

NATIONAL TREASURY ANNUAL REPORT 2015/16

BRIEFING TO THE STANDING COMMITTEE ON FINANCE

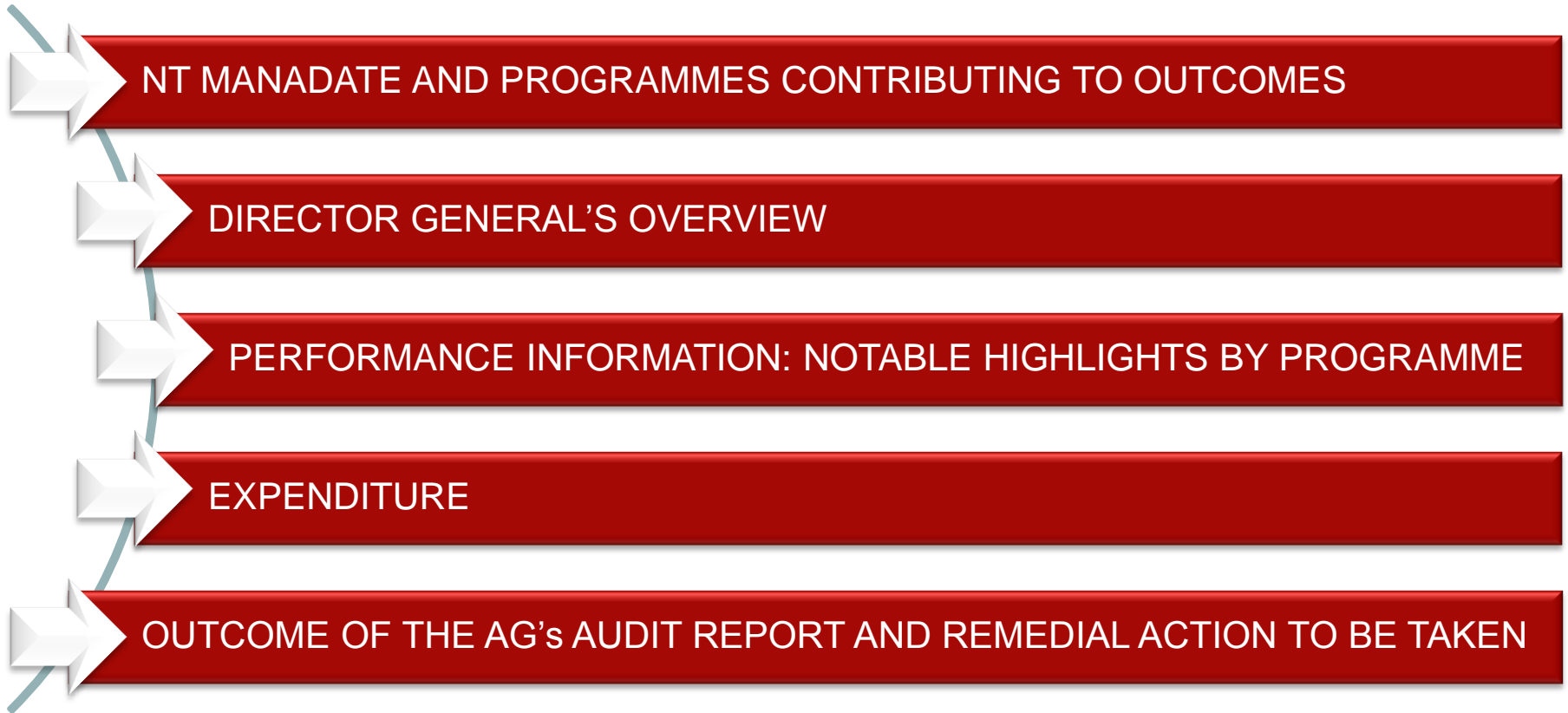
12 OCTOBER 2016



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

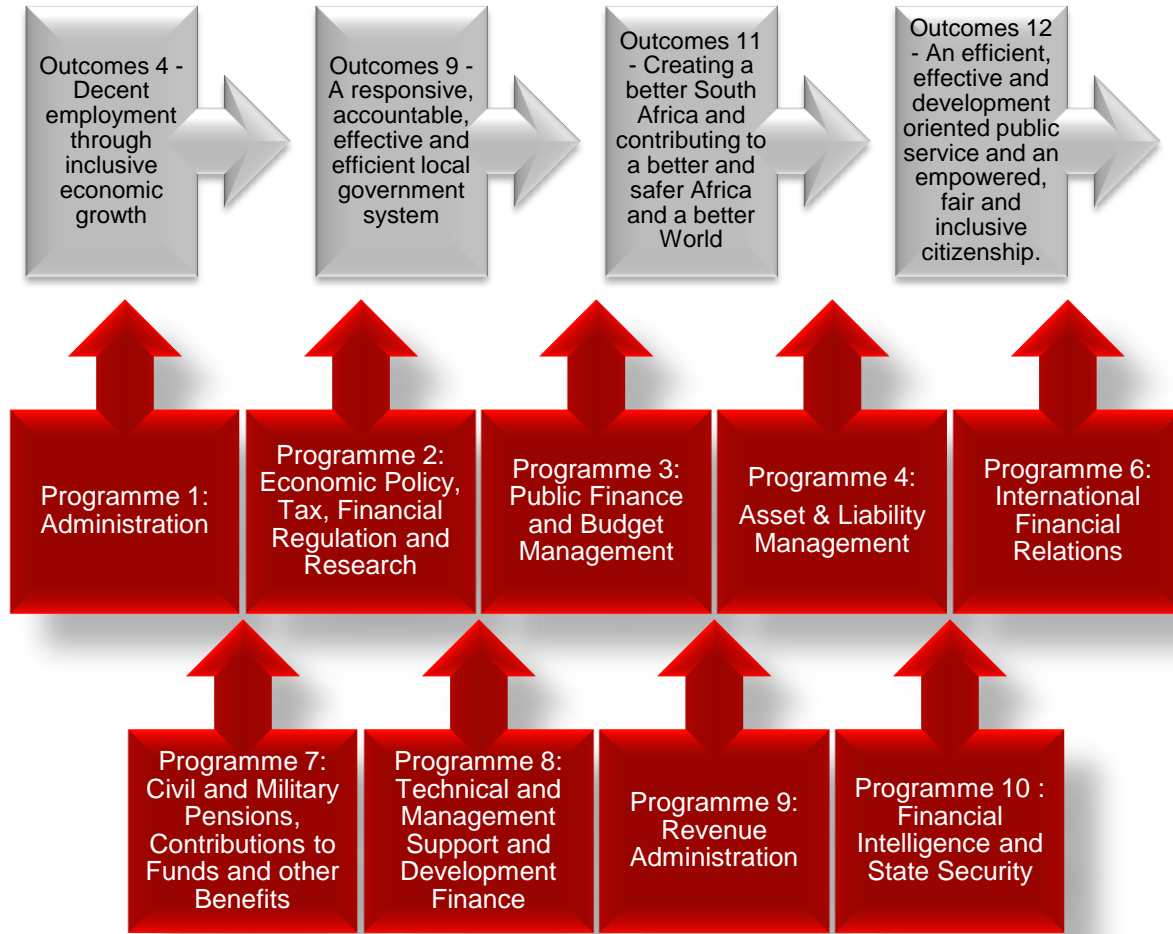
NAVIGATING THE PRESENTATION



NT MANDATE AND PROGRAMMES CONTRIBUTING TO OUTCOMES

Support economic growth and development, good governance, social progress and rising living standards through the accountable, economical, efficient, equitable and sustainable management of public finances, maintenance of macroeconomic and financial sector stability, and effective financial regulation of the economy by

- enforcing transparency and effective management in respect of revenue and expenditure, assets and liabilities, public entities, and constitutional institutions
- managing the budget preparation process
- coordinating intergovernmental financial and fiscal relations
- ensuring the stability and soundness of the financial system and financial services
- promoting national government's fiscal policy and the coordination of its macroeconomic policy



DIRECTOR GENERAL'S OVERVIEW

- Both global and SA growth revised down with the IMF predicting 3.1% for the former and only 0.6% for the latter.
- Negative domestic factors such as structural constraints and low business confidence driving down economic performance
- A determined and united response needed to overcome economic challenges that include skills and electricity shortages and adverse trade movements
- Focus on ensuring policy certainty, restore investor confidence in the durability of institutions and address structural factors that constrain growth
- In the absence of action, low economic growth leads to shortfalls in revenue with fiscal consolidation being derailed as national debt rises
- Government has responded by lowering its expenditure ceiling and announcing tax measures to boost revenue in a balanced approach

DIRECTOR GENERAL'S OVERVIEW (CONT)

- Government must do more with less - introducing a range of cost containment measures including:
 - Reducing the cost of materials and services procured by government
 - Established a central suppliers database
 - Launched an e-Tender portal
- Reforming urban economies is key to national economic transformation, growth and social inclusion:
 - The NT City Support Programme assists cities to leverage private sector investment in areas such as infrastructure and transport
- International Cooperation strengthened:
 - Ratification of the BRICS Contingent Reserve Agreement's Articles of Association
 - Ratification of the Articles of Agreements establishing the New Development Bank
- Main challenge facing the country during the period under review was the heightened risk of the country losing its investment grade credit rating. Working together with business and labour this has been averted but efforts must be redoubled in the period ahead.

