

NATIONAL TREASURY BRIEFING TO THE STANDING COMMITTEE ON FINANCE ON THE 2010/11 ANNUAL REPORT

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national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

OVERVIEW

- February macroeconomic forecasts projected GDP growth of 3.4 per cent in 2011– set to rise to 4.4 by 2013
- IMF latest growth forecast is 3.4 per cent this year and 3.6 per cent next year
- Inflation remained within the target band
- Investment was up by 3.1% y/y in the first quarter of 2011
- Credit rating agencies that rate South Africa affirmed SA's investment grade rating and removed the negative outlook
- Debt stock rose in line with wider budget deficit
- Forecasts will be updated when the MTBPS is tabled on 25 October 2011

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
- Has fully adopted Government's Outcomes approach; Treasury contributes directly to outcomes **4** (*Decent employment through inclusive economic growth*), **9** (*A responsive, accountable, effective and efficient local government system*) and **12** (*An efficient, effective and development oriented public service and an empowered, fair and inclusive citizenship*)
- During the reporting period, we continued to respond to the 2008 recession with appropriate fiscal and monetary measures to promote sustainable growth
- A framework was also developed which provided for a shift in expenditure planning so that budgeting occurs by function rather than by department
- Promoting greater accountability and transparency in government remains one of our key focus areas, and we developed fraud detection guidelines and issued instruction notes strengthening supply chain management practices

Major achievements

- Government placed job creation at the heart of policy formulation. Government provided for the creation of a R9bn Jobs Fund in the February budget
- Focused on health financing initiatives, such as the NHI
- IDIP & DPSA developed an infrastructure human resources framework to support and strengthen the infrastructure units in the provincial departments (education, health, public works and treasury) to implement the infrastructure delivery management system
- Revised the provincial & local government equitable share formulae resulting in the reform of the health component (provincial formula) and more funds being directed towards poor municipalities (local government formula)
- Published a number of papers for public comment
 - Reducing Greenhouse Emissions: The Carbon Tax Option
 - Confronting Youth Unemployment: Policy Options for South Africa
 - A Safer Financial Sector to Serve South Africa Better

Programme 2: Public Finance & Budget Management (Division 1 – Budget Office)

- Ensured that the budget frameworks for MTBPS and the Budget Review were tabled on time and included an estimate of the structural budget balance
- Published a consolidated government account in the 2011 Budget which included details of payments and revenues of state entities largely financed by government, and provided information on consolidated government borrowing
- Made a shift towards functional budgeting in developing the 2011 medium term expenditure framework. This approach groups together national, provincial and local government, and government agencies, in terms of the function they perform
- The Budget process focused extensively on finding savings and reprioritising within baselines and across departments. The funds identified (R30.6 billion) were mostly reallocated within the functional budget baselines, curbing unnecessary and potentially wasteful expenditure

Programme 2: - continued

(Division 2 – Public Finance)

- Medium term expenditure planning process restructured to comprise nine functional clusters
- 29 national budget programme structures were reviewed and amended, and measurable objectives and indicators improved to contribute to better long-term expenditure planning
- An improved and extended quarterly expenditure reporting system was developed for national departments, and presented to the Standing Committee on Appropriations

Programme 2: - continued (Division 3 – Intergovernmental Relations)

- The provincial equitable share formula was revised and a new health component was introduced. The local government equitable share formula was also adjusted to direct more funds towards poor rural municipalities
- New conditional grants were introduced to cater for specific infrastructure priorities in education, health and roads and the upgrading of informal settlements in metropolitan municipalities
- Financial Management Improvement Forum established with the nine provincial treasuries, and the Budget & Programme Structures review was undertaken in 40 provincial departments
- Mapping of programmes to functional categories was refined at provincial level
- Expanded training for public officials in budget analysis and budget formulation

Programme 2: - continued (Technical & Management Support)

- The Technical and Management Support group is made up of PPP, IDIP, NDPG & TAU
- Building on the capacity established in supporting the 2010 FIFA World Cup, a National Capital Projects Unit has also been established. It provides support in assessing financial feasibility studies for major national infrastructure projects, and managing participation in interdepartmental task teams on strategic projects
- TAU's work primarily supports Outcome 12, namely the creation of an efficient, effective and development-orientated public service. The target of supporting 73 projects was exceeded, with support provided to a total of 92 projects
- IDIP was extended for another three years following the completion of phase II in March 2010, informed by the review of phase II which found a need for the programme to build sustainable systems and skills capacity in departments
- NDPG exceeded the target of 35 projects commencing construction, with 67 projects having commenced construction

