8

Financial position of public-sector institutions

In brief

- State-owned companies are expected to invest R362 billion in infrastructure over the medium term, contributing significantly to gross capital formation.
- Development finance institutions will lend a projected R44 billion over the next two years, with a focus on energy and green-economy projects.
- The surplus and deficit positions of the social security funds reflect the build-up of fiscal imbalances that will be addressed over the medium term.
- Government intends to exercise greater oversight over public institutions, and will over time optimise its portfolio of institutions to strengthen national development.

Overview

This chapter reviews the financial position of South Africa's major public-sector institutions. State-owned companies are large contributors to economic activity, accounting for 20 per cent of gross capital formation. Development finance institutions have rapidly expanded their lending in recent years. The social security funds provide compensation or income support for workers and road users who are out of work or injured, and the Government Employees Pension Fund provides income security to more than 1 million state workers.

State-owned companies account for 20 per cent of capital formation

Most of these institutions operate independently of the budget; fiscal allocations are not their primary source of revenue. However, their operations and financial positions must be taken into account in government's budget planning, since they have important consequences for the public finances over the long term.

Well-managed public-sector assets can promote economic growth and social development. Where these assets are not performing well, however, they can materially affect the broader public finances and become a drag on economic progress.

Financial health and national development

State-owned companies and development finance institutions have seen large asset growth in recent years

Table 8.1 shows the consolidated financial position of selected categories of public-sector institutions. Despite subdued GDP growth over the past five years, all major categories of these institutions have experienced significant asset growth since 2010/11. Two factors account for most of this growth: infrastructure investments by state-owned companies and the expanded loan books of development finance institutions.

Table 8.1 Combined financial position of selected categories of public institutions, 2010/11 – 2013/14

R billion	2010/11	2011/12	2012/13	2013/14
State-owned companies				
Total assets	639.4	708.1	793.9	903.6
Total liabilities	422.9	470.6	541.7	628.9
Net asset value	**216.5**	**237.5**	**252.2**	**274.7**
Development finance institutions				
Total assets	181.7	199.6	221.5	249.5
Total liabilities	57.8	76.1	93.5	106.7
Net asset value	**123.8**	**123.5**	**128.0**	**142.9**
Social security funds				
Total assets	88.5	107.2	132.4	145.6
Total liabilities	43.5	64.1	95.0	109.9
Net asset value	**45.0**	**43.1**	**37.4**	**35.7**
Other public entities[1]				
Total assets	525.6	655.8	720.7	807.5
Total liabilities	152.0	194.3	237.7	259.4
Net asset value	**373.5**	**461.5**	**483.0**	**548.1**

1. State-owned institutions without a commercial mandate and listed in either schedule 1 or 3 of the Public Finance Management Act (1999) such as National Library of South Africa

Source: National Treasury

While many institutions are in a strong financial position, several face serious shortfalls

Many public institutions are in a strong financial position, contributing simultaneously to fiscal sustainability and public welfare. In recent years, however, the financial and operational performance of several state-owned companies and development finance institutions has weakened. And although the overall financial position of the social security funds is strong, liabilities continue to mount at the Road Accident Fund (RAF).

Inadequate policy frameworks, regulatory uncertainty, poor operational performance and governance failures often lie behind the deterioration in financial positions. Weak financial performance is also frequently associated with a failure to define clear strategic goals. Where an unsustainable financial position is not addressed, public institutions often turn to government to provide a lifeline using public funds. Unless underlying imbalances are resolved, however, such interventions are at odds with sustainable public finances.

Given current fiscal constraints, government will address the funding needs of public institutions in a manner that does not increase the budget deficit. The sources of such funds can include the disposal of non-strategic assets such as property, direct and indirect shareholdings in listed firms, non-strategic shareholdings in state-owned companies and surplus cash balances in public entities. Such asset sales will take place only as funding is required or where there is clear strategic benefit to the state. In some cases, such as the RAF, additional funding could be provided from increased taxes or levies.

