

# NATIONAL TREASURY ANNUAL PERFORMANCE PLAN 2014/18

*PRESENTATION TO THE STANDING COMMITTEE ON FINANCE*

02 July 2014



**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

# Treasury Aims and Objectives

- Develop fiscal policy framework and coordinate macro-economic policy
- Prepare a sound and sustainable national budget and equitable division of resources
- Equitably and efficiently raise fiscal revenue, while enhancing efficiency and competitiveness of the SA economy
- Sustainably manage and make effective use of Government's financial assets and liabilities
- To render procurement methods more efficient, economic, effective and transparent across government
- Promote transparency to improve financial accountability and enforce effective financial management

# Strategic Alignment

*Over the medium – term*

The National Treasury will remain steadfast in facilitating and supporting the aims of :

- The National Development Plan (NDP) as incorporated into other government plans;
- The Industrial Policy Action Plan (IPAP);
- New Growth Path (NGP);
- National infrastructure programme coordinated by the Presidential Infrastructure Coordinating Commission (PICC); and
- Government's Outcomes approach

# Alignment with NDP and MTSF

## **The National Treasury directly contributes towards achievement of the following Outcomes of Government:**

*(as set out in the 2014-2019 MTSF)*

4. Decent employment through inclusive economic growth
6. An efficient, competitive and responsive economic infrastructure network
9. A responsive, accountable, effective and efficient local government system
11. Create a better South Africa and contribute to a better and safer Africa and World
12. An efficient, effective and development oriented public service and an empowered, fair and inclusive citizenship

# Economic Outlook - General

- Economic activity contracted in the first quarter of 2014, owing to protracted strike action
- Confidence is low, which negatively affects consumption and investment in the short-run.
- Employment growth remains sluggish with 9000 jobs created in the formal sector in the first quarter of 2014 according to the QES.
- Growth over the medium term is supported by an environment of stable macro economic conditions with interest rates at 30-year lows, public-sector capital investment, additional electricity-generating capacity and robust growth in Sub-Saharan Africa.
- Investment growth is expected to reach 6 per cent by 2017. Public sector investment expected to average annual growth of 4 per cent over next three years, with projected infrastructure investment of R827 billion over the medium term.
- South Africa's financial markets are deep and liquid enabling government to finance the bulk of its borrowing requirement in the domestic market
- Foreign debt is low by international standards

# Economic Outlook - Risks

- **Global**

- Geopolitical risks, including Ukraine/Russia
- Advanced economy risks
  - Risks to activity from low inflation/deflation, especially in Euro area
  - Risks relating to US monetary policy normalization
  - Some upside risks from rising confidence and pent-up investment demand
- Emerging market risks
  - Further growth disappointments (lower potential; changing environment)
  - Lower growth in China due to policy tightening

- **Domestic**

- There is an urgent need to reduce industrial actions in the economy and reinforce government communication to increase confidence.
- Further delays to the introduction of infrastructure, high debt levels of consumers, social tensions due to the slow pace of employment creation.
- Volume of national government debt set to increase from R1.4 trillion in 2013/14 (39.8 % of GDP) to R2.0 trillion in 2016/17 (44.3% of GDP)

# Structure & Composition of Programmes

- **Programme 1** – Administration
- **Programme 2** – Economic Policy, Tax, Financial Regulation & Research  
*(2 divisions – Economic Policy and Tax, and Fin Sec. Policy)*
- **Programme 3** – Public Finance and Budget Management  
*(3 divisions – Public Finance, Budget Office and Intergovernmental Relations)*
- **Programme 4** – Asset and Liability Management
- **Programme 5** – Financial Systems and Accounting  
*(2 divisions – Office of the Accountant-General and Specialist Functions / Office of the Chief Procurement Officer)*

# Structure & Composition Cont.

- **Programme 6** – International Financial Relations
- **Programme 7** – Civil & Military Pensions, Contributions to Funds & Other Benefits
- **Programme 8** – Technical Support & Development Finance
- **Programme 9** – Revenue Administration
- **Programme 10** – Financial Intelligence and State Security



# Programme 1 - Administration

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**Provide leadership strategic management and administrative support to the department .**

## **Plans over the next 3 years:**

- Maintain a high performance culture by developing leadership and technical behavioural competencies.
- Continue with enhancement of the Strategic Sourcing principles that drives demand, logistics and contract management and reduces cost
- Provide adequate accommodation, compliant with occupational health and safety standards.
- Building internal capacity in the Internal Audit and Information and Communication Technology units
- Actively promote the Department's zero tolerance stance to corruption and strives to preserve the National Treasury's strong ethical culture.

