

NATIONAL TREASURY BRIEFING TO THE STANDING COMMITTEE ON FINANCE ON THE 2014/15 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*).

DG's Overview

- Global growth for the year under review remained subdued. Domestic energy and logistics constraints and a protracted strike which affected the platinum sector also contributed to mute growth in gross domestic product to only 1.5 per cent
- South Africa's credit rating was downgraded owing a sluggish economic growth with an impact on fiscal and debt ratios
- The above-mentioned factors underscored the need to expedite implementation of plans aimed at removing domestic impediments to growth and supporting long-term investment and employment creation, whilst maintaining a sound fiscal stance and staying on course of debt stabilisation
- It is important that we implement our growth and development plans with vigour
- The NDP has guided our approach to budgeting and planning, and we are very aware of the need to accelerate implementation in areas that stimulate economic growth, broaden employment and economic opportunities and progressively address poverty and inequality. This also means shifting to a growth trajectory led by investment, not consumption

Overview 14/15 (continued)

- Whilst fiscal constraints affected the pace and breadth of government's contribution to national development during the period under review and will continue to do so in the medium term, core social and economic programmes have nevertheless been maintained
- Progress has been made in containing costs and improving the composition of government expenditure. This trend is set to continue in earnest in future
- Through the Office of the Chief Procurement Officer, GTAC and working with the DPME, we continue to reinforce effectiveness of spending: value for money....
 - We undertook expenditure reviews which informed our discussions relevant implementing departments and agencies on how the effectiveness of their programmes could be improved

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

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

Annual Report pages 47 - 53

Notable activities and highlights for the period under review included:

- Implementation of tax free savings legislation and regulations completed and financial institutions started offering tax free savings accounts from 1 March 2015.
- The regulatory framework for hedge funds was finalised, making South Africa among the first country 's to regulate hedge funds at a fund level.
- Finalising legislation to implement Twin Peaks regulatory system
 - Prepared and published for comment on 11 December 2014 (the second draft of Financial Sector Regulation Bill). Bill is now finalised and will be tabled in Parliament this month.
- Continuing work on making the financial sector safer by implementing internationally agreed standards
 - In collaboration with the Reserve Bank and FSB, draft regulations under the Financial Markets Act were released on 4 July 2014 to regulate over-the-counter derivatives.
 - Banks Amendment Act prepared and passed by Parliament following African Bank curatorship.
 - Discussion document on proposed new market conduct policy framework published for comment in December 2014.
- Tax Policy conducted research and developed policy which culminated in the revenue forecasts and tax proposals made in the 2015 Budget.
- Assessing the economic impacts of possible climate change outcomes on the South African economy, and preparation of carbon tax bill to be released for public comment shortly.

Programme 3: Public Finance and Budget Management

(Intergovernmental Relations) - Annual Report pages 55 - 86

The Intergovernmental Relations division coordinates fiscal and financial relations between the national, provincial and local spheres of government. **Highlights included:**

- **City Support Programme implementation:** Cities identified integration zones for targeted investment. A workshop was held on “Maximising Value of Public Real Estate: Catalysing Urban (Re)Development’ to support the dialogue between city planning officials and private sector developers/investors. Together with the South African Cities Network, **CSP** developed a fiscal impacts model which can be used to determine the fiscal impact of development applications in municipalities.
- **Implementation of performance incentive** in provincial infrastructure grants has resulted in improved planning and spending in most provinces. 6 provincial health departments and 7 provincial education departments were rewarded for making good progress in adopting planning and asset management.
- Significant progress with the roll out of the Municipal Regulations on **Standard Chart of Accounts (mSCOA)** to piloting municipalities and the vendors.