Where government support is required, it will not be provided in a way that increases the budget deficit

Where government support is provided in the form of funding or guarantees, public entities will be required to demonstrate sound business plans, strengthen internal governance and improve operational performance. Close monitoring will take place to promote efficient delivery on government priorities, simultaneously improving commercial performance and ensuring that government can meet its fiscal targets. Over the longer term, reforms to governance and policy frameworks are required.

In 2011 the Presidency commissioned a review to assess how well state-owned entities executed their mandates. The 2015 Cabinet Lekgotla considered the review and its recommendations to improve the contribution of these entities to national development. Key interventions under consideration include:

Government is considering overarching legislation for state-owned entities

- Establishing an inter-ministerial committee to improve alignment and coordination between entities.
- Identifying those state-owned companies that are integral to national development, and setting out an approach to acquiring and disposing of public assets based on strategic requirements.
- Introducing overarching legislation to govern these entities.
- Costing developmental mandates more explicitly, with the financial implications set out more clearly in shareholder compacts.
- Exploring options for private investment to strengthen balance sheets, and creating opportunities for private investment in sectors dominated by state-owned companies. An example of this approach is the successful Renewable Energy Independent Power Producers Procurement Programme.

State-owned companies

Since 2008/09, state-owned companies have made large capital investments in energy, transport and logistics to expand the productive capacity of the economy. Over the next three years, investment in these sectors will continue to dominate capital formation by the public sector.

Over the medium-term expenditure framework (MTEF) period, state-owned companies project capital expenditure of R362.2 billion, with Eskom, Transnet and the South African National Roads Agency Limited (SANRAL), accounting for most of this expenditure. Details on infrastructure spending appear in Annexure B. Table 8.2 shows the capital expenditure of state-owned companies with the largest investment programmes.

Over the next three years, state-owned companies project capital expenditure of R362.2 billion

The major state-owned companies improved their capital spending over the past two financial years, spending 98 per cent of their 2013/14 budgets, compared with 80 per cent in 2012/13.

Table 8.2 Selected state-owned companies' capital expenditure programmes, 2013/14 – 2017/18

R billion	2013/14 Outcome	2014/15 Budget	2015/16	2016/17	2017/18
			Medium-term estimate		
Eskom	*57.8*	*59.5*	*61.8*	*46.2*	*30.0*
Transnet	*32.5*	*41.3*	*36.3*	*44.7*	*46.8*
SANRAL [1]	*11.6*	*15.6*	*15.6*	*13.8*	*14.3*
Trans-Caledon Tunnel Authority	*1.8*	*4.8*	*3.1*	*3.1*	*4.4*

1. The figures include capital payments and finance costs, and may differ from capital expenditure reported in other budget documents
Source: National Treasury

Expanded infrastructure investments have led to a steady increase in the asset base of state-owned companies, from R517.8 billion in 2009/10 to R903.6 billion at the end of 2013/14. Over the same period, combined net asset value rose from R176.1 billion to R274.7 billion, and interest-bearing debt levels from R203.4 billion to R523 billion. Eskom and Transnet account for 79 per cent of state-owned companies' net asset value.

Table 8.3 Combined balance sheets of state-owned companies,[1] 2009/10 – 2013/14

R billion	2009/10	2010/11	2011/12	2012/13	2013/14
Total assets	517.8	639.4	708.1	793.9	903.6
% growth	*15.0%*	*23.5%*	*10.7%*	*12.1%*	*13.8%*
Total liabilities	341.6	422.9	470.6	541.7	628.9
% growth	*17.6%*	*23.8%*	*11.1%*	*15.1%*	*16.1%*
Net asset value	176.1	216.5	237.5	252.2	274.7
% growth	*10.5%*	*22.9%*	*9.7%*	*6.2%*	*8.9%*
Return on equity (average)	3.8%	6.7%	7.6%	4.1%	3.1%

1. Major state-owned companies listed in Schedule 2 of the Public Finance Management Act (1999) excluding development finance institutions
Source: National Treasury

Capital expenditure plans will add R78.9 billion to debt of state-owned companies in 2015/16

Capital expenditure plans will add R78.9 billion to the debt of state-owned companies in 2015/16. Table 8.4 shows the outcome of the borrowing activities of the 10 largest entities for 2013/14, along with medium-term projections.