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

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

## **Plans over the next 3 years:**

- Contribute to policy development on inclusive growth and job creation
- Develop and maintain economic forecasting models that facilitate sound policy making through in-depth economic analysis, including 3-year macroeconomic forecasts. Quarterly updates are also produced for internal use.
- Formulate and implement annual tax proposals.
- Complete retirement reform process, including legislation.
- Conclude and implement “Twin Peaks” legislation.

# Programme 3: Public Finance And Budget Management

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- **Provide analysis and advice on fiscal policy and public finances, intergovernmental financial relations, and expenditure planning and priorities**
- **Manage the annual budget process and provide public finance management support**

## Plans over the next 3 years:

- Align budgeting to government's 14 strategic outcomes as set out in the 2014-2019 MTSF and with other institutional planning documents, in cooperation with DPME.
- Maintain the expenditure ceiling introduced in the 2012 Budget and consider options for strengthening counter-cyclical and sustainable policy.
- Extend analysis on long-term fiscal sustainability as part of a broader move towards fiscal risk reporting, in order to contribute to public discussion and parliamentary oversight of the fiscus.
- Undertake targeted expenditure reviews, including regarding personnel spending and govt agencies and public entities.

# Programme 3: Public Finance And Budget Management Cont.

- Support provinces to improve performance in infrastructure delivery through the implementation of incentive grants, implement the city support programme to improve governance (includes financial management, integrated spatial planning, citizens engagement) and management of their built environment so that they are able to realise inclusive growth, spatial transformation, and accelerate access to basic services
- Review of local government infrastructure conditional grant system based on 2011 Census results and introduce reforms to improve their efficiency and effectiveness in delivering municipal infrastructure services
- Institutionalise key local government budgeting, financial management and reporting reforms. Implement a standardised chart of accounts for local government over the period ahead
- Strengthen provincial budget oversight to improve budget execution and monitoring in municipalities and provinces
- Continue efforts to improve financial management and SCM controls in provinces.

# Programme 4: Asset and Liability Management

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## Prudent management of government's financial assets and liabilities

### Plans over the next 3 years

- Finance government's gross borrowing requirement over the MTEF.
- Maintain sound investor relations through roadshows and timely dissemination of information
- Contribute to the development of domestic capital market
- Deepen engagements with credit rating agencies through better coordination within and outside government
- Actively manage government's debt portfolio through buy-back and switch/exchange programmes to reduce the refinancing risks
- Maintain debt and debt service cost at sustainable levels – debt set to stabilise at 44.3% of GDP by 2016/17
- Ensure sound management of government's cash resources by meeting government's liquidity requirement at all times
- Optimise the use of public sector cash through broadening the coordination to reduce borrowing cost
- Minimise and mitigate risk emanating from government's fiscal obligations by measuring performance against risk benchmarks
- Exercise oversight over state owned enterprises to enable the achievement of government's policy objectives, whilst ensuring financial sustainability within a sound sovereign financial framework

# Programme 5: Financial Systems and Accounting

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**Facilitates accountability, governance and oversight by promoting transparent, economic, efficient and effective management in respect of revenue, expenditure, assets and liabilities in the public sector.**

## **Plans over the next 3 years (OAG):**

- Publish Treasury Regulations & issue SOP's for various financial management disciplines
- Systematically improve consolidations of national government
- Achieve systematic improvement of the whole-of-government consolidations
- Monitor the state of financial management in national, provincial and municipal institutions and provide targeted support to strengthen financial management capabilities
- Roll out learnership in accounting, internal audit and SCM
- Drive efficiency and effectiveness of Internal Audit & Risk Management across 3 spheres of government by focussing on standard setting and support for various disciplines. Strengthen guidance on functioning of Audit Committees
- Maintain and enhance effective functionality of current systems (*BAS, Persal, Logis and Vulindlela*)
- Implement and roll out new COTS-based IFMS
- Facilitate the implementation of recommendations of the Report on Standards & Controls – Auditing & Accounting to create a better legislative environment in the Auditing and Accounting industry

# Programme 5 Cont. :

## Office of the Chief Procurement Officer

To develop, regulate and support an effective SCM system to enable the efficient, economic, effective and transparent utilisation of financial resources for improved service delivery.