Programme 3: Public Finance and Budget Management

(Division 3 – Intergovernmental Relations) - continued

- The first phase of the ongoing **review of local government infrastructure grants** was completed and the following changes introduced in the 2015 Division of Revenue Bill:
 - allowing Municipal Infrastructure Grant funds to be used for refurbishment.
 - two public transport grants were merged, contributing to grant consolidation.
- **Reforms to municipal revenue raising powers** included developing a national policy framework on development charges to improve their regulation and ensure that they are applied uniformly across municipalities.
- **Strengthening oversight and facilitating intergovernmental coordination**
 - Undertook two annual strategic engagements with the 17 non-delegated municipalities (the Budget Benchmark Exercise and the Mid-Year Budget and Performance review and 9 provinces).
 - Publications of quarterly revenue and expenditure on provincial and municipal performances in terms of s32 of PFMA and s71 of MFMA.
 - Personnel costing and forecasting model was developed and piloted in provincial education and health departments (accounting for 86% of personnel spending), which supports proper human resource budgeting and management.

Programme 3: Public Finance & Budget Management

(Budget Office) - Annual Report pages 55 - 86

- The Budget Office is responsible for the national budget process including the publication of the Budget Review, the MTBPS and the ENE. The division oversees expenditure planning; provides fiscal advice; leads the budget reform programme; manages official development assistance; and compiles public finance statistics.

Highlights included:

- Annual budget allocation decision-making process was determined and executed in consultation with the Minister of Finance and his colleagues on the Ministers' Committee on the Budget. Various guidelines were issued to government institutions on the budget process input requirements.
- South Africa participated and came third, after New Zealand and Sweden, in the 2015 Open Budget Index (OBI) Survey, in recognition of the country's commitment to a transparent budget process. The National Treasury has a well-known reputation for its credible budget process and receives many visiting international delegations interested in finding out more about South Africa's budget process.

Programme 3: Public Finance and Budget Management

(Public Finance)

- The Public Finance division oversees budgetary planning and execution in national departments, provides advice and analysis on sectoral policies and programmes, monitors public expenditure and advises on financial and budgetary aspects of public policy and spending proposals. The division provides advice to the Director-General, the Deputy Minister and the Minister on cabinet memoranda and public finance issues that require ministerial concurrence or National Treasury approval. It is the primary link between National Treasury and other national departments and government.

Highlights included:

- The division supported the function group committees of the Medium Term Expenditure Committee (MTEC), which are responsible for advice 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 including preparation of quarterly expenditure reports on all votes, which are submitted to the Standing Committee on Appropriations.
- Large projects under review in 2014/15 which included further exploration of NHI financing options. The division also supported the SA Connect Broadband Policy and Plan, the Biofuel financing strategy and the GFIP new deal.

Programme 4: Asset & Liability Management

Annual Report pages 88 - 101

The Asset and Liability Management division manages government's annual funding programme in a manner that ensures prudent cash management and an optimal portfolio of debt and other fiscal obligations.

Notable activities and highlights for the period under review included:

- Financed government's preliminary gross borrowing requirement of R227.7 billion through issuing short-term loans of (R9.6 billion), domestic long-term loans (R191.2 billion), foreign loans (R23 billion) and the use of cash balances (R3.9 billion).
- Serviced government debt commitments amounting to R163.6 billion consisting of debt-service costs (R114.8 billion) and loan repayments (R48.8 billion).
- R7.9 billion capital support for the DBSA over the MTEF period of which R4.9 billion has already been transferred to the DBSA with the remaining R3.0 billion allocated for 2015/16.
- Total Government guarantees issued to state owned companies (SOCs) amounts to R469.4 billion of which R225.9 billion has been utilised.
- Approved additional guarantees totalling R1.106 billion for SAX, R6.488 for SAA, R1.94billion for SAPO and R5.9 billion for the Mokolo and Crocodile River (West) Water Augmentation Project (MCWAP) Phase 2A to be undertaken

by TCTA.