Revisions to budgeted borrowing for 2014/15 are due to an additional R21 billion borrowed by the Development Bank of Southern Africa and the Industrial Development Corporation to meet their lending targets, and an additional R12.6 billion borrowed by Eskom and SANRAL to close revenue shortfalls in the current financial year. While most of the debt will be raised in the domestic market, the proportion of foreign debt is significant, averaging 36 per cent over the medium term.

Table 8.4 Combined borrowing requirement of selected public-sector institutions,[1] 2013/14 – 2017/18

	2013/14	2014/15		2015/16	2016/17	2017/18
R billion	Outcome	Budget	Revised	Medium-term estimates		
Domestic loans (gross)	**64.8**	**51.6**	**69.5**	**71.1**	**81.9**	**75.4**
Short-term	26.0	32.9	29.8	26.8	26.5	29.1
Long-term	38.8	18.7	39.7	44.3	55.4	46.3
Foreign loans (gross)	**37.4**	**25.1**	**43.8**	**51.0**	**39.6**	**38.7**
Long-term	37.4	25.1	43.8	51.0	39.6	38.7
of which:						
Export credit agency	*8.7*	*3.8*	*8.5*	*5.0*	*5.5*	*5.2*
Multilateral institutions	*10.3*	*7.2*	*17.4*	*15.7*	*26.9*	*25.0*
Total	**102.2**	**76.7**	**113.3**	**122.1**	**121.5**	**114.1**
Percentage of total:						
Domestic loans	63.4%	67.3%	61.3%	58.2%	67.4%	66.1%
Foreign loans	36.6%	32.7%	38.7%	41.8%	32.6%	33.9%

1. Airports Company of South Africa, Eskom, Rand Water, Trans-Caledon Tunnel Authority, Umgeni Water, SANRAL, Transnet, Development Bank of Southern Africa, Industrial Development Corporation and the Land Bank
Source: National Treasury

The major state-owned companies benefiting from government guarantees are shown in Table 8.5. A guarantee is a commitment to take responsibility for a loan in the event of default; it enables the beneficiary to access funding that would otherwise be unavailable or to borrow at rates that reflect lower risk premiums. High levels of contingent liabilities can lead to an increase in the risk premium on sovereign debt. As a result, government seeks to maintain these liabilities within prudent limits.

Table 8.5 Guarantee exposure to major state-owned companies and development finance institutions,[1] 2013/14 – 2014/15

	2013/14		2014/15	
R billion	Guarantee	Exposure[2]	Guarantee	Exposure[2]
Total	**469.3**	**209.6**	**461.1**	**224.9**
of which:				
Eskom	*350.0*	*125.1*	*350.0*	*144.5*
SANRAL	*38.7*	*23.9*	*38.9*	*30.2*
Denel	*1.9*	*1.9*	*1.9*	*1.9*
Development Bank of Southern Africa	*29.6*	*25.6*	*14.4*	*10.1*
Industrial Development Corporation	*2.1*	*0.5*	*1.8*	*0.4*
Trans-Caledon Tunnel Authority	*25.7*	*20.5*	*25.7*	*20.7*
South African Airways	*7.9*	*5.0*	*14.4*	*8.3*
Transnet	*3.5*	*3.8*	*3.5*	*3.8*
Land and Agricultural Bank of South Africa	*3.5*	*1.1*	*2.6*	*2.1*
South African Post Office	–	–	*1.9*	*0.1*
South African Express Airways	*0.5*	*0.5*	*1.1*	*1.1*
Other	*5.9*	*1.7*	*4.9*	*1.6*

1. A full list of guarantees is given in statistical table 11
2. Total amount of borrowing and accrued interest for the period made against the guarantee
Source: National Treasury

During 2014/15 government issued additional guarantees to South African Airways (SAA), South African Express Airways (SAX) and the South African Post Office (SAPO).

Eskom

Eskom needs to improve operational efficiency and requires cost-reflective electricity pricing

Eskom faces several technical and financial difficulties. These stem in large measure from its ageing plant and inadequate maintenance of existing generating capacity. The utility also confronts the consequences of delayed policy decisions in the 2000s on building new generating capacity. Eskom's long-term financial position depends in large measure on improving the efficiency of its operations and ensuring that electricity tariffs reflect the cost of production.