### Plans over the next 3 years aim to:

- Position SCM as a strategic function to achieve the National Development Plan objectives;
- Simplify the SCM environment and build the capacity of the state
- Governance, monitoring and compliance strengthened
  - Proactive compliance;
  - Advance the role of treasuries (national and provincial) and legislatures in improving the efficacy of procurement
- Implement the sourcing strategy to centralise large procurement of commodities;
  - Ensure all spheres of Government procure from awarded Transversal Contracts to derive value for money
  - Implement procurement reforms as may be necessary over the medium-term

# Programme 6: International Financial Relations

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

## **Plans over the next 3 years:**

- Conclude modalities for the establishment of a BRICS-led development bank and the Contingent Reserves Arrangement
- Use the G-20 forum of leading economies to find collective solutions for reviving global economic growth
- Advocate the creation of a third chair for Sub-Saharan Africa on the IMF Executive Board
- Reform of the SACU revenue-sharing arrangement and other aspects of the 2002 Agreement
- Develop strategies that lead to a financially sustainable SACU, SADC and the AU
- Monitor and support implementation of the SA-World Bank Country Partnership Strategy (CPS) and the SA-African Development Bank Country Strategy Partnership (CSP) Agreements
- Support the coordination and implementation of the SA-World Economic Forum for Africa program



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

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**Provides for non-contributory civil pensions, post retirement medical contribution subsidies and other benefits for pensioners and their beneficiaries, administered on behalf of National Treasury through a Service Level Agreement with the Government Pensions Administration Agency ( GPAA)**

## **Plans over the next 3 years:**

- Finalise research options and initiate implementation for pre-funding employee benefits such as post-retirement medical subsidies and injury on duty compensation, with a view to reducing the state's unfunded liability.
- Implement re-engineered core business processes.
- Undertake focused communication initiatives regarding all service products with client departments.
- Automate core payment processes for Military Pensions, Special Pensions , Medical Accounts, and Injury On Duty as well as the application forms for retirees in Departments and medical scheme switches for members.

# Programme 8: Technical and Management Support & Development Finance

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**Provide specialised infrastructure development planning, and implementation support and technical assistance, to aid capacity building in the public sector**

## Principal initiatives over the next 3 years

- Complete the establishment of Government Technical Advisory Centre (GTAC) and programme management office
- Capital projects appraisal: support for major projects in energy and transport sectors
- Technical support: clients includes DPW, DHA (Border Management Agency), E Cape (education, special economic zones), Telecommunications (broadband strategy), Health (OHSC and health institutes)
- PPPs and transaction support: PRASA contract management, hospital feasibility studies, water and sanitation, Renewable Energy and coal-fired power IPPs
- Local govt financial management support: 1390 interns appointed; financial management capability maturity assessments to be conducted in all municipalities
- Urban development support: 300+ Neighbourhood Development Programme projects; City Support Programme under way and urban network strategy focused on spatial transformation zones
- Jobs Fund: 90 projects approved, 4<sup>th</sup> Request for Proposals to be issued; programme management capacity is being strengthened
- Infrastructure development support: continued capacity support for provinces and municipalities, including training of 350 graduates in municipal infrastructure project management

# Programmes 7, 9 and 10

**These Programmes report directly to Parliament**

**They include:**

- **Programme 7: Civil and Military Pensions, Contributions to Funds and Other Benefits**
- **Programme 9: Revenue Administration**
- **Programme 10: Financial Intelligence and State Security**

# Long-term Fiscal Report and Public Sector Risks

- National Treasury undertakes **long-term modelling** of the costs of social spending programmes
  - Affordability of social grants, health, education are considered
- Major findings:
  - Social grants will not place significant pressure on fiscal sustainability
  - Declining school-age population implies the resources currently allocated to basic education will become increasingly sufficient.
  - Demographic pressures on health-care spending and high growth of utilisation will require greater resources to sustain the current level of service provision
- This modelling exercise forms part of a broader move towards **fiscal risks reporting**, which helps government to manage and mitigate risks to fiscal sustainability