PROGRAMME 2: ECONOMIC POLICY, TAX, FINANCIAL REGULATION AND RESEARCH

(Division – Economic Policy)

Annual Report pages 48 – 57

This division provides specialist policy research and analysis in the areas of macroeconomics, microeconomics, taxation, the financial sector, and regulatory reform.

Continued to produce quarterly economic and tax revenue forecasts and scenarios highlighting the likely impact of risks materialising

Research conducted: Analysing the electricity sector and the likely impact of rising electricity prices on demand.

Research conducted: Review of key trends in the mining sector and initiatives to alleviate constraints to growth

Research conducted: Implications of the prolonged drought

Research conducted: Outlining how South Africa's export competitiveness can be enhanced through reforms of the port and rail network.

Research conducted: Calculating the optimal level of reserves and comparing the current level to the reserves of other Emerging Markets.

Research conducted: Identifying the macroeconomic determinants of the yield curve and improving the long run yield specification in the quarterly forecasting model

PROGRAMME 2: ECONOMIC POLICY, TAX, FINANCIAL REGULATION AND RESEARCH

(Division–Tax & Financial Sector Policy)

Annual Report pages 48 - 57

Provide specialist policy research, analysis and advisory services in the areas of macroeconomics, microeconomics, taxation, the financial sector and regulatory reform.

Developed a policy which culminated in the revenue forecasts and tax proposals made in the 2016 Budget

Legislation promulgated giving effect to tax proposals in 2015 budget review

Amendments relating to the tax treatment of contributions to provident funds amended allowing extended consultation period

Draft Carbon Tax Bill published for comment

Implemented proposals to strengthen the financial regulatory system

Financial Sector Regulation Bill tabled in Parliament aiming to implement the Twin Peaks Approach

Working with *the dti* to improve the ease of doing business and investing in SA – InvestSA/One Stop Shop

Financial Intelligence Centre Amendment Bill tabled in Parliament

PROGRAMME 3: PUBLIC FINANCE AND BUDGET MANAGEMENT

(Division - Intergovernmental Relations)

Annual Report pages 58 – 89

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

Cities continued with a third round of Built Environment Performance Plans (BEPPs)

Support provided including preparation of catalytic land development projects identified in BEPPs, a toolkit for the Cities Infrastructure Delivery Management System and hosting and Executive City Leadership course

Implementation of performance incentive in provincial infrastructure grants has resulted in improved planning and spending in most provinces.

Significant progress with the roll out of the Municipal Regulations on Standard Chart of Accounts (*mSCOA*) has been achieved

Reforms made to municipal revenue raising powers

The second phase of the review of local government infrastructure grants completed

Oversight and facilitating Intergovernmental coordination further strengthened

PROGRAMME 3: PUBLIC FINANCE AND BUDGET MANAGEMENT

(Division – Public Finance)

Annual Report pages 58 – 89

The division oversees budgetary planning and execution in national departments; provides advise and analysis on sectoral policies and programmes; monitors public expenditure and advises on financial and budgetary aspects of public policy and spending proposals.

Provided quarterly analysis of expenditure on all votes and submitted reports to the Standing Committee on Appropriations.

Led the functional group meetings and MTEC and advised on expenditure allocations and MTEF estimates.

Prepared the AENE and ENE chapters in conjunction with Notes on financial incentives for youth employment.

Collaborated with the Department of Health on publishing the White Paper on National Health Insurance; assisted the Department of Transport with reforms to the public transport network grant; assisted with an evaluation of the national school nutrition programme and performance and expenditure review of school infrastructure for the Department of Basic Education

PROGRAMME 3: PUBLIC FINANCE AND BUDGET MANAGEMENT

(Division – Budget Office)

Annual Report pages 58 – 89

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.

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

National Treasury has expanded on its fiscal risk management framework, and is aiming to publish a risks report together with the 2016 MTBPS. The framework has been built on international best-practice, and tweaked for our domestic conditions. The purpose is to understand and begin to mitigate all the risks to fiscal framework that could emerge from the private and public sectors.

