

Presentation on Public Finance Management Act (PFMA)

ASSET AND LIABILITY MANAGEMENT DIVISION

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national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

PFMA IMPLICATION

- THE OBJECTIVE OF THE PFMA
 - Introduces proper financial management systems
 - Appropriate control and accountability arrangements for the management of finances
 - Ensures transparency at all spheres of Government and within PE's
 - Secures accountability and sound management of revenue, expenditure, assets and liabilities of the institutions to which it applies
 - Achieve uniformity in how the Government departments and PE's manage their finances

PRESENTATION WILL COVER THE FOLLOWING

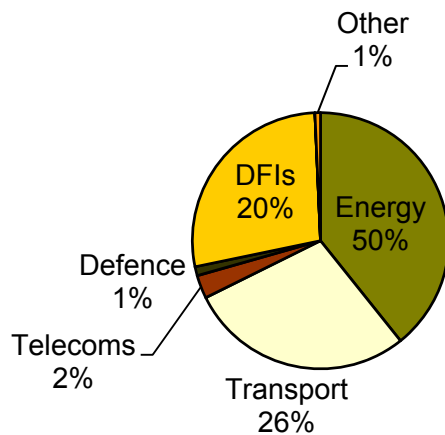
- Section 51 (1)(g)-establishment of new entities
- Section 52-submission of corporate plans (capital expenditure
- Section 54- significance framework
- Section 55-submission of annual financial statements
- Section 66 and 70 -Restrictions on borrowings, guarantees and other commitments

46 SOCs (Schedule 2 and 3B) OPERATE IN A VARIETY OF SECTORS

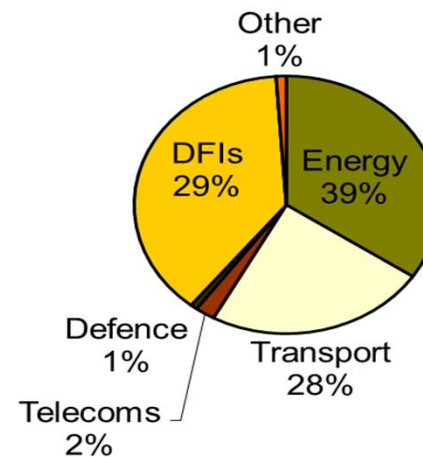
- **Energy:** Eskom, CEF, NECSA;
- **Transport:** Transnet, ACSA, SAA, SAX, ATNS etc;
- **Telecoms:** SABC, SAPO, Broadband Infraco, Sentech
- **Defence:** Denel, Armscor
- **Development Finance Institutions:** DBSA, IDC, LandBank, IDT, NEF, NHFC, and Provincial DFIs.
- **Water:** TCTA, Rand Water, Umgeni Water, etc.
- **Other:** Safcol, Alexkor, Mintek, PIC, Sasria etc.

RELATIVE SIZE OF SOCs

- Revenue streams \approx R260 billion
- Interest bearing debt \approx R320 billion
- Total asset value \approx R949.1 billion
- Net asset value \approx R352.2 billion



Assets



Equity

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ESTABLISHMENT OF NEW ENTITIES BY PUBLIC ENTITIES:

- Section 51(1)(g) states that the Public Entity should seek National Treasury's approval when establishing a new entity

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SUBMISSION OF CORPORATE PLANS

- Section 52 states that the State Owned Enterprises must submit corporate plans. Corporate Plans must cover a period of three years and must include the following:
 - (a) Strategic objectives;
 - (b) Strategic and business initiatives;
 - (c) Key performance measures and indicators;
 - (d) A risk management plan;
 - (e) A fraud prevention plan;
 - (f) A materiality/significant framework
 - (g) A financial plan addressing –
 - (i) projections of revenue, expenditure and borrowings;
 - (ii) asset and liability management

PFMA IMPLICATIONS

- (iii) cash flow projections;
 - (iv) capital expenditure programmes; and
 - (v) dividend policies.
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- Section 54 provides that before a PE concludes any of the following transactions, the accounting authority for the PE must promptly and in writing inform the relevant the relevant Provincial Treasury of the transaction and submit relevant particulars of the transaction to its Executive Authority (Responsible Minister) for approval of the transaction.