Eskom reported a net profit of R7.1 billion in 2013/14, up from R5.2 billion in 2012/13, owing largely to an 8 per cent increase in tariffs granted by the regulator, as well as R2.1 billion realised on cost-containment measures and fair-value gains.

Support for Eskom includes medium-term funding allocation of R23 billion

To stabilise the business, Eskom is working to improve productivity and reduce costs. It also plans to apply to the regulator for tariff increases that will move the price of electricity closer to the costs of its production. Government's support for Eskom includes a medium-term funding allocation of R23 billion. Appropriations will be made to Eskom as funds from the disposal of non-core assets are realised, ensuring that there is no increase in government debt and no effect on the fiscal position. Government could also consider other interventions, such as converting its subordinated loan to equity to support Eskom's balance sheet.

Transnet

Transnet's profits were up strongly owing to higher mineral volumes and container traffic

Transnet reported a profit of R5.2 billion in 2013/14, an increase of 24.9 per cent from the prior year. Revenue increased by 12.8 per cent to R56.6 billion, mainly as a result of higher mineral volumes and strong growth in container traffic. Cost-reduction initiatives kept operating costs below budget, resulting in savings of R2.1 billion. The gearing ratio increased marginally to 45.9 per cent in 2013/14 from 44.6 per cent in the previous year – well below the group's target range of 50 per cent.

Capital investment for 2013/14 amounted to R32.5 billion, or a 17.9 per cent increase from the prior year. Of the total amount, R10.5 billion was invested to expand infrastructure and equipment, and R22 billion was to maintain capacity. Transnet has lowered its capital spending estimates over the next three years in light of slowing global growth, reduced demand and lower commodity prices.

South African Airways

SAA reported a net loss of R2.6 billion in 2013/14 as a result of high operating costs, losses on routes to several international destinations, asset impairments and higher finance costs. The airline is technically insolvent.

SAA has used R8.3 billion of R14.4 billion in government guarantees

Government has made guarantees of R14.4 billion available to SAA, of which the airline has used R8.3 billion. Government also stepped in to stabilise the carrier. SAA has developed a 90-day action plan to contain its losses. To date, the plan has produced several results. Loss-making routes to Beijing and Mumbai have been cancelled. To offset the impact of these measures on travel, trade and tourism with India and China, SAA has concluded a partnership agreement with Etihad Airways. The agreement connects SAA to Abu Dhabi International Airport, expanding its connections to four Chinese and nine Indian cities. In addition three of the eight A340-600 wide-body aircraft leases have been extended at reduced monthly rates.

The Minister of Finance, who became SAA's executive authority with effect from December 2014, is working with the carrier to refine the long-term plan for financial sustainability.

South African Post Office

Continued losses at Post Office stem from declining revenues and universal service obligations

SAPO recorded a net loss of R358.9 million in 2013/14 after a net loss of R337.1 million a year earlier. The losses stem from declining revenues due to lower mail volumes, a high cost base, and a poorly performing mail and courier business as customers migrate to digital communications. SAPO's universal service obligations, which include rolling out new postal services across the country, have added to its financial pressures, as have strike-related disruptions in 2014.

During 2014/15, a R1.7 billion going-concern guarantee and a R270 million guarantee to secure and extend its overdraft facility were issued with conditions linked to SAPO's turnaround strategy.

The National Treasury is working with the Department of Telecommunications and Postal Services, as well as the Independent Communications Authority of South Africa, to help SAPO meet its universal service obligations at lower cost. This involves setting more realistic delivery targets and relaxing delivery standards. The communications authority has allowed SAPO to relax its targets for 2014/15 and a broader policy review is being conducted. An administrator has been appointed to lead SAPO.

South African National Roads Agency Limited

SANRAL received R5.1 billion in transfers and R3.5 billion from tolls in 2013/14

SANRAL's revenue from non-toll operations, by way of a government transfer, amounted to R5.1 billion in 2013/14. Revenue from toll operations amounted to R3.5 billion in 2013/14, a 65.7 per cent increase from R2.1 billion in the previous year. The increase was the result of higher traffic on existing toll roads, the opening of new toll plazas on the R30 and N17 national roads, and the rollout of the Gauteng Freeway Improvement Project (GFIP) in December 2013. The latter contributed R1.2 billion to revenue.

