of the Rand in the member countries and the Rand exchange rate and level of interest rates that are used to calculate the compensation to be paid.

Post-retirement medical benefits, Special Pensions and the Political Office Bearers Pension Fund

There were significant savings on Post Retirement Medical benefit due to the migration of members

The saving was partially offset by payment of Non-Statutory Forces (NSF) and settlement of a case against the Western Cape provincial treasury.

Remedial action on the issue raised

- The emphasis of matter was not a finding by the Auditor-General as the department only acknowledged the debt during the 2012/13 financial year and thus restated the previous years figures. This was done to ensure that there is central administration of the payments instead of all departments contributing and thus in this it will reduce the financial impact.
- The SLA with SITA has been drafted and thus undergoing the necessary legal processes and negotiations.
- Developed an internal control framework which is being implemented in the 2013/14 financial year.

Improved governance for 2012/13

- Developed a governance action plan which included an audit register that was monitored by management and presented to the Audit Committee (Resulting in 53% reduction in audit findings as compared to previous year and no recurring findings).
- Implemented vigorous enhancement in Supply Chain Management which resulted in no findings.
- Enhanced its general governance, this was confirmed by the department being moderated as the best in financial management practices by the DPME.
- Improvement in vacancy rate.

Questions and Answers

Thank You!