PFMA IMPLICATION

- Establishment or participation in the establishment of a company
- Participation in a significant partnership, trust, unincorporated joint venture or similar arrangement
- Acquisition or disposal of a significant shareholding in a company
- Acquisition or disposal of a significant asset
- Commencement or cessation of a significant business activity
- A significant change in nature or extent of its interest in a significant partnership, trust, unincorporated joint venture or similar arrangement

HOW DOES NT MONITOR SOCs?

- Review corporate plans & annual reports of SOCs
 - Assess alignment of strategy with policy
 - » Execution of strategy
 - » Risks to strategy etc.
 - Evaluating the soundness of corporate governance in SOCs
 - » Board composition
 - » Risk management framework
 - » Materiality & Significant framework etc.
 - Evaluating the viability of financial projections
 - » Income statement
 - » Balance sheet
 - » Cash Flows etc.
 - Assessing treasury functions within SOCs
 - » Quantum of debt (guaranteed; unguaranteed; domestic; foreign; on and off-balance sheet debt)
 - » Debt maturity profile (Refinancing; Interest rate risks)
 - » Weighted average cost of debt (Finance Costs) etc.

Consolidated key financials of SOCs

Consolidated key financial indicators of	2010/11 R'bil	2011/12 R'bil	2012/13 R'bil	2013/14 R'bil	2014/15 R'bil	2015/16 R'bil
Revenues	181.8	218.7	258.0	287.1	409.7	446.2
Net earnings	14.5	22.0	10.4	10.0	8.4	1.6
Total assets	639.4	707.0	754.4	859.9	980.3	1067.2
Total liabilities	422.9	469.7	508.5	596.0	686.1	744.1
Net asset value	216.5	237.2	245.9	263.9	294.2	323.1
<i>Revenue growth</i>	18.4%	20.3%	18.0%	11.3%	42.7%	8.9%
<i>Total costs to revenue</i>	89.5%	87.0%	91.6%	91.0%	93.4%	94.4%
<i>Net earnings margin</i>	8.0%	10.1%	4.0%	3.5%	2.1%	0.4%
<i>Return on equity (ROE)</i>	6.7%	9.3%	4.2%	3.8%	2.9%	0.5%
<i>Return on assets (ROA)</i>	2.3%	3.1%	1.4%	1.2%	0.9%	0.1%
<i>Debt ratio</i>	66.1%	66.4%	67.4%	69.3%	70.0%	69.7%