Government transfers to SANRAL are projected to grow by an annual average of 5.9 per cent over the MTEF period. Income from fees is expected to grow at an average annual rate of 12.2 per cent over the same period in line with increased traffic volumes on the toll road network. In 2012/13, government approved an extraordinary grant to reduce SANRAL's overall debt. This was done to support the agency's financial viability after tariffs on the GFIP routes were reduced.

During 2013/14, SANRAL's capital expenditure totalled R11.6 billion. This was a decline of R575 million compared with 2012/13. Significant infrastructure projects over the medium term include the expansion of the N3 at Mariannhill, and the addition of lanes to the N2 North Coast and N2 Winelands routes.

Uncertainty about revenue to finance the GFIP affects SANRAL's ability to fund the rest of its toll portfolio

Over the MTEF period, capital expenditure is expected to decline owing to uncertainty about sources of revenue to finance the GFIP, which affects SANRAL's ability to raise funding for the rest of its toll road portfolio.

Passenger Rail Agency of South Africa

Revenue for the Passenger Rail Agency of South Africa (PRASA), which operates South Africa's commuter rail network, grew by 21.1 per cent, from R8.4 billion in 2012/13 to R10.2 billion in 2013/14. The increase was the result of government's R4.3 billion subsidy to the agency to provide affordable commuter services. Fare revenue is expected to increase at an average annual rate of 7.8 per cent over the medium term as the number of Metrorail passenger trips increases.

PRASA's 10-year rolling stock fleet renewal programme began in 2014

PRASA's capital expenditure is financed from government grants and external borrowings. The agency spent R6.2 billion on capital investment during 2013/14 after spending R6.3 billion in the prior year. The 10-year rolling stock fleet renewal programme, which began in 2014, will contribute to modernising passenger rail services. PRASA is complementing this programme with investments in its rail system.

Trans-Caledon Tunnel Authority

Trans-Caledon Tunnel Authority expects to finish several water-supply projects over medium term

The Trans-Caledon Tunnel Authority raises debt to finance water infrastructure projects, including the Lesotho Highlands Water Project. The value of projects under construction in 2013/14 increased by 12 per cent and amounted to R1.8 billion. This represented 60 per cent of planned expenditure. Over the medium term, the entity has committed to spend R10.6 billion on several water infrastructure projects. These include financing and supporting the implementation of increased water supply to municipalities in KwaZulu-Natal, and developing water supply systems for the Medupi Power Station.

Development finance institutions

South Africa's development finance institutions have rapidly expanded their balance sheets to support implementation of the National Development Plan. Loan books have increased from R40.5 billion in 2008/09 to R108.7 billion in 2013/14.

Development finance institutions project 33 per cent growth in loan portfolios over short term

The growth of development finance followed a 2008 review that sought to realign these institutions to efficiently support policy priorities in areas such as job creation and land reform. Over the next two years, these institutions project 33 per cent growth in their loan portfolios, reaching a combined R178 billion by 2016/17.

While these initiatives form an important part of government's development objectives, the agencies concerned will need to ensure that risks associated with new exposures are managed in a sustainable and prudent manner. A review of provincial development finance institutions, approved by Cabinet, will commence in 2015. This review will align their mandates to the National Development Plan and underline the need for effective and sustainable operations.

As agencies expand loans, risks associated with new exposures need to be managed in a sustainable and prudent manner

The largest development finance institutions are the Industrial Development Corporation (IDC), the Land Bank and the Development Bank of Southern Africa (DBSA). These institutions reported a combined asset value of R239.2 billion and a combined loan book value of R104.9 billion for 2013/14. The asset base is projected to increase to R295.2 billion in 2016/17, with the IDC holding just over half of the estimated total (R151.3 billion) in 2016/17.

Several smaller development finance institutions play an important role in giving effect to government policy. These include the National Empowerment Fund (NEF), the National Housing Finance Corporation (NHFC) and the National Urban Reconstruction and Housing Agency. These bodies had a combined asset value of R9.9 billion and combined loan book of R3.8 billion at the close of 2013/14.