Programme 3: Asset & Liability Management

- Successfully financed the revised gross borrowing requirement of R190.9 billion
- Debt service costs dropped from the projected 2.6 per cent of GDP to 2.5 per cent owing to the strong levels of the rand, and also due to a lower than forecast interest rate environment.
- Achieved a saving of up to 3.4% on borrowing costs due to intergovernmental cash coordination
- Monitored SOEs and development finance institutions on progress made in line with agreed strategies by SOEs whose debt had been guaranteed by government
- Fitch Ratings and Standard & Poor's removed negative outlook on South Africa's investment grade sovereign rating, while R& I and Moody's maintained a stable outlook during the reporting period

Programme 4: Financial Management & Systems

- The Supply Chain Management User Requirement for the Integrated Financial Management System (IFMS) was completed for the Asset Management, Catalogue Management and Inventory Management modules.
- The implementation of the strategic sourcing principles was delayed following a decision to reprioritise the IFMS Procurement Management Module. A new comprehensive roll-out plan will be finalised and executed in 72 municipalities by March 2012
- Operationalised the SCM compliance monitoring unit, and worked with the OAG to investigate and finalise grievances related to non-compliance with SCM prescripts
- Three instruction notes issued in terms of the PFMA and two in terms of the MFMA, dealing with prohibiting collusive bidding or bid-rigging in the supply chain management environment
- Completed economic benefit quantification on 2 strategic transversal term contracts, namely the supply of anti-retrovirals and the motor vehicles contracts

Programme 5: Financial Accounting & Reporting

- Strategic support plans developed and implemented for all prioritised entities
- Prepared and tabled the Consolidated Annual Financial Statements for all entities
- Financial management capacity building strategy for the public sector finalised
- MFMA financial management indicators were refined
- Assisted in procurement fraud investigations in 20 institutions
- Trained 3093 officials in Accounting, Risk Management and the PFMA and Asset Management
- Developed and piloted the risk modelling tool in two entities

Programme 6: Economic Policy & International Financial Relations (Division 1 – Tax & Financial Sector Policy)

- Published a policy document containing proposals for financial sector regulatory reform: *“A safer financial sector to serve South Africa better”*
- Final Regulation 28 of the Pension Fund Act issued on Budget Day 2011 (for implementation in July 2011) to ensure that the savings which South Africans contribute towards retirement are invested in a prudent manner
- Work continued on environmental fiscal reform and the possible use of taxes and incentives to deal with climate change. Published discussion paper entitled *“Reducing Greenhouse Emissions: The Carbon Tax Option”* in December 2010
- The Mineral and Petroleum Royalty Act was implemented on 01 April 2010, resulting in new revenue to the fiscus

Programme 6: - continued

(Division 2 – International & Regional Economic Policy)

- Supported South Africa's participation in IFIs and other global fora such as the G20, G24 and BRICS, and linked these to national and regional interests:
 - Mobilising resources for Africa's development: Agreement reached on increasing the resources for (i) the World Bank and the African Development Bank for the benefit of developing countries; and (ii) the World Bank and African Development Bank's concessional windows for the benefit of low income countries
 - Reform of the IFIs: Agreement reached to increase voice and representation of SSA within the World Bank Group, by increasing the size of its board from 24 to 25. South Africa occupies a board seat
 - Promoting development and attainment of MDGs: Participated in establishing the G20 Development Working Group which South Africa co-chairs
- Played a catalytic role in promoting good public financial management by supporting regional capacity development initiatives. The Collaborative Africa Budget Reform Initiative (CABRI) actively strengthened its relationship with several regional and international institutions (AfDB, OECD, the World Bank Institute and the IMF's AfriTAC)

Programme 6: - continued

(Division 3 – Economic Policy)

- Studies conducted include estimating the economic impact of National Health Insurance, developing climate change economic modelling capacity and analysis of the effect of carbon taxes, and modelling on growth and employment scenarios
- Drafted South Africa's contribution to the G-20 Mutual Assessment process and Framework for Strong, Sustainable and Balanced Growth
- Policy analysis and assessments on: economic growth, developments in the global economy and implications for SA; exchange rate trends and impacts on the economy; capital flow trends, composition, costs and benefits; savings trends in South Africa and policies to increase private sector savings; drivers of commodity price volatility and policies to mitigate these effects; youth unemployment; and microeconomic reforms
- Macroeconomic forecasts for Budget Review & MTBPS publications. Quarterly macroeconomic forecast updates also produced internally
- Contributed toward macroeconomic development together with other government departments, including work on the New Growth Path and job creation initiatives in support of Outcome 4
- Discussion paper “Confronting youth unemployment: policy options for South Africa” published for public comment

