



National Treasury Budget (2015/16) and Annual Performance Plan (2015/19)

Introduction

National Treasury's legislative mandate is to promote government's fiscal policy and coordinate its macroeconomic policy; ensure stability and soundness of the financial system and financial services; and coordinate intergovernmental financial and fiscal relations.¹

1. Overview of the 2014/15 financial year

National Treasury received a total budget of R27.3 billion (excludes direct charges) for the 2014/15 financial year. During the adjustment budget process the budget was reduced by R561.1 million to R26.7 billion.² The reduction of R561.1 million was effected to the Technical Support and Development Finance Programme due to unspent funds.³ By the end of the second quarter of 2014/15, National Treasury spent R11.4 billion or 42.7 percent of the adjusted appropriation.⁴ At the end of the third quarter, National Treasury reported expenditure of R17.6 billion or 66.1 percent.⁵ Expenditure in both quarters was well below the expenditure benchmarks of 50 and 75 percent, respectively. National Treasury is experiencing some spending challenges, and as at 31 January 2015, had spent 76 percent of its budget. By the end of the second quarter, National Treasury reported performance as reflected in Table 1 in respect of a number of select indicators.

Table 1: Mid-year performance for a select number of indicators

Indicators	2014/15 target	2nd Quarter Actual	% Achieved
Net loan debt as a Rand value of GDP (R'billion)	1 589.2	1 522.1	95.8%
Value of government gross borrowing (R'billion)	230.0	177.0	77.0%
Cost to services debt as a Rand value of GDP (R'billion)	114.9	56.6	49.3%
Number of training courses and workshops presented on the implementation of financial management reforms per year	40	40	100.0%
Number of individuals trained per year to assist with the implementation of financial management reforms	700	400	57.1%
Number of identified transversal contracts with strategic sourcing principles introduced per year	15	10	66.7%
Total number of neighbourhood development partnership grant projects under construction	40	12	30.0%
Total value of third party investments leveraged (R'million)	2 500.0	260.0	10.4%
Total number of projects approved in the Technical Support and Development Finance programme	120	91	75.8%
Number of training placements contracted with private companies per year	150 000	103 098	68.7%
New jobs contracted per year in terms of the Job Fund	30 000	0	0.0%

Source: National Treasury AENE (2014)

¹ National Treasury ENE (2015)

² National Treasury AENE (2014)

³ Ibid

⁴ Ibid

⁵ National Treasury Third Quarter Expenditure Report (2015)



Table 1 indicates that of the selected indicators, Treasury failed to perform in respect of three indicators, namely:

- Only 12 (i.e. 30 percent) against the targeted 40 neighbourhood development partnership grant projects were under construction by mid-year;
- Only R260 million (i.e. 10.4 percent) against the targeted R2.5 billion in third party investments were leveraged by mid-year;
- No new jobs against a target of 30 000 had been contracted in terms of the Jobs Fund by mid-year⁶

The National Treasury has made revisions to the net loan debt/GDP ratio, government gross annual borrowings/GDP ratio and cost of debt/GDP ratio due to changes in global and domestic economic conditions and revised forecasts of tax revenue and expenditure.

2. Strategic Policy Priorities and performance targets for 2015/16

National Treasury aims to ensure that the country's fiscal resources are managed in a manner that not only secures fiscal policy integrity but also facilitates long-term economic growth and job creation. The National Development Plan (NDP) expresses the need for structural change to make the economy not only sustainable, but also inclusive, and capable of achieving the socio-economic development goals of the country.⁷ National Treasury' mandate and objectives, which are aligned to the NDP and the medium term strategic framework, remain unchanged and resolute to achieving government's policy goals. Treasury will focus on the following key strategic areas over the 2015/16 medium term:

- Directing public funds towards inclusive growth and long term economic stability by assessing public expenditure , with the review of public expenditure to be finalised over the medium term;
- Tax policy and administration for sustainable growth and job creation by supporting tax proposals, promoting environmental stability and youth employment;
- Sustainable employment by creating employment through the Jobs Fund;
- Infrastructure development by supporting and providing technical assistance for infrastructure planning and delivery through the Infrastructure Development Support and Urban Development and Support sub-programmes;
- Transform government procurement by developing a centralised supplier database, introducing policy reforms and implementing a price referencing system on a nationally accessible platform; and
- Strengthening government financial management by accelerating the deployment of the integrated financial systems to all government departments and facilitating capacity development in order to improve financial management execution.⁸