Source: SOCs Annual reports & Corporate plans

*Eskom numbers are estimates, due to the revision of the c/p

Infrastructure monitoring process

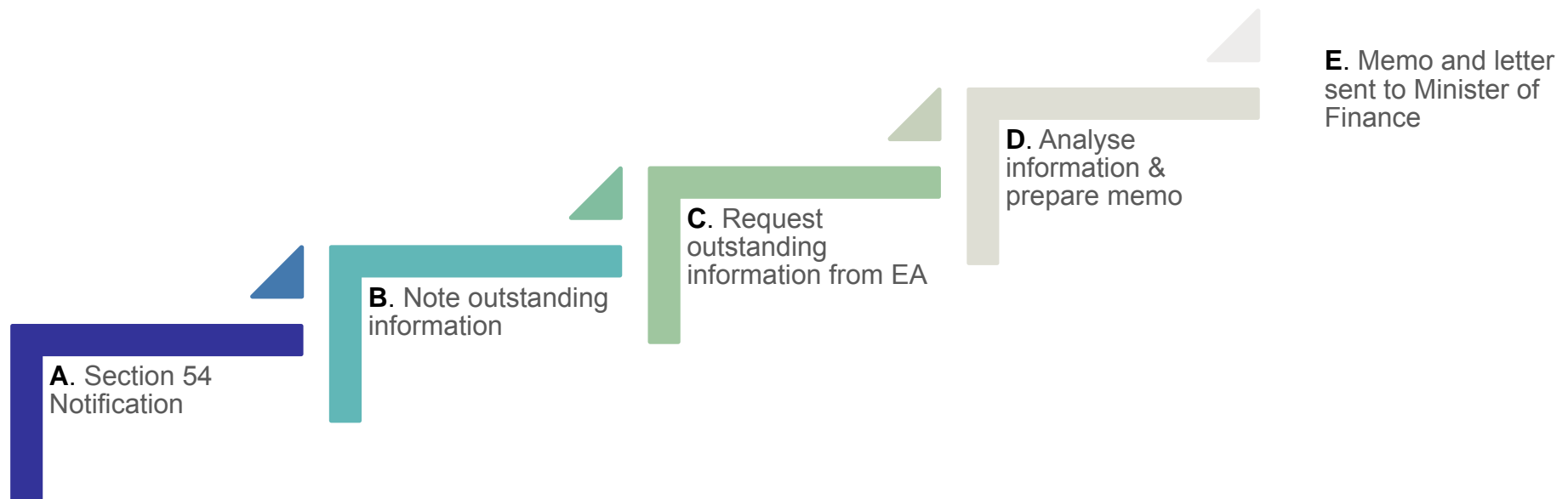
- SOCs have to complete their CAPEX program in the C/P
- In addition, on a quarterly basis, a template is disseminated to SOCs for completion
- This template includes amongst other things:
 - » Actual spent versus budgeted spent
 - » Reasons for over/under spending
 - » A revision of budgeted CAPEX in the forecast
 - » A list of the top 10 projects being undertaken
 - » Risks associated with each project
 - » Anticipated date of completion of the projects
 - » Number of jobs created by the projects
- An analysis is performed on spending trends by SOCs
- A quarterly/yearly bulletin is distributed on CAPEX spending

INFRASTRUCTURE MONITORING

SOC Infrastructure spending	2011/12 Budget R'mil	2011/12 Actual R'mil	% Expenditure of Budget	2012/13 Budget R'mil	2012/13 Actual R'mil	% Expenditure of Budget
CEF	11,311	1,209	10.7%	23,127	10,237	44.3%
Eskom	77,797	58,815	75.6%	64,861	60,355	93.1%
Sanral (non toll)*	6,276	5,030	80.1%	6,576	5,972	90.8%
Sanral (toll)*	3,993	3,190	79.9%	2,290	2,094	91.4%
TCTA	2,445	1,191	48.7%	3,634	1,387	38.2%
Transnet	25,859	21,821	84.4%	31,181	27,581	88.5%
Total of top 5	127,682	91,256	71.5%	131,668	107,626	81.7%
Other SOCs	4,012	1,408	35.1%	5,887	2,228	37.8%
Total	131,694	92,664	70.4%	137,556	109,854	79.9%

- State Owned Companies (SOCs) spent approximately R110 billion on infrastructure projects versus a budgeted R138 billion i.e. 79.9% expenditure of budget in 2012/13 financial year.
- This is an improvement relative to the prior year where CAPEX spending by SOCs was in the region of 70.4% in 2011/12.
- Eskom and Transnet, who collectively account for approximately 82% of the total actual spend lead the charge with a combined spending of R88 billion during this period.
- TCTA spent the least of their allocated budget, i.e. 38.2% mainly due to the reduction in the amount of phases of the project being undertaken on the Olifants River Water Resource Development project.