Programme 5: Financial Accounting & Reporting

(Office of the Accountant-General) - Annual Report pages 103 - 122

- Notable activities and highlights for the period under review included:
 - Financial Management Capability Maturity Model assessments were concluded.
 - Continued the accountant training programme. Nine trainees qualified as Chartered Accountants (CAs) and were placed in public sector institutions. The implementation of the Public Finance Management Capacity Development Strategy (CDS) started with the development of courses that have been piloted in two provinces. NT in collaboration with DPSA developed a generic functional structure for provincial treasuries.
 - CFO Job profile was drafted and circulated across stakeholders for comments before rollout across institutions. Developed and rolled out the CFO training programme at national and provincial departments.
 - 27 Forensic Investigations completed in respect of all spheres of government and public entities; referred and provided support in respect of 49 criminal cases to be executed by law enforcement agencies/ Anti-Corruption Task Team; and Civil recovery, through NPA- Asset Forfeiture of fraud in government tenders to a total estimated amount of R180 million, which was then paid into the National Revenue Fund upon recovery.
 - A revised approach to IFMS implementation was developed and approved by Cabinet, and a conditional award has been given.

Programme 5: Financial Accounting & Reporting

(Office of the Chief Procurement Officer) - Annual Report pages 103 - 122

Notable activities and highlights for the period under review included:

- Monitoring of compliance with SCM processes began to yield results. The quality of Procurement Plans improved across National Departments.
- These Procurement Plans are published on the OCPO site quarterly as part of transparency efforts.
- 16 of the 18 planned Transversal Contracts were renewed with an additional contract for Eastern Cape Province School Furniture.
- The Master Curriculum for SCM was shared with Higher Learning Institutions to phase-in the Public Service SCM content.
- With regard to capacity building - Accounting Officers were offered extensive training on SCM over 9 sessions.

Programme 6: International Financial Relations

Annual Report pages 124 - 130

The division made significant strides in advancing the interests of SA in bilateral and multilateral engagements, with a strong focus on economic development of the African continent. Some of the **highlights** in 2014/15, included:

International engagements

- Concluded the agreement to establish the BRICS New Development Bank and the Contingent Reserve Arrangement.
- Began a process for South Africa to be a prospective founding member of the Asia Infrastructure Investment Bank (AIIB) upon invitation by China.
- Led the G20 finance-track work on behalf of South Africa and supported the G20 Sherpa.
- Improved interdepartmental coordination of government's engagement with the WEF, IMF and OECD.

African engagements

- Chaired the African Development Fund WG to increase financial resources for African LICs.
- Chaired the SACU Finance and Audit Committee and introduced improvements to the Secretariat's accountability measures.
- Provided strategic direction for the evolution of the SADC Regional Development Fund.
- Improved accountability by the SADC Secretariat through participation in the Finance Committee.
- Supported full implementation of SADC's Finance and Investment Protocol.

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

Annual Report pages 132 - 136

This programme primarily relates to fiscal transfers

- **Programme 7 (Civil and Military Pensions)** process and payment of pensions to members and their dependants in terms of special pensions, military pensions, other statutory pensions, and post-retirement medical subsidies. More information is available from page 132 to 136 of the Annual Report.

Programme 8: Technical & Management Support and Development Finance

Annual Report pages 138 - 156

The Technical Support and Management and Development Finance programme provides advisory services, programme management and development finance support to improve public finance management, support high-impact government initiatives, facilitate employment creation and strengthen infrastructure planning and delivery.

Highlights included:

- Government Technical Advisory Centre (GTAC)
 - The functions of the former Technical Assistance Unit were transferred to GTAC, which included providing management support for programme 8, and operating a project development facility which supports potential PPP projects, neighbourhood development partnership projects and employment facilitation projects.
 - Technical and advisory support was provided to 93 projects during 2014/15.
 - Performance and expenditure reviews (PER) programme was initiated to undertake programme performance and expenditure analysis of leading policy initiatives. 9 reviews were completed by March 2015.
- Local Government Financial Management Support
 - The Financial Management Grant was available to 278 municipalities and all funds were transferred during the reporting year to municipalities, all of which submitted the required financial management support plans to National Treasury.
 - The Project Management Unit (PMU) for the second phase of the Municipal Finance Improvement Programme (MFIP II) was established, and 57 municipalities and all the provincial treasuries responded positively to the circulated “Expression of Interest” letters indicating procedures to apply for assistance.