⁶ National Treasury AENE (2014)

⁷ National Treasury Strategic Plan (2015/19)

⁸ National Treasury ENE (2015)



This section below will provide a brief summary of some of the Department's planned targets, as set out in the Annual Performance Plan (APP) for 2015/19. The analysis will focus on a select number of performance indicators for selected programmes.

Programme 1: Administration

This Programme's targets are to:

- Achieve savings of a total of 5 percent on goods and services for 2015/16.
 - National Treasury to indicate the monetary value of the targeted cost savings in goods and services for the whole of the department.
- In terms of knowledge management, the Department aims to retain intellectual capital and institutional memory through the implementation and monitoring and evaluation of pilot projects in 2015/16.
 - How many pilot projects are to be implemented and what do they entail? National Treasury to provide more details to the Committee.
- Exercise oversight over public entities to ensure government's policy objectives in a financially sustainable manner.
 - National Treasury only mentions oversight over public entities reporting to the Minister of Finance. What about other entities such as Eskom that not only receive government guarantees, but whose performance impact significantly on the economy and revenue collection?
 - National Treasury should make these oversight reports on public entities available to the Committee to facilitate effective legislative oversight.

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

This Programme's targets are to:

- Implement Savings and retirement policies through engagement with stakeholders on reform proposals.
 - National Treasury to indicate the specific deadlines for discussions on reform proposals.
- Implement, monitor and evaluate environmentally sustainable tax legislation.
 - What are the quarterly targets or expected milestones regarding the implementation of the carbon tax policy in 2015/16?

Programme 3: Public Finance and Budget Management

This Programme's targets are to:

- Ensure enhanced alignment of budget documentation with fiscal principles by reviewing fiscal risks measures and engaging relevant stakeholders thereon and compiling a report on endorsed fiscal risk measures.
 - National Treasury to report to the Committee on the outcome of each quarter in order for the Committee to be informed about each stage of the review process.



- Development of a COLA costing model to improve the understanding of implications of remuneration policy and wage settlements on the public sector wage bill. Specific focus in 2015/16 is to introduce the education sector sub-module.
 - National Treasury to brief the Committee on the progress made in respect of the costing model by third quarter of 2015/16 prior to the implementation of the costing model for the 2016 MTEF Budget.

Programme 4: Asset and Liability Management

This Programme's targets are to:

- Review of the regulatory environment of State-Owned Companies (SOCs) and Development Finance Institutions (DFIs) through the analysis and compilation of responses to legislation policies and their impact on SOCs/DFIs.
 - National Treasury to brief the Committee on the outcome of the analysis of the regulatory environment impact on SOCs/DFIs.
- Manage government contingent liabilities through quarterly reports outlining the performance of SOCs.
 - National Treasury to brief the Committee on a bi-annual basis regarding the performance of SOCs.

Programme 5: Financial Accounting and Supply Chain Management Systems

This Programme's targets are to:

- Conduct and support forensic investigations by undertaking investigations in 20 targeted departments/projects and referring 25 cases for criminal proceedings and civil recovery.
 - National Treasury to name the 20 departments/projects and report on outcomes of cases referred to for criminal proceeding and civil recovery.
- Implement the Integrated Financial Management System to national and provincial departments.
 - National Treasury to brief the Committee on the implementation strategy, once finalised.
- Develop, implement and maintain Central Supplier Database (CSD). Whole of government is targeted to be part of CSD on a compulsory basis by 1 April 2017.
 - National Treasury to brief the Committee on a continuous basis as to the progress of the establishment of the CSD.

Programme 6: International Financial Relations

This Programme's targets are to:

- Conclude negotiations around the South African Customs Union reform including the new revenue sharing agreement.



- o National Treasury to indicate to the Committee whether the new revenue sharing agreement is likely to be concluded with the 2015/16 financial year, as no decisive deadline is mentioned in the APP.