SECTION 54 PROCESS



PFMA IMPLICATIONS

SUBMISSION OF ANNUAL FINANCIAL STATEMENTS

- Section 55(1)(c) provides that the accounting authority for PE must submit draft financial statements within two months after the end of the financial year to the auditors of the PE for auditing, and if it is a provincial Government business enterprise, to the Provincial Treasury.
- Section 55(1)(d) provides that the accounting authority for PE must submit final annual reports and financial statements within five months of the financial year end to the executive authority and the provincial treasury

PFMA IMPLICATION

Section 66 Restrictions on borrowing, guarantees and other commitments

- (1) An institution to which this Act applies may not borrow money or issue a guarantee, indemnity or security, or enter into any other transaction that binds or may bind that institution or the Revenue Fund to any future financial commitment, unless such borrowing, guarantee, indemnity, security or other transaction-**
- (a) is authorized by this Act
 - (b) in the case of **public entities**, is also authorized by other legislation not in conflict with this Act
 - (c) Provincial business enterprises within confines of borrowing powers of Provincial Government Act

PFMA IMPLICATION

(3) Public entities may only through the following persons borrow money, or issue a guarantee, indemnity or security, or enter into any other transaction that binds or may bind that public entity to any future financial commitment:

<p>(a) A public entity listed in Schedule 2: The accounting authority for the Schedule 2 public entity</p>	<p>(b) A national government business enterprise listed in Schedule 3B and authorized by notice in the national <i>Government Gazette</i> by the Minister: The accounting authority for that government business enterprise, subject to any conditions the Minister may impose</p>	<p>(c) Any other national public entity: The Minister or, in the case of the issue of a guarantee, indemnity or security, the Cabinet Member who is the executive authority responsible for that public entity, acting with the concurrence of the Minister in terms of section 70</p>	<p>(d) A provincial government business enterprise listed in Schedule 3D and authorized by notice in the national <i>Government Gazette</i> by the Minister: The MEC for finance in the province, acting with the concurrence of the Minister, subject to any conditions that the Minister may impose</p>
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PFMA IMPLICATION

- (5) Despite subsection (4), the Minister may in writing permit a public entity mentioned in subsection (3) (c) or (d) or a constitutional institution to borrow money for bridging purposes up to a prescribed limit, including a temporary bank overdraft, subject to such conditions as the Minister may impose

PFMA IMPLICATION

(7) A public entity **authorized to borrow money-**

- (a) must annually submit to the Minister a borrowing Programme for the year

- (b) may not borrow money in a foreign currency above a prescribed limit, except when that public entity is a company in which the state is not the only shareholder

Restrictions on foreign borrowing

PFMA SECTION	POWER, DUTIES OR FUNCTIONS	PROCESS
66(1)(b)	Restrictions on borrowing and issuance of guarantees; indemnities or securities, including other commitments that bind or may bind the Revenue Fund to any future financial commitment/s.	<ol style="list-style-type: none"> 1) Application received from Executive Authority via Minreg. 2) Application processed as per entities borrowing and funding plan, incorporated within the prevailing corporate plan. 3) Reference is made to Treasury Instruction Note on: PRESCRIBED FORMAT FOR THE SUBMISSION OF BORROWING PROGRAMMES AND FUNDING PLANS.
66(3)(a)(b)(c)	Restrictions on borrowing and issuance of guarantees; indemnities or securities, including other commitments that bind or may bind the Revenue Fund to any future financial commitment/s by Public entities listed in schedule 2, schedule 3 and any other national public entity.	<ol style="list-style-type: none"> 1) Application received from Executive Authority via Minreg. 2) Application processed as per entities borrowing and funding plan, incorporated within the prevailing corporate plan. 3) Reference is made to Treasury Instruction Note on: PRESCRIBED FORMAT FOR THE SUBMISSION OF BORROWING PROGRAMMES AND FUNDING PLANS.

GOVERNMENT GAURANTEES: PFMA IMPLICATIONS

Section 70 Guarantees, indemnities and securities by Cabinet members:

- (a) A Cabinet member, with the written concurrence of the Minister (given either specifically in each case or generally with regard to a category of cases and subject to any conditions approved by the Minister), may issue a guarantee, indemnity or security which binds-

- (b) a national public entity referred to in section 66 (3)(c) **in respect of a financial commitment incurred or to be incurred by that public entity**

THANK YOU