Empowerment, housing and urban reconstruction institutions have combined loan book of R3.8 billion

The NHFC has begun to reorganise its business to improve organisational efficiency. The NEF is reviewing its business model and, with the merger of the fund and the IDC under way, government expects a stronger, more streamlined business to support industrial development and black economic empowerment.

Table 8.6 Consolidated balance sheets of development finance institutions,[1] 2013/14 – 2016/17

	2013/14	2014/15	2015/16	2016/17
R billion	**Outcome**	**Estimates**	**Forecast**	
Total assets	249.1	244.7	267.9	306.4
of which:				
Loan book	*108.7*	*134.4*	*156.1*	*178.3*
Equity investments	*86.7*	*101.5*	*104.4*	*120.2*
Total liabilities	106.6	112.6	131.4	153.4
Net asset value	**142.5**	**132.1**	**136.5**	**153.0**

1. Government lending agencies listed in both schedule 2 and 3 of the Public Finance Manangement Act (1999) such as Development Bank of Southern Africa, Industrial Development Corporation and the Land Bank
Source: National Treasury

Development Bank of Southern Africa

The DBSA's developmental lending is concentrated in energy, roads and drainage, water and sanitation, and information and communication technology, with a special focus on municipalities.

In 2013/14 the DBSA reported a profit of R787 million, a major turnaround from losses of R825.9 million in 2012/13 and R370.8 million in 2011/12. It also reduced its non-performing loan book by 6.9 per cent to R3 billion. Total assets grew by 18.3 per cent from R53.9 billion in 2012/13 to R63.8 billion in 2013/14. Loan disbursements reached a high of

DBSA reported profits of R787 million after two years of losses

R12.7 billion, of which just over half (R6.7 billion) financed energy infrastructure, including independent power producers (R3.75 billion).

DBSA's medium-term loan disbursements total R17.8 billion

In 2013, the DBSA completed a successful restructuring. Over the medium term, government expects the DBSA to help develop South Africa's municipal debt market as part of broader efforts to reshape the urban landscape. New initiatives will leverage private-sector investment to complement the DBSA's own loan disbursements, which total R17.8 billion over the next three years.

Land Bank

Cost-containment and continued government support contributed to positive financial results at the Land Bank in 2013/14. Net profit increased by 29.5 per cent to R394 million, up from R305 million in 2012/13. The asset base grew by 19.6 per cent to R36.8 billion and the loan book increased by 23.4 per cent to R33.3 billion. Non-performing loans declined by 30 per cent, from R652 million in 2012/13 to R455 million in 2013/14. Loans to emerging farmers grew from R247.3 million in 2012/13 to R390.8 million in 2013/14.

Review aims to restructure Land Bank for greater operational efficiency

A review of the Land Bank, approved by the Minister of Finance, is scheduled for 2015. The aim of the review is to restructure the Bank for greater operational efficiency. Over the medium term, the Land Bank will work with public and private institutions to strengthen the viability of emerging farmers, and support the growth of commercial agriculture.

Industrial Development Corporation

The IDC promotes industrial development and job creation. Profits decreased from R1.9 billion in 2012/13 to R1.6 billion in 2013/14, mainly as a result of poor performance of equity investments. The asset base increased from R126.8 billion to R138.6 billion over the same period, and the loan book rose moderately, from R18.7 billion to R20.8 billion.

IDC has diversified its portfolio, with a strong focus on renewable energy projects

The IDC has diversified its portfolio. The share of mining industry investments narrowed from 30 per cent in 2012/13 to 23 per cent in 2013/14. The IDC has significantly increased its "green economy" investments and investments in small, black-owned businesses. It provided equity and debt funding for 22 projects under the Renewable Energy Independent Power Producers Procurement Programme.

Over the next five years, the IDC plans to mobilise R100 billion to support economic development, targeting renewable energy, manufacturing, industrial infrastructure and beneficiation of locally produced minerals and agricultural products.

National Housing Finance Corporation

The NHFC's mandate is to broaden access to affordable housing finance and housing structures. It targets households with monthly incomes between R1 500 and R15 000, which struggle to obtain bank loans.