PROGRAMME 4: ASSET & LIABILITY MANAGEMENT

(Division - Asset & Liability Management)

Annual Report pages 90 – 106

Prudent management of government's financial assets and liabilities

Financed government's preliminary gross borrowing requirement of R202.1 billion through issuing short-term loans (R13.1 billion), domestic long-term loans (R174.3 billion) and the use of cash balances (R14.7 billion)

Service government debt commitments amounting to R160.8 billion consisting of debt-service costs (R128.8 billion) and loan repayments (R32 billion)

Interest and redemption payments was R2.9 billion higher than targeted (from R157.9 billion to R160.8 billion) due to a higher exchange rate and an increase in short term interest rates.

The gross borrowing requirement was R2.4 billion lower than targeted (from R204.5 billion to R202.1 billion) due to a downward revision of the budget balance.

Guaranteed facility for SAPO increased to 4.4billion. Additional guarantees issued in support of REIPP, Eskom, SANRAL, SAA, the Land Bank and SAPO increased borrowing against guarantee facility.

Met with 59 municipalities of which 49 concluded repayment agreements with Eskom and 12 out of 14 with Water boards

Conducted three foreign road shows, including to address emerging urgent investor concerns. Maintained the investment grade credit ratings assigned by 4 rating agencies

FINANCING AND TRANSFER OF R23 BILLION EQUITY ALLOCATION TO ESKOM

- Government sold its 13.9% shareholding in Vodacom to the PIC. The transaction was executed in two phases. Government raised a total of more than R25 billion.
- The R23 billion allocation to Eskom was appropriated through the Eskom Special Appropriation Act, 2015. Conditions were attached to the transfer of the R23 billion of equity to Eskom as had been provided for in the Act.
- The funds were to have been allocated to Eskom in three tranches:
 - R10 billion in June 2015
 - R10 billion in Dec 2015
 - R3 billion in March 2016
- The allocations took place as follows:
 - R10 billion in July 2015
 - R5 billion in Dec 2015
 - R5 billion in Feb 2015
 - R3 billion in March 2016
- The allocation to have been made in December 2015 was delayed as Eskom had not fully demonstrated compliance with the conditions attached to the equity allocation

PROGRAMME 5: FINANCIAL ACCOUNTING & SUPPLY CHAIN MANAGEMENT SYSTEMS

(Office of the Chief Procurement Officer)

Annual Report pages 107 – 140

Facilitate governance and accountability by promoting and enforcing the transparent, economic and effective management of revenue, expenditure, assets, liabilities and supply chain processes in the public sector.

Central Supplier Database launched, registering suppliers at a single point of access significantly reducing red tape and increasing verification. By 1 April 2016, 100 000 suppliers were registered

eTender portal was launched with 3 052 tenders published. The portal provides free access to eTender documents, enhances transparency and advances cost saving

gCommerce/ eCommerce centre implemented and functional since 31 March 2016.

218 bid specifications, 102 procurement plans, 219 bid evaluation and adjudication minutes and 192 contracts were reviewed as well 127 projects visited

14 transversal contracts were renewed

A Strategic Procurement Framework drafted supported by a strategic sourcing methodology. 30 Good Practice Guides published. Sourcing strategies developed for medical equipment, mobile and fixed line communications and travel and accommodation

A National Travel Policy Framework was issued in May 2016 which must be implemented by 1 July 2016.

PROGRAMME 5: FINANCIAL ACCOUNTING & SUPPLY CHAIN MANAGEMENT SYSTEMS

(Office of the Accountant General)

Annual Report pages 107 – 140

Facilitate governance and accountability by promoting and enforcing the transparent, economic and effective management of revenue, expenditure, assets, liabilities and supply chain processes in the public sector.

Investigations conducted in 28 targeted departments and 44 cases for criminal proceedings and civil recovery referred

Rolled out the Financial Management Capability Maturity Model and 32 financial management assessment indicators for municipalities and entities

1380 municipal officials trained to enhance financial management competencies

Circulars released to further address unauthorised, fruitless and wasteful expenditure, supply chain management and uniformed norms and standards of financial management

Regulations issued dealing with enforcement of MFMA focusing on financial misconduct

Structural and policy reforms implemented to make IA and Risk management functions more responsive to government challenges

Review of Treasury regulations conducted to align with best practice

Compliance Management Framework with guidelines developed

PROGRAMME 6: INTERNATIONAL FINANCIAL RELATIONS

(Division - International Financial Relations)

Annual Report pages 141 – 157

Manage South Africa's multilateral financial relations with various stakeholders through forums such as BRICS, G20, IMF, WB, AU, AfDB, SADC, SACU and OECD.