# Counter-cyclical, sustainable fiscal policy

- The fiscal framework is built on a **non-interest expenditure ceiling**, set at the main budget level. The spending levels announced in the MTBPS are regarded as three year limits.
- This approach:
  - Ensures sustainability and predictability of fiscal policy
  - Maintains a stable path of expenditure growth, allowing automatic stabilizers on the revenue side to contribute to counter-cyclical policy objectives.
  - Provides for inflation-adjusted budget growth of about 2 per cent per annum, thereby protecting existing social expenditures
- For the past two fiscal years, government has achieved the spending targets set by the ceiling
- Ensuring sustainability will require continued adherence to the expenditure targets set out in the 2014 Budget

# Expenditure and Performance Reviews (EPR)

- National Treasury, together with the DPME, has embarked on Expenditure and Performance Reviews (EPR) over the past year, with 20 reviews having been completed to date
- A set of reforms will follow the process, in order to achieve:
  - Technical improvements of internal systems,
  - Cost saving measures and greater efficiencies (for example, R10 billion saving on new policy proposals in education), and
  - Policy realigned to realise improved performance.
- Comprehensive expenditure and performance reviews are also being considered for purposes of reallocation of financial resources within expenditure ceiling

# Integrated Financial Management System (IFMS)

- Programme slippages and challenges prompted a review of the IFMS during 2013;
- Reviews conducted from several perspectives, with specific adjustments recommended:
  - Project approach and solution architecture to be simplified (to a single, Tier 1, commercial-off-the-shelf solution); and
  - Programme governance to be improved through introduction of a programme management office.
- Cabinet endorsed the change in approach and proposal to strengthen governance (November 2013). Since then:
  - Programme strategy has been adjusted;
  - Various steps have been taken to further improve governance going forward; and
  - Lead sites for initial implementation have been identified and consulted.

# Government Technical Advisory Centre (GTAC)

- GTAC established 1 April 2014
- Transfer of functions:
  - Technical Assistance unit
  - Advisory functions conducted by Public Private Partnership unit
  - National Capital Projects unit
  - Social Security and Employment Facilitation PMU
- Mandate & functions:
  - *The object of the GTAC is to assist Organs of State in building their capacity for efficient, effective and transparent financial management...*
  - Technical consulting services
  - Specialised procurement support for high-impact government initiatives
  - Advice on the feasibility of infrastructure projects
  - Knowledge management and ancillary functions
- Strategic consultations: 26-20 May – key themes
  - “Knowledge Hub” building partnerships with other organisations & centres of excellence
  - Large transaction advisory support
  - Project-based and client-focused business model
  - Blend of core team establishment and contract-based technical advisors