3. Budget Analysis

Table 2: Budget estimates for 2015 MTEF

Programme	Budget				Nominal Rand change	Real Rand change	Nominal % change	Real % change
	R million	2014/15	2015/16	2016/17	2017/18	2014/15-2015/16	2014/15-2015/16	
Programme 1: Administration	369.1	366.7	379.5	398.8	- 2.4	- 19.2	-0.65 per cent	-5.20 per cent
Programme 2: Economic Policy, Tax, Financial Regulation and Research	127.1	133.9	142.6	153.8	6.8	0.7	5.35 per cent	0.52 per cent
Programme 3: Public Finance and Budget Management	252.4	257.0	275.8	294.8	4.6	- 7.2	1.82 per cent	-2.84 per cent
Programme 4: Asset and Liability Management	3 091.4	3 116.9	98.1	104.5	25.5	- 117.3	0.82 per cent	-3.79 per cent
Programme 5: Financial Accounting and Supply Chain Management Systems	756.1	751.4	825.4	883.0	- 4.7	- 39.1	-0.62 per cent	-5.17 per cent
Programme 6: International Financial Relations	1 192.6	1 247.4	1 314.4	1 380.2	54.8	- 2.3	4.60 per cent	-0.20 per cent
Programme 7: Civil and Military Pensions, Contributions to Funds and Other Benefits	3 717.8	3 962.9	4 173.2	4 381.9	245.1	63.6	6.59 per cent	1.71 per cent
Programme 8: Technical Support and Development Finance	2 684.8	3 143.9	3 278.2	3 331.7	459.1	315.1	17.10 per cent	11.74 per cent
Programme 9: Revenue Administration	9 440.3	9 434.4	10 433.5	11 415.6	- 5.9	- 438.0	-0.06 per cent	-4.64 per cent
Programme 10: Financial Intelligence and State Security	4 366.3	4 542.8	4 793.0	5 033.7	176.5	- 31.6	4.04 per cent	-0.72 per cent
TOTAL	25 997.9	26 957.3	25 713.7	27 378.0	959.4	- 275.3	3.69 per cent	-1.06 per cent

Source: National Treasury ENE (2015)

National Treasury's budget allocation increases by R959.4 million or 3.7 percent in nominal terms from R26.0 billion in 2014/15 to R27.0 billion in 2015/16.

With regard to the economic classification of expenditure, current payments amount to R128.4 billion of the 2015/16 budget. Compensation of employees amounts to R725.5 million, while Goods and services amount to R1.2 billion in 2015/16, up by R107.9 million from the R1.1 billion allocated in the previous financial year.

The allocation for transfers and subsidies' increases by R24.0 billion or 6.2 percent in nominal terms from R390.9 billion in 2014/15 to R415.0 billion in 2015/16. The allocation for capital assets decreases by R10.0 million from R26.4 million in 2014/15 to R16.4 million in 2015/16.

3.1 Programme Analysis

Programme 1: Administration

The Administration programme is responsible for providing strategic management and administrative support to the department as a whole. The programme's strategic focus in 2015/16 will be on:

- Achieving cost-savings in goods and services;



- Ensuring that the Information, Communication and Technology (ICT) are aligned to the department's business processes;
- Retaining appropriately skilled personnel by targeting that 92 percent of all positions are filled and maintain an 87 percent retention rate;
- Implementing enterprise risk management strategy; and
- Implementing a risk-based internal audit plan.⁹

The programme budget amounts to R366.7 million in 2015/16.

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

An amount of R133.9 million is allocated to Economic Policy, Tax, Financial Regulation and Research for the 2015/16 financial year. Programme 2's budget is largely allocated to the following three sub-programmes in line with its strategic focus of promoting tax policy that promotes sustainable growth and a sound financial sector and regulatory reform:

- R30.3 million (i.e. 22.6 percent of programme budget) to the Financial Sector Policy sub-programme in 2015/16, which aims to implement the "Twin Peaks" legislation to establish the regulators thereof by 2015/16. A new directorate will be created to focus specifically on analysing market conduct in line with the "Twin Peaks" model;
- R24.3 million (i.e. 18.2 percent of programme budget) to Tax policy sub-programme in which aims to implement the carbon tax policy and monitor and evaluate the effectiveness of the legislation in 2015/16; and
- R27.6 million (i.e. 20.6 percent of programme budget) to Economic Policy sub-programme which aims to continue with developing and maintaining economic forecasting models that provides in-depth economic analysis, including 3-year macroeconomic forecasts and assessments of exchange rate and capital flow trends in 2015/16.¹⁰

Programme 3: Public Finance and Budget Management

Programme 3 receives a budget of R257.0 million for 2015/16. The Programme gives effect to government's economic, fiscal, social, and development goals by managing the budget process and providing public management support through the following three sub-programmes:

- Public Finance receives R56.7 million to provide financial and budgetary analysis, advise on policy and service delivery trends and monitor the use of public resources;
- Budget Office and Coordination receives R59.9 million to provide fiscal policy advice, implement budget reform, coordinate national budgeting process and coordinate international development cooperation; and

⁹ National Treasury APP (2015/19)

¹⁰ National Treasury APP (2015/19) and ENE (2015)



- Intergovernmental Relations receives R80.1 million to coordinate fiscal relations between national, provincial and local government; promote sound provincial and municipal budget planning, reporting and financial management; and provide technical assistance to government departments aimed at improving planning and management of infrastructure delivery.¹¹

Programme 4: Asset and Liability Management

An amount of R3.1 billion was allocated to Programme 4 for the 2015/16 financial year. The Asset and Liability Management programme is responsible for ensuring prudent cash management, achieving an optimal portfolio of debt and enforcing prudent financial management of state-owned entities. The Financial Investments sub-programme dominates the programme budget, accounting for 97.0 percent or R3.0 billion in 2015/16.

Other significant allocations, include:

- R32.0 million to the State-owned Entity Financial Management and Governance sub-programme, which exercises oversight over state-owned entities to enable the achievement of government's policy objectives in a financial and fiscally sound manner;
- R20.6 million to the Government Debt Management sub-programme to ensure that government's funding needs are met while maintaining debt service costs at sustainable levels.
- R20.4 million to the Financial Operations sub-programme to manage government's cash resources in a manner that is sound by adhering to credit risk benchmarks and ensuring that government's liquidity requirements are met at all times.¹²

Programme 5: Financial Accounting and Supply Chain Management Systems

Programme 5 receives a budget of R751.4 million for 2015/16. The mandate of this programme is to promote effective and efficient government financial management and accountability across all three spheres of government. Two major areas of strategic focus over the 2015/16 medium term, are:

- Strengthening government financial management by accelerating the deployment of the integrated financial systems to all government departments and facilitating capacity development in order to improve financial management execution; and
- Modernise or transform government's procurement by developing a centralised supplier database, introducing policy reforms to ensure that a single supply chain management policy is implemented by all procuring government institutions, and providing training to close the skills gap for existing and future supply chain management practitioners.¹³

¹¹ National Treasury APP (2015/19) and ENE (2015)

¹² National Treasury Strategic Plan (2015/19)

¹³ National Treasury APP (2015/19) and ENE (2015)



Programme 6: International Financial Relations

An amount of R1.25 billion was allocated to International Financial Relations for the 2015/16 financial year. The African Integration and Support sub-programme and the International Development Funding Institutions sub-programme receive significant budget prioritisation, as evidenced by the respective allocations of R717.6 million (or 57.5 percent of programme budget) and R463.8 million (or 37.2 percent of programme budget) in 2015/16. The budget prioritisation is aligned to the strategic focus of the programme, which is to:

- Promote regional economic integration and strengthen economic links within Africa by: concluding negotiations around the Southern African Customs Union (SACU) reform including new revenue sharing agreement by 2015/16; developing and implementing a policy of one stop border posts by 2015/16; and providing ongoing support to the Southern African Development Community committees dealing with economic and financial protocols.
- Advance South Africa's interest and Africa in general through regular engagement and negotiations at regional and global financial and economic forums by: lobbying for reform of these institutions and securing a third board chair for the International Monetary Fund for the benefit of Sub-Saharan Africa by 2015/16.¹⁴