Increased South Africa's shareholding to 5.0% at the African Development Bank

Facilitated through collaboration with other government departments the successful conclusion of the negotiations on the finalisation of the agreement on Financing for Development (FfD)

Facilitated the ratification of the BRICS Contingent Reserve Agreement's Articles of Association as well as the Articles of Agreement establishing the New Development Bank

South Africa's strategy to the G-20 forum was presented and endorsed by Cabinet

A successful IMF Article IV Annual Consultation was held

Supported the coordination and implementation of the South Africa-World Economic Forum programme for Africa and coordinated South Africa's participation at the World Economic Forum Annual Meeting

PROGRAMME 7: CIVIL & MILITARY PENSIONS, CONTRIBUTIONS TO FUNDS AND OTHER BENEFITS

Annual Report pages 158 – 162

This programme processes and pays pensions to members and their dependants in terms of special pensions, military pensions, other statutory pensions, and post-retirement medical subsidies

On average 92.5% of benefits paid within liability date below the targeted 100%

On average 97.5% compliance with NT SLA, achieving 2.5% above target

On average 68.25% client data integrity completed, achieving significantly above the 55% targets

100% complaints resolved within 7 days

PROGRAMME 8: TECHNICAL & MANAGEMENT SUPPORT AND DEVELOPMENT FINANCE

Annual Report pages 163 – 183

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.

Government Technical Advisory Centre (GTAC)

- Technical and advisory support was provided to 189 projects
- Performance and expenditure reviews (PER) programme has been initiated to review leading policy initiatives. 9 reviews were completed

Local Government Financial Management Support

- Financial Management Grant available to 278 municipalities - all funds transferred during the reporting year, all of which submitted the required financial management support plans to National Treasury.
- The 2nd phase of the Municipal Finance Improvement Programme (MFIP II) is supporting 37 municipalities with general financial management, 4 provincial treasuries with overseeing local government, 20 municipalities with integrated infrastructure and asset management systems, 6 provincial treasuries with the implementation of the m-SCOA regulations and have 63 advisors contracted on the programme

PROGRAMME 8: TECHNICAL & MANAGEMENT SUPPORT AND DEVELOPMENT FINANCE

Annual

Report pages 163 – 183

Urban Development and Support

- The *Neighbourhood Development Programme* (NDP) managing the Neighbourhood Development Partnership Grant (NDPG), has registered a total of 355 projects since inception of which 258 township projects have been completed to the value of over R3.4 billion. Currently there are 61 projects in urban areas and 6 in rural areas under construction.

Employment Creation Facilitation

- The *Jobs Fund* has concluded 6 calls for proposals since inception in June 2011, and disbursed R3.22 billion in grant funding to 95 implemented projects.
- Progress has been made against targets and exceeded several including matched funding leveraged by 15% and short-term jobs created by 14%. 94% of the new permanent jobs indicator achieved.
- Projects aimed at unlocking available funds for financing SMME development includes a project partner who aimed to raise R300 million from pension funds against a guarantee of R75 million from the Jobs Fund, and to date has raised R450 million against the guarantee (an over-achievement of 150%).
- Supporting enterprise development, the Jobs Fund has to date funded 12, 097 businesses of which 11,930 are black owned with a total of R973 million.

PROGRAMME 1: ADMINISTRATION

(Division – Corporate Services)

Annual Report pages 39 – 47

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

A saving of 0.7% in cost of goods and services was achieved this translated into a saving of R4 925 306.40 against an expenditure of R657 212 685.63

91% of positions were filled with an 87% retention rate that was achieved supports the departments' endeavours to be considered an employer of choice;

To enhance oversight and accountability of Public entities, analysis of quarterly reports were completed to advise the Minister on progress made with the achievement of key performance indicators, development priorities and objectives;

Achieved payment of 98 % of suppliers in an average of 9 days;

Strategic sourcing was effective in curbing deviations and non-compliance cases for the year under review

Established an anti-corruption database that endeavours to improve fraud profiling and proactively reduces the risk of fraud.