# Financial Resource Plan for 2014/15

Programmes	2013/14 Final Budget	2013/14 Preliminary Outcome	2014/15 Budget
<b>R'000</b>			
<b>1. ADMINISTRATION</b>	<b>334,769</b>	<b>319,596</b>	<b>343,135</b>
<b>2. ECONOMIC POLICY, TAX, FINANCIAL REGULATION AND RESEARCH</b>	<b>133,924</b>	<b>124,098</b>	<b>138,920</b>
Operational budget	107,389	97,567	111,302
Transfers	26,535	26,531	27,618
<b>3. PUBLIC FINANCE AND BUDGET MANAGEMENT</b>	<b>225,634</b>	<b>212,719</b>	<b>262,825</b>
Operational budget	184,310	171,402	223,337
Transfers	41,324	41,317	39,488
<b>4. ASSET AND LIABILITY MANAGEMENT</b>	<b>2,993,994</b>	<b>2,990,923</b>	<b>3,342,100</b>
Operational budget	88,890	85,816	90,100
Transfers	2,905,104	2,905,107	3,252,000
<b>5. FINANCIAL SYSTEMS AND ACCOUNTING</b>	<b>732,923</b>	<b>707,772</b>	<b>761,632</b>
Operational budget	648,450	623,120	675,587
Transfers	84,473	84,652	86,045
<b>6. INTERNATIONAL FINANCIAL RELATIONS</b>	<b>1,093,836</b>	<b>1,067,740</b>	<b>1,179,807</b>
Operational budget	43,836	42,810	35,193
Transfers	1,050,000	1,024,930	1,144,614
<b>7. CIVIL AND MILITARY PENSIONS, CONTRIBUTIONS TO FUNDS AND OTHER BENEFITS</b>	<b>3,523,564</b>	<b>3,523,098</b>	<b>3,717,838</b>
Operational budget	57,507	57,521	55,633
Transfers	3,466,057	3,465,577	3,662,205
<b>8. TECHNICAL SUPPORT AND DEVELOPMENT FINANCE</b>	<b>2,484,675</b>	<b>2,452,166</b>	<b>3,712,182</b>
Operational budget	172,081	151,683	224,202
Transfers	2,312,594	2,300,483	3,487,980
<b>9. REVENUE ADMINISTRATION</b>	<b>9,534,393</b>	<b>9,534,393</b>	<b>9,440,321</b>
<b>10. FINANCIAL INTELLIGENCE AND STATE SECURITY</b>	<b>4,174,554</b>	<b>4,174,554</b>	<b>4,366,250</b>
<b>GRAND TOTAL</b>	<b>25,232,266</b>	<b>25,107,059</b>	<b>27,265,010</b>
Operational budget	<b>1,637,232</b>	<b>1,549,515</b>	<b>1,758,489</b>
Transfer budget	<b>23,595,034</b>	<b>23,557,544</b>	<b>25,506,521</b>
Percentage of operational to transfer budget	<b>6.94%</b>	<b>6.58%</b>	<b>6.89%</b>

# NATIONAL TREASURY STRATEGIC PLAN 2014/18

*PRESENTATION TO THE STANDING COMMITTEE ON FINANCE*

02 July 2014



**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

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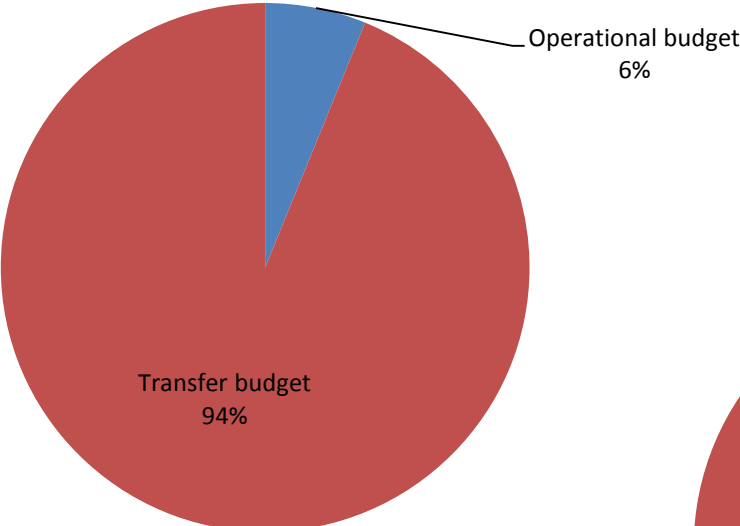
# Appendix A: Human Capital