Programmes 7, 8 and 9

These three programmes are primarily our fiscal transfers programmes

- **Programme 7 (Provincial and Local Government Transfers)** deals with transfers to provinces and municipalities. In the Infrastructure Grant to Provinces, transfers amounting to R2.47 billion were halted due to non-compliance by grant-receiving departments. All other transfers made as planned. Refer to the main document on page 96
- **Programme 8 (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 on page 91
- **Programme 9 (Fiscal Transfers)** refers to transfers made to public authorities and other institutions, including multilateral development banks and international development bodies of which South Africa is a member. See page 97 for transfers made in the 2010/11 financial year

Programme 1: Administration

This is the department's support office which provides Corporate Services, Communications, Legal and Security services to the other programmes.

Highlights include:

- The internship programme continued to grow, with the department's employee base now comprising 6 per cent of interns. 71 per cent of interns were placed into permanent positions in the department
- Internal appointments increased to 54 per cent against the target of 45 per cent
- A departmental Enterprise Risk Management strategy was reviewed and implemented in line with the Public Sector Risk Management Framework. Adherence to the strategy continues to be monitored closely
- Turnaround times of tender processes were improved from an average of 91 days (2009/10) to 60 days
- Enterprise Architecture Planning introduced

Human Capital

- Total staff complement of 1 111: 55 % female, 79% black. At senior management level, 66% black and 38% female
- The National Treasury had a vacancy rate of 14% (179 posts) at the end of the 2010/11 financial year.
- Of the 199 offers made, 185 were accepted whilst 14 were declined.
 - *Some of the reasons advanced for declining offers relate to salaries, counter offers, and other developmental career choices.*
- A total of 140 critical skills positions were filled during 2010/11 financial year.
- One (1) appointment was made in August 2011 and five (5) more internal staff members have declared their status after awareness sessions. There is a concerted effort to recruit more people with disabilities through relevant networks.

Detail of Expenditure

Programme	Audited Outcome 2009/10 R'000	Budget 2010/11 R'000	Audited Outcome 2010/11 R'000	Variance R'000
1. Administration	242,790	276,551	248,661	27,890
2. Public Finance and Budget Management	262,916	314,627	253,038	61,589
3. Asset and Liability Management	53,174	72,800	67,204	5,596
4. Financial Management and Systems	405,632	432,911	395,119	37,792
5. Financial Accounting and Reporting	137,110	206,311	164,006	42,305
6. Economic Policy and International Relations	94,487	129,962	104,447	25,515
OPERATIONAL BUDGET	1,196,109	1,433,162	1,232,475	200,687
Administration as % of total	20.3%	19.3%	20.2%	13.9%

Detail of Expenditure - continued

Programme	Audited Outcome 2009/10 R'000	Budget 2010/11 R'000	Audited Outcome 2010/11 R'000	Variance R'000
7 Provincial and Local Government transfers	14,327,371	12,834,500	10,091,008	2,743,492
8. Civil & Mil pensions, contributions to fund and other benefits	4,955,140	2,698,187	2,697,847	340
9. Fiscal Transfers	42,190,108	33,243,565	33,239,056	4,509
TOTAL	62,668,728	50,209,414	47,260,386	2,949,028

The decrease of R15.4 billion between the 2009/10 and 2011/12 financial year audit outcomes is mainly due to the once off transfers made in 2009/10 for the Gautrain Loan (R4.2 billion), the Political Office Bearer's Pension Fund (R2.5 billion), the additional funds of R7.7 million to the Development Bank of Southern Africa and the final transfer payment made to the Investment Climate Facility of R7.6 million.