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

Programme 7's mandate is to ensure that government's pension and post-retirement medical benefit obligations to former employees and retired military members are fulfilled. The strategic focus of ensuring good governance and administration and improving customer service will be continued and strengthened in 2015/16, through:

- Adherence to policy payment timeframes (i.e. post-retirement medical benefits to be paid within 30 days, special pensions to be paid within 60 days etc.);
- improving client data integrity (i.e. a target of 45 percent of all payments should be paid to the lawful beneficiary); and
- Improving customer service (i.e. 100 percent of customer complaints must be resolved within seven days).¹⁵

The allocation to Programme 7 amounts to R3.96 billion in 2015/16, and the programme 7 is comprised of three sub-programmes, namely:

- Government Pensions Administration Agency receives R612 million (i.e. 1.5 percent of programme budget) in 2015/16;
- Civil Pensions and Contributions to Funds receives R3.1 billion (i.e. 77.7 percent of programme budget) in 2015/16; and

¹⁴ National Treasury APP (2015/19) and ENE (2015)

¹⁵ National Treasury APP (2015/19)



- Military Pensions and Other Benefits receives R821.8 million (i.e. 207 percent of programme budget) in 2015/16.

Programme 8: Technical Support and Development Finance

The Technical Support and Development Finance allocation increased marginally by R44.1 million in 2015/16 to R3.14 billion from R3.10 billion in 2014/15. An amount of R1.318 billion was allocated to the Employment Creation Facilitation sub-programme in 2015/16, which is responsible for job creation and enterprise development through the Jobs Fund. The bulk of this sub-programme's budget, that is R1.301.8 billion, is transferred to the Government Technical Advisory Centre, which manages the Jobs Fund.

Other significant allocations in 2015/16 include:

- R587.2 million to the Local Government Financial Management Support sub-programme which aims to continue to improving financial capacity; financial management practices and audit outcomes in municipalities.
- R884.2 million to the Urban Development and Support sub-programme to focus on providing catalytic infrastructure that attracts third-party investment in township development, with 18 spatial transformation zones identified for development by 2015/16; and
- R270.9 million (i.e. 8.6 percent of programme budget) to the Infrastructure Development Support sub-programme, which supports capacity-building in both municipalities and provinces in terms of infrastructure planning and delivery. The sub-programme has targeted 400 municipal officials to be trained in terms of the built environment programme and 150 provincial officials to be trained on the infrastructure delivery management toolkit in 2015/16.¹⁶

Programme 9: Revenue Administration

This programme allocation amounts to R9.434 billion for 2015/16 and is a transfer payment to the South African Revenue Service, which is responsible for administering the tax system.

Programme 10: Financial Intelligence and State Security

An amount of R4.5 billion was allocated to the Financial Intelligence and State Security for the 2015/16 financial year. This programme is divided into two sub-programmes, namely:

- Financial Intelligence Centre receives R234.5 million to combat money laundering and the financing of terrorism by continuously monitoring and ensuring compliance with the Financial Intelligence Centre Act (2001)¹⁷; and

¹⁶ National Treasury APP (2015/19) and ENE (2015)

¹⁷ National Treasury ENE (2015)



- The South African Secret Services receives R4.3 billion (i.e. 94.8 percent share of the programme budget).

4. Implications on Parliament

The following issues are for the consideration of Parliament:

- National Treasury should provide details regarding its retention plan, which targets a retention rate of 87 percent. How is the retention plan aligned to the recruitment plan in light of the high vacancies in skilled supervision and management salary bands as highlighted by the Standing Committee on Finance's 2014 BRRR recommendations that requested National Treasury present a recruitment plan by 1 February 2015?
- The Department should elaborate on the rationale to use temporary specialist consultants as opposed to full time staff, taking into account the excessive costs that some consultants charge and impact on cost-containment.
- Parliament should continuously track and monitor the performance of the National Treasury, both on its budget and its stated measurable targets and outputs.

5. References

National Treasury (2014), Budget 2014, Adjusted Estimates of National Expenditure

National Treasury (2015), Annual Performance Plan 2015/19

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National Treasury (2015), Third Quarter Expenditure Report 2015 for the Standing Committee on Appropriations