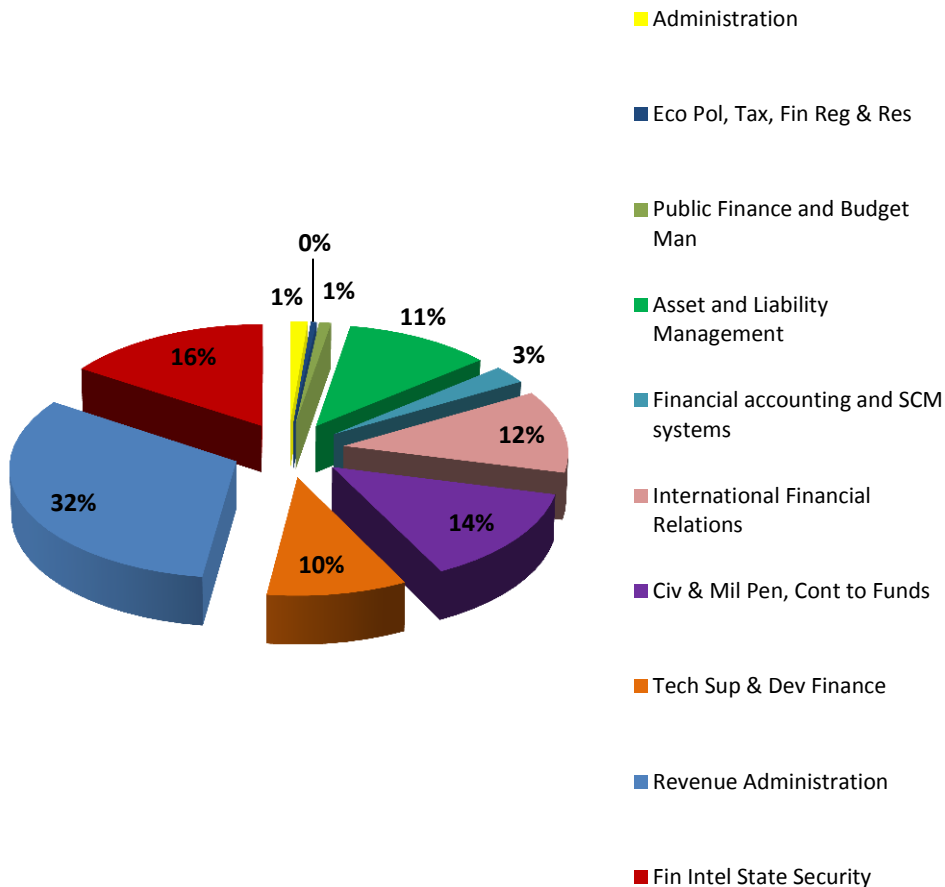
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- Vacancy Rate of 9% achieved
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- Total Staff Compliment of 1218 of which 85% are black(a year on year increase of 2%) and 56% female
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- Senior officials and mangers : 72% black and 45% female 1.07% of the NT total staff compliment are persons with disabilities
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- A total of 89 promotions were made
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- At the end of the 2015/16 financial year, 58% of employees participated in skills development and leadership programmes
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2015/16 OUTCOME EXPENDITURE PER PROGRAMME

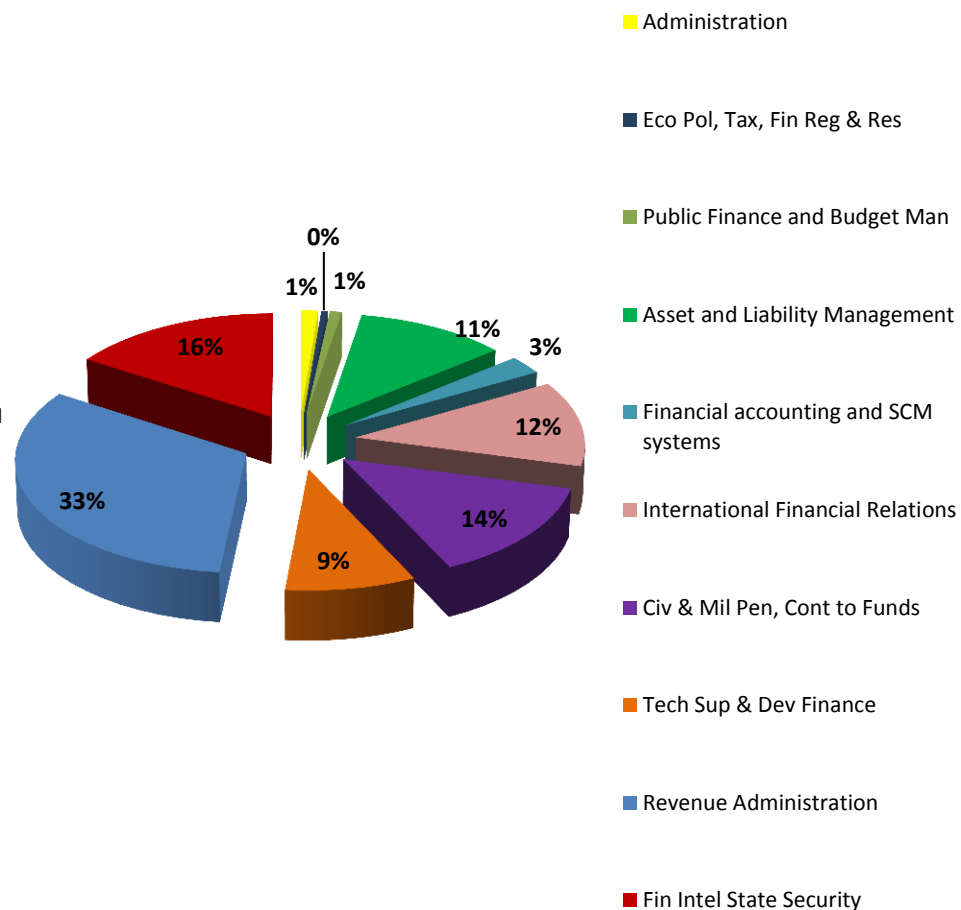
Programme	Adjusted	Virement/Shift	2015/16		Variance	% spend
	Appropriation	s	Final Budget	Actual Outcome		
1. Administration	363 629	23 016	386 645	376 303	10 342	97.3%
2. Eco Pol, Tax, Fin Reg & Res	135 387	(2 657)	132 730	131 272	1 458	98.9%
3. Public Finance & Budget Man	266 104	2 785	268 889	262 314	6 575	97.6%
4. Asset & Liability Management	3 264 890	281	3 265 171	3 264 294	877	100.0%
5. Fin Systems & Accounting	807 090	(23 337)	783 753	774 091	9 662	98.8%
6. International Financial Relations	3 533 926	13 736	3 547 662	3 546 099	1 563	100.0%
7. Civ & Mil Pen, Cont to Funds	3 962 941	4 800	3 967 741	3 967 698	43	100.0%
8. Tech Sup & Dev Finance	2 774 593	(18 624)	2 755 969	2 472 245	283 724	89.7%
9. Revenue Administration	9 334 439		9 334 439	9 334 439	-	100.0%
10. Fin Intel & State Security	4 562 062		4 562 062	4 562 062	-	100.0%
Total National Treasury	29 005 061	-	29 005 061	28 690 817	314 244	98.9%