Programme 8: Technical & Management Support and Development Finance (continued)

- Urban Development and Support
 - The *Neighbourhood Development Programme* (NDP) managing the Neighbourhood Development Partnership Grant (NDPG), has registered a total of 317 projects since inception, of which 241 township projects have been completed to the value of over R2.5 billion. Currently there are 42 township projects in urban areas and 5 in rural areas under construction.
- Employment Creation Facilitation
 - The *Jobs Fund* has concluded four calls for proposals since inception in June 2011, and through these first four funding rounds allocated R4.671 billion in grant funding to 90 approved projects.
 - At the end of March 2015, R2.514 billion had been disbursed to all implementing projects which created 47 967 new permanent jobs and placed 21 100 beneficiaries in permanent positions.
 - The fifth round targets the agricultural sector. For this round, 211 application were received of which 30 projects were approved to submit a full business case application.
 - The Jobs Fund progress against targets is on track, with all inception-to-date targets at 76% and above. The new permanent job creation indicator exceeded its target by 10%, the time-bound internship indicator by 6% and the training indicator by 12%.

Programme 1: Administration

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

Highlights included:

- An independent External Quality Assurance Review awarded the highest rating of *General Conformance to International Standards for the Professional Practice*, to Internal Audit.
- Implemented strategic sourcing which enabled a saving of R22 million on goods and services expenditure for the year;
- 97 % per cent of supplier payments were processed in an average of 11 days;
- Oversight visits were initiated to deliberate on entities' strategic and annual performance plans to ensure that they are consistent with government policy objectives, as enshrined in the NDP;
- The Graduate Development Programme yielded successful results with 74 interns employed by 31 March 2015 and an additional 8 external bursaries awarded; and
- Effective governance structures and compliance framework in place.

Human Capital

- Vacancy rate at 6.6%.
- Total staff complement of 1199: 56 % female and 83% black.
Senior management level: 82% black and 43% female.
- National Treasury achieved 1.1% against the 2% target for attracting employees with disabilities.
- A total of 66 promotions were made during the financial year.
- At the end of the 2014/15 financial year, 56% of employees participated in skills development and leadership programmes.

Outcome : Expenditure

2014/15

Programmes	2014/15 Final Budget	2014/15 Final Outcome	Variance	% Variance
Operational Budget & Expenditure	2014/15 Budget	2014/15 Final Outcome	Variance	% Variance
1. Administration	372 382	362 526	9 856	2.6%
2. Eco Policy, Tax, Fin Reg & Research	134 358	124 329	10 029	7.5%
3. Public Finance & Budget Management	259 877	245 271	14 606	5.6%
4. Asset and Liability Management	3 343 372	3 089 403	253 969	7.6%
5. Financial Systems & Accounting	770 035	731 494	38 541	5.0%
6. International Financial Relations	1 199 717	1 198 653	1 064	0.1%
8. Tech Sup & Develop Finance	3 086 640	2 893 348	193 292	6.3%
Total Operational Budget & Expenditure	9 166 381	8 645 024	521 357	5.7%
Transfer Budget & Expenditure				
2. Eco Policy, Tax, Fin Reg & Research	27 653	27 653	-	0.0%
3. Public Finance & Budget Management	1 646	1 338	308	18.7%
4. Asset and Liability Management	228	228	-	0.0%
5. Financial Systems & Accounting	86 227	106 495	-20 268	-23.5%
6. International Financial Relations	774 954	788 313	-13 359	-1.7%
7. Civ & Mil Pens, Con to Fun & Oth Ben	3 662 205	3 676 532	-14 327	-0.4%
8. Tech Sup & Develop Finance	2 975 495	2 800 630	174 865	5.9%
9. Revenue Administration	9 440 321	9 440 321	-	0.0%
10. Fin Intelligence & State Security	4 366 250	4 366 250	-	0.0%
Total Transfer Budget & Expenditure	21 334 979	21 207 760	127 219	0.6%
Operational Budget & Expenditure as a % OF Total Vote 10	30.1%	29.0%	80.4%	
Transfer Budget & Expenditure as a % OF Total Vote 10	69.9%	71.0%	19.6%	
TOTAL VOTE 10 BUDGET & EXPENDITURE	30 501 360	29 852 784	648 576	2.1%