*Statistics as at 31 March 2014*

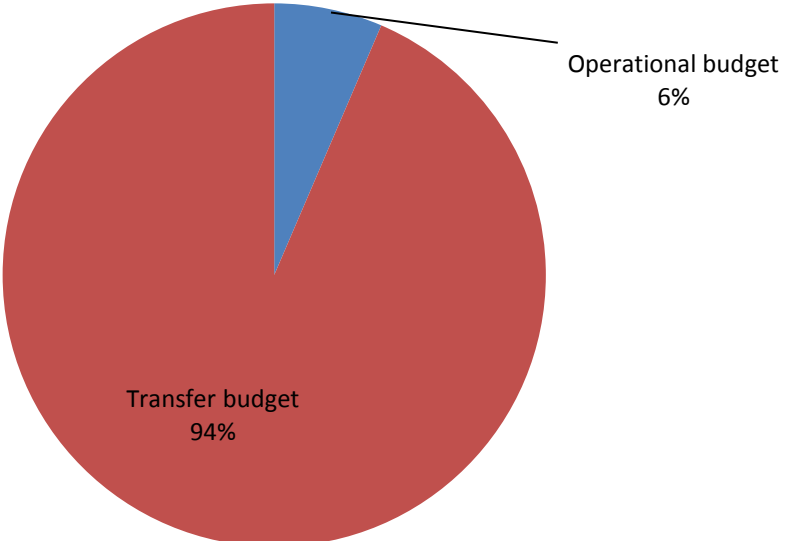
- Total staff complement = 1209,
- **Employment Equity:**
  - Total Department: 82% black, 57% female, 13 employees with registered disabilities.
  - Senior management level: 68% black, 45% female.
- The National Treasury has a vacancy rate of 10.11% (136 posts) compared to 8.2% (106 posts) at 31 March 2013. An additional 50 funded posts were created during the year with 84 promotions within the department.
- The Graduate Development Programme has been effectively leveraged as a pipeline to address skills gaps:
  - 2013/14: 82 internship contracts; 31 interns appointed permanently subsequent to their internship during the year.

# Appendix B: Operational and Transfer Budget

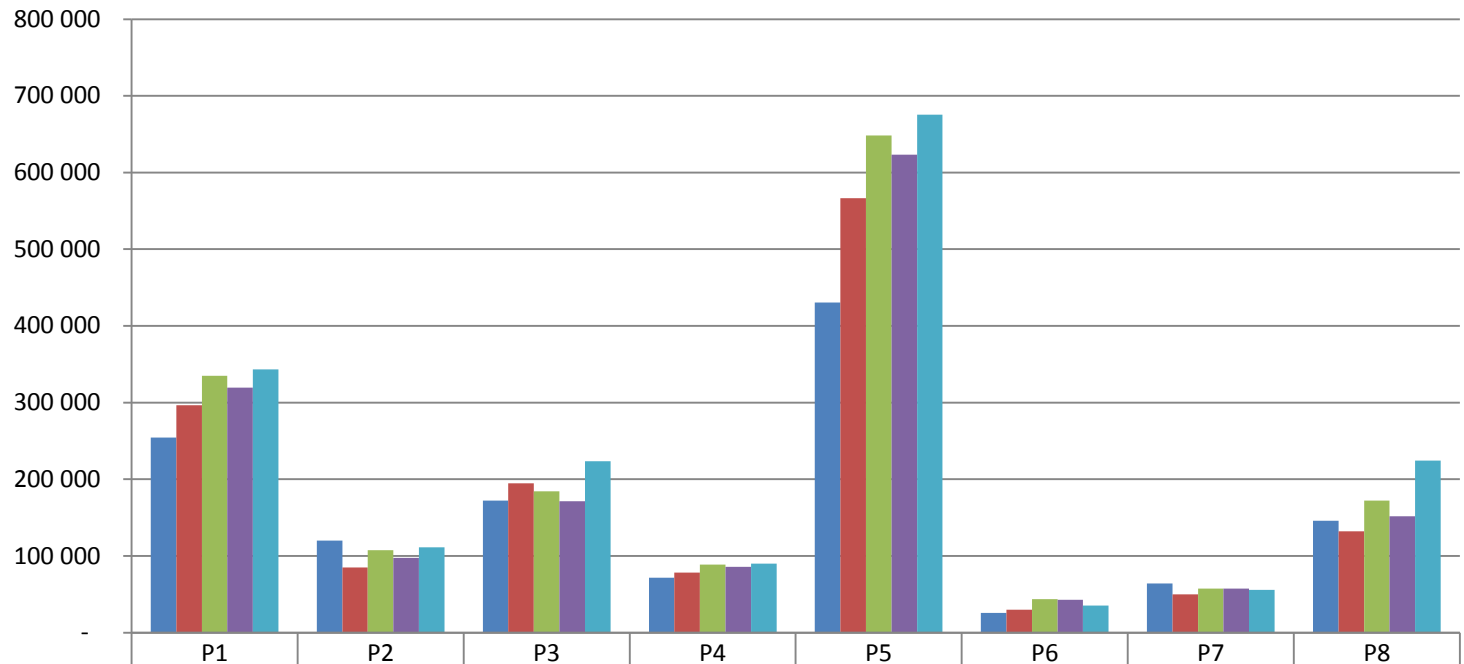
2013/14 Preliminary Outcome (R'000)