2015/2016 ACTUAL OUTCOMES VS BUDGET PER PROGRAMME

FINAL BUDGET 2015/16



ACTUAL OUTCOME 2015/16

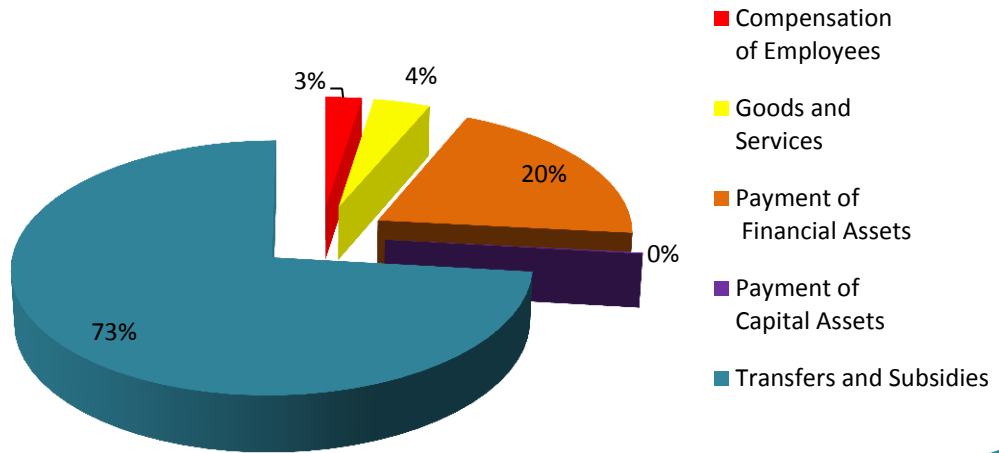


2015/16 ACTUAL OUTCOMES VS BUDGET PER CLASSIFICATION

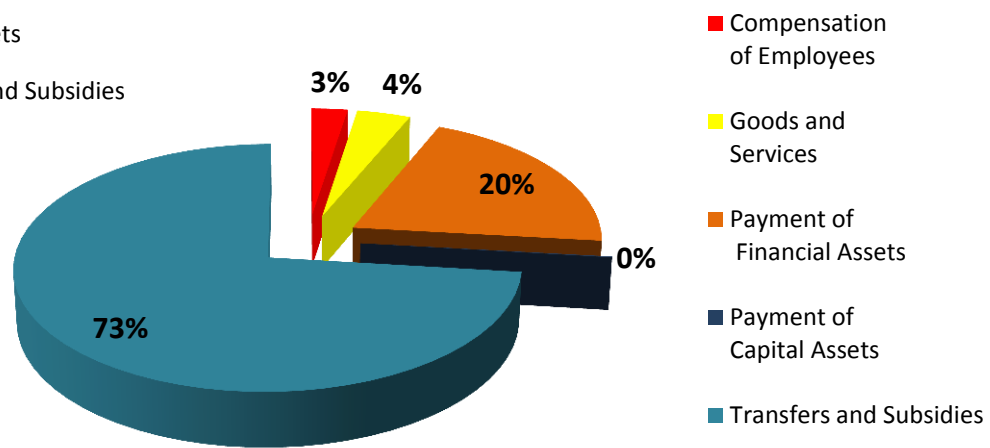
Item Classification	Adjusted Appropriation	2015/16 Final Budget	Actual Outcome	Variance	% spend
Compensation of employees	733 419	733 012	732 744	268	99.9%
Goods and services	1 189 053	1 145 978	1 093 166	52 812	91.9%
Payments for capital assets	26 101	45 853	33 210	12 643	127.2%
Total Operational Expenditure	1 948 573	1 924 843	1 859 120	65 723	95.4%
Payment for Financial Assets	5 886 380	5 846 004	5 846 273	(269)	99.3%
Transfers and Subsidies	21 170 108	21 234 214	20 985 425	248 789	99.1%
Total National Treasury	29 005 061	29 005 061	28 690 818	314 243	98.9%
Provincial Equitable Share	386 500 009	386 500 009	386 500 009	-	100.0%
Debt Service Cost	127 902 018	127 902 018	128 778 677	(876 659)	100.7%
Fuel Levy	10 658 909	10 658 909	10 658 909	-	100.0%
National Revenue Fund Payments	681 654	681 654	-	681 654	0.0%
Total Statutory Transfers	525 742 590	525 742 590	525 937 595	(195 005)	100.0%
Total Vote Budget	554 747 651	554 747 651	554 628 413	119 238	100.0%

2015/16 ACTUAL OUTCOMES VS. BUDGET PER CLASSIFICATION

Final Budget 2015/16



Actual Outcome 2015/16



MAIN REASONS FOR SPENDING DEVIATIONS

MAIN CONTRIBUTORS TO 2015/16 UNDER SPENDING

PROGRAMME	AMOUNT R'000	REASON	MITIGATION/REMEDIAL ACTION
P1	10 342	Payment of capital asset for the procurement of infrastructure systems servers within the ICT unit which could not be processed due to delayed delivery.	The rollover of funds to the 2016/17 financial year was requested, however the approval was not granted. This can be avoided by going through the procurement processes such as sourcing of quotations on time in future.
P8	283 724	<ul style="list-style-type: none"> • R225 million for ECFF transfer payments which was projected for final disbursement in March 2016, however, the funds could not be disbursed as the Jobs Fund Partners have not met the disbursement conditions which includes the job targets due to the effect of change in economic conditions such as drought experienced in the 2015/16 financial year. • R22.1 million on ECFF operational budget as there were delays in GTAC preparing the cost-recovery invoice to be submitted to NT. The funds were as a results declared to National Revenue Funds. • R12.482 million surpluses on NDGP (Indirect Grant). The funds were initially transferred to GTAC but returned later in March 2016 as the grant possessed surpluses in their account due to delays in municipal procurement of service providers and the implementation of the new collaborative Urban network precinct planning process. • R23.4 million due to a number of municipalities transfer payments which were withheld due to the municipalities' non-compliance to the DoRA and the NDPG framework. The funds were as a results declared to National Revenue Funds. 	Frequent monitoring of the spending through out the year and take precautionary measures on significant under-spending i.e., reprioritization before the financial year end or revisit the cash flow projections where necessary.

OUTCOME OF THE AG AUDIT REPORT

- Report on the Financial Statements
 - Unqualified audit opinion
- Report on other legal and regulatory requirements
 - Finding on predetermined objectives – This relates to performance targets and indicators of 3 programmes not being specific and measurable, in line with the performance. This ranged between 25-27% of the targets.
- There were no material findings on any of the compliance areas which included supply chain management, human resources, internal controls and payments.

REMEDIAL ACTION ON THE FINDING RAISED

- There were no recurring findings from previous year except on predetermined objectives.
- The department could not correct the previous year finding on predetermined objectives due to the 2015/16 Annual Performance Plan that was already submitted when the audit report was finalised.
- The department have created a dedicated unit to focus on strategic planning, evaluation, reporting and performance information. A senior manager was appointed to strengthen the capacity of the unit.
- In the 2016/17 Annual Performance Plan, the performance targets and indicators were revised to ensure that they are specific and measurable in line with the performance framework.

THANK YOU

BRIEFING TO THE STANDING COMMITTEE ON FINANCE

12 OCTOBER 2016



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