NHFC disbursed R675 million in loans for affordable housing development

The NHFC's net profit rose from R8.9 million in 2012/13 to R16.1 million in 2013/14. Total assets decreased from R3.6 billion to R3.1 billion over the same period following the reprioritisation of the poverty relief fund to support social housing projects. The loan book grew to R2.1 billion in

2013/14 from R1.9 billion in 2012/13. The NHFC disbursed R675 million in loans for affordable housing development, and leveraged R2.2 billion in co-financing from the private sector to support these projects.

During 2014 the corporation conducted a strategic reorganisation. Over the medium term, the NHFC will expand housing finance activities, providing its target market with the options of renting, owning or building incrementally. It will also encourage an increase in sustainable lending by financial institutions.

Social security funds

The social security funds provide compensation or income support for workers and road users who are out of work or injured. The funds collectively held R145.6 billion in assets and R109.9 billion in liabilities in 2013/14. The Unemployment Insurance Fund (UIF) held R94.3 billion, or 65 per cent of the assets, and the RAF R98.5 billion, or 90 per cent of the liabilities.

In 2013/14, social security funds held R145.5 billion in assets and R109.9 billion in liabilities

The overall financial position of these funds is relatively strong, even after taking into account the large deficit of the RAF. The UIF and the Compensation Fund – which provides medical care or income benefits to injured workers – have experienced strong asset growth, while growth of their liabilities has remained contained, largely due to a slowdown in retrenchments and improvements in occupational safety.

Table 8.7 Combined balance sheet of social security funds, 2013/14 – 2017/18

R billion	2013/14 Outcome	2014/15 Estimates	2015/16	2016/17 Forecasts	2017/18
Total assets	**145.6**	**161.9**	**181.8**	**203.5**	**227.7**
Unemployment Insurance Fund	94.3	110.1	127.7	147.0	168.2
Road Accident Fund	7.7	6.0	6.4	7.0	7.5
Compensation Fund	43.6	45.8	47.6	49.5	52.0
Total liabilities	**109.9**	**129.7**	**142.7**	**157.0**	**173.2**
Unemployment Insurance Fund	3.9	4.3	4.6	5.0	5.4
Road Accident Fund	98.5	107.3	119.3	132.5	147.3
Compensation Fund	7.5	18.1	18.8	19.5	20.5
Net asset value	**35.7**	**32.3**	**39.1**	**46.5**	**54.5**
Unemployment Insurance Fund	90.4	105.9	123.1	142.0	162.8
Road Accident Fund	-90.8	-101.3	-112.8	-125.5	-139.8
Compensation Fund	36.1	27.7	28.8	30.0	31.5

Source: National Treasury

Unemployment Insurance Fund

The UIF is in good financial health. It operates on a pay-as-you-go model, with insurance benefits paid directly from contributions. In 2013/14 it had 8.5 million registered contributors, 9 per cent of whom received benefits. During 2013/14, the UIF paid out R5.6 billion in unemployment benefits and an additional R1.4 billion to cover illness, maternity and adoption benefits. In the same year it received R15.1 billion in contributions.

UIF is in good financial health and continues to accumulate a surplus

By 2013/14, the UIF had an accumulated surplus of R72.3 billion and a net asset position of R90.4 billion. Despite the more generous benefits payments mandated by the Unemployment Insurance Amendment Bill

(2012), the Fund estimates that it will add R51.8 billion to its accumulated surplus over the medium term.

Imbalance between UIF contributions and benefits needs to be addressed

This imbalance between contributions and benefit payments has grown over the past five years despite high unemployment. The rising surplus is marginally offset by the Fund's support for government's job creation efforts. This includes programmes to support companies in distress and the training layoff scheme, which aims to prevent retrenchments. The fund has spent R190 million on these programmes and has committed to spending a further R2.2 billion over the medium term.

Once-off reduction in UIF contributions will return R15 billion to workers and employers in 2015/16

Government will table legislative amendments to improve UIF benefits in the current session of Parliament. Government also intends to cover public servants with UIF benefits. Such coverage will be extended in a manner that does not add to government