Budget 2014/15 (R'000)

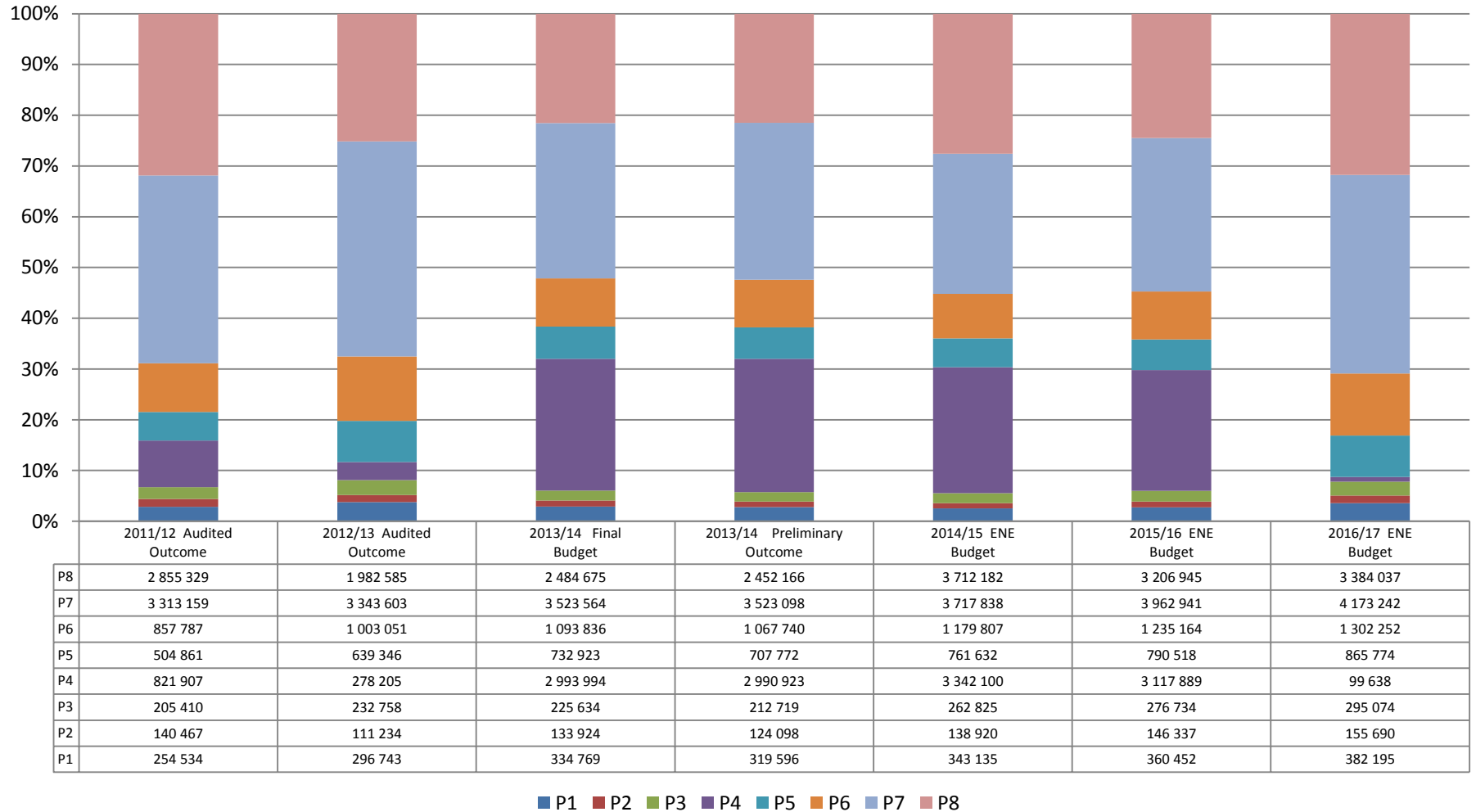


# Appendix C: Operational Spending by Programme



	P1	P2	P3	P4	P5	P6	P7	P8
■ 2011/12 Audited Outcome	254 534	119 958	172 051	71 804	430 508	25 861	63 937	145 784
■ 2012/13 Audited Outcome	296 743	85 043	194 555	78 158	566 460	29 900	49 741	132 171
■ 2013/14 Final Budget	334 769	107 389	184 310	88 890	648 450	43 836	57 507	172 081
■ 2013/14 Preliminary Outcome	319 596	97 567	171 402	85 816	623 120	42 810	57 521	151 683
■ 2014/15 Budget	343 135	111 302	223 337	90 100	675 587	35 193	55 633	224 202

# Appendix D: Composition of Spending



# Appendix E: Major Funded Initiatives

Initiative (R'000)	Prelim Outcome 2013/14	Budget 2014/15
Integrated Financial Management System	194,626	174,149
Jobs Fund	952,747	1,900,000
Neighbourhood Development Partnership Grant	640,935	649,479
Integrated Cities Development Grant	40,000	255,000
Local Government Financial Management Grant	483,198	449,138
Municipal Finance Improvement Programme	121,498	128,788



# Financial Resource Plan for 2014/15

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Programmes	2011/12	2012/13	2013/14	2013/14	2014/15	2015/16	2016/17
R'000	Audited Outcome	Audited Outcome	Final Budget	Preliminary Outcome	ENE Budget	ENE Budget	ENE Budget
1. ADMINISTRATION	254,534	296,743	334,769	319,596	343,135	360,452	382,195
2. ECONOMIC POLICY, TAX, FINANCIAL REGULATION AND RESEARCH	140,467	111,234	133,924	124,098	138,920	146,337	155,690