Report on efficiencies

- The department spent 94.9% of the allocated budget.
- Cost saving measures outcome
 - Entertainment by 45%
 - Catering by 26%
 - Consultancy services by 8%
 - Admin fees by 48%
 - Communication by 11%
 - Other operating expenditure by 37%

Outcome of the AG Audit report

- Unqualified audit report but with matters of emphasis
- Irregular expenditure of R23.2 million:
 - R8.1 million which relates to Programme 8, specifically Special Pensions, due to the Board misinterpreting the Special Pensions Act (Act 69 of 1996) as the beneficiaries had committed schedule 1 offences
 - R3.1 million relates to a service provider that was appointed to do scoping. Due to urgency of addressing the challenges in Special Pensions, implementing change management, and the need to avoid interruption of service provision, the contract was extended
- Material losses amounting to R3 587 108 were incurred as a result of losses through criminal conduct within Programme 8: Special Pensions

Outcome of the AG Audit report - continued

- National Treasury instituted investigations on the Special Pensions matters through the Special Investigation Unit, Percy Sonn, and Nexus Forensic to ascertain the root causes and determine the appropriate corrective action and recommendations
- The findings of the SIU investigation raised the following:
 - That 518 beneficiaries were deceased;
 - 285 were indicated as having schedule 1 convictions (The Act disqualifies a person from receiving or continuing to receive a pension if that person was convicted of a 'crime', as defined in the Act, committed after 2 February 1990). The 2008 amendment removed the provision which required the termination of benefits for pensioners with schedule 1 crime convictions. No further action could thus be taken on these cases;
 - 141 fraud cases (providing falsified biography and affidavit of the applicants' political history and providing false identification of the applicants) have been identified; and
 - 752 have been deemed as cases where the Act has been misinterpreted (i.e. misinterpreted by the Board).

Appropriate remedial actions

- Appropriate remedial actions
 - The 518 deceased cases payments were immediately stopped after receiving the report
 - All 141 fraud cases were handed over to the Commercial Crimes Unit of SAPS
 - 752 cases deemed to be incorrectly interpreted in terms of the Act - the SIU legal department advised that High Court determination needs to be obtained
 - Management action plan has been signed by NT DG and GPAA CEO to urgently deal with cleaning up of all administrative issues within Programme 8 by the end of the financial year
 - Further investigations are continuing regarding all transgressions

NATIONAL TREASURY SECOND QUARTER PERFORMANCE 2011/12 FINANCIAL YEAR



national treasury

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Detail of Expenditure - NT

Programme	Budget 2011/12 R'000	Expenditure April-Sept 2011 R'000	Actual as a % of budget	Available budget R'000
1. Administration	281,088	105,341	37.5%	175,747
2. Eco Policy, Tax, Fin Regulation & Research	111,054	42,850	38.6%	68,204
3. Public Finance & Budget Management	165,902	79,214	47.7%	86,688
4. Asset and Liability Management	72,594	36,411	50.2%	36,183
5. Financial Systems & Accounting	658,220	221,315	33.6%	436,905
6. International Financial Relations	32,623	14,171	43.4%	18,452
8. Technical Support & Development Finance	171,513	61,237	35.7%	110,276
OPERATIONAL BUDGET	1,492,994	560,539	37.5%	932,455

Detail of Expenditure – NT - continued

Programme	Budget 2011/12 R'000	Expenditure April-Sept 2011 R'000	Actual as a % of budget	Available budget R'000
7. Civ & Mil Pen, Contri to Funds & Other Benefits	3,139,833	1,804,433	57.5%	1,335,400
9. Revenue Administration	8,653,573	4,326,786	50%	4,326,787
10. Financial Intelligence & State Security	3,755,021	1,851,941	49.3%	1,903,080
Other Transfers Excluded from the Programmes	5,556,770	1,142,922	20.6%	4,413,848
TOTAL	22,598,191	9,686,621	42.9%	12,911,570

Detail of Expenditure – Public Entities

Public Entity	Budget 2011/12 R'000	Expenditure April-Sept 2011 R'000	Actual as a % of budget	Available budget R'000
Cooperative Banking Development Agency	9,310	7,200	77.3%	2,110
Financial & Fiscal Commission	33,036	18,000	54.5%	15,036
Land Bank	750,000	400,000	53.3%	350,000
Accounting Standards Board	7,970	3,985	50%	3,985
Independent Regulatory Board for Auditors	28,724	14,362	50%	14,362
Development Bank of Southern Africa	100,026	50,026	50%	50,000
South African Revenue Service	8,653,573	4,326,786	50%	4,326,787
Financial Intelligence Centre	136,500	42,675	31.3%	93,825
TOTAL	9,719,139	4,863,034	50%	4,856,105