Outcome: Economic Classification

Per Economic Classification	2014/15 Final Budget	2014/15 Final Outcome	Variance	% Variance
Compensation of Employees	692 825	671 461	21 364	3.1%
Goods and Services	950 702	858 479	92 223	9.7%
Payment of Financial Assets	3 937 675	3 687 147	250 528	6.4%
Transfers and Subsidies	394 069 487	393 914 406	155 081	0.0%
Payment for Capital Assets	22 328	20 132	2 196	9.8%
Total per economic classification	399 673 017	399 151 625	521 392	0.1%



Main Reasons for Spending Deviations

- **Personnel Vacancies (R21.4m):**

In relation to a final budget of R687.4 million, the expenditure on compensation of employees was R666 million resulting in a variance of 3.1%. The deviation of R21.4 million for the year was mainly due to:

- 85 funded positions that were vacant with 66 internal promotions that did not have an impact on reducing the overall vacancy rate.
- The 2014/15 vacancy rate for the National Treasury is 6.6%.

Divisions were also encouraged to review recruitment needs prior to initiating recruitment activities in order to ensure that the Department prioritises key positions in line with overall objectives.

- **Deviation and lagging in other operational spending (R344.9m) due to the following reasons:**

- R252 million earmarked for the recapitalisation programme of the Post Bank of South Africa was not transferred in the 2014/15 financial year as intended; the entity did not spend all the funds that were transferred in the 2013/14 financial year due to a revision of the project implementation plan. The transfer was an equity injection and not a loan; therefore, funds will be transferred only when needed.
- Underspending of the IDIP by R31.7 million was due to delays experienced in procuring technical assistants with technical skills in the build environment and specifically those who were familiar with the Infrastructure Delivery Management System toolkit (IDMS toolkit); the department is aiming at establishing a panel of experts with specific skills to be deployed across government to assist on infrastructure development.
- The Financial Management Capability Maturity Model project underspent by R20.4 million. This was due to the slow response to the survey by municipalities.
- Savings of R18.8 million on transversal systems costs were due to efficient management of operations.
- Other savings due to cost cutting measures such as travel and subsistence, stationery, communication costs and bulk procurement on capital assets.

Main Reasons for Spending Deviations Cont....

- **Savings on transfer budget (R155m):**

The variances were mainly on the following transfers:

Employment Creation Facilitation Fund (ECFF) (R125.8m)

The variance relates to planned disbursements that did not occur due to various factors experienced with the Jobs Fund's projects. These include less than anticipated projects being approved during evaluation of proposals, and delays in projects reaching milestones to unlock the next funding tranche.

Neighbourhood Development Partnership Grant (NDPG)

The NDPG (indirect grant) transfers were R28.3 million less than budgeted due to low demand for interventions by technical assistants and secondly, the recently adopted Urban Network Strategy which has scaled down the focused operations of the grant. This has been aggravated by slow spending on some municipalities' projects.

Outcome of the AG Audit report

- Unqualified audit report with 1 finding

Finding on predetermined objectives: This relates to the performance targets of 3 programmes not being specific, in line with the performance framework. This related to between 18-30% of the targets.

- There were no material findings on any of the compliance areas which include supply chain management, human resources, internal audit, internal controls and payments.
- There were no material misstatements on the annual financial statements.

Remedial action on the finding raised

- There were no recurring findings from the previous year.
- Predetermined objectives: The department is strengthening its capacity by creating a unit focusing on strategic planning, evaluation, reporting and performance information.
- An action plan was developed to revise the indicators and targets to be specific .
- The department achieved and even exceeded most of its set performance targets.

Questions and Answers

Thank You!