3. PUBLIC FINANCE AND BUDGET MANAGEMENT	205,410	232,758	225,634	212,719	262,825	276,734	295,074
4. ASSET AND LIABILITY MANAGEMENT	821,907	278,205	2,993,994	2,990,923	3,342,100	3,117,889	99,638
5. FINANCIAL SYSTEMS AND ACCOUNTING	504,861	639,346	732,923	707,772	761,632	790,518	865,774
6. INTERNATIONAL FINANCIAL RELATIONS	857,787	1,003,051	1,093,836	1,067,740	1,179,807	1,235,164	1,302,252
7. CIVIL AND MILITARY PENSIONS, CONTRIBUTIONS TO FUNDS AND OTHER BENEFITS	3,313,159	3,343,603	3,523,564	3,523,098	3,717,838	3,962,941	4,173,242
8. TECHNICAL SUPPORT AND DEVELOPMENT FINANCE	2,855,329	1,982,585	2,484,675	2,452,166	3,712,182	3,206,945	3,384,037
9. REVENUE ADMINISTRATION	8,653,573	9,149,374	9,534,393	9,534,393	9,440,321	9,898,708	10,508,911
10. FINANCIAL INTELLIGENCE AND STATE SECURITY	3,755,021	3,982,121	4,174,554	4,174,554	4,366,250	4,524,805	4,773,030
<b>GRAND TOTAL</b>	<b>21,362,048</b>	<b>21,019,020</b>	<b>25,232,266</b>	<b>25,107,059</b>	<b>27,265,010</b>	<b>27,520,493</b>	<b>25,939,843</b>
<b>Operational budget</b>	<b>1,281,996</b>	<b>1,430,132</b>	<b>1,637,232</b>	<b>1,549,714</b>	<b>1,758,489</b>	<b>1,818,811</b>	<b>1,961,157</b>
<i>Operational Expenditure growth</i>		11.56%	14.48%	8.36%	13.47%	3.43%	7.83%
<b>Transfer budget</b>	<b>20,080,052</b>	<b>19,588,888</b>	<b>23,595,034</b>	<b>23,557,345</b>	<b>25,506,521</b>	<b>25,701,682</b>	<b>23,978,686</b>
<b>Percentage of operational to transfer budget</b>	<b>6.38%</b>	<b>7.30%</b>	<b>6.94%</b>	<b>6.58%</b>	<b>6.89%</b>	<b>7.08%</b>	<b>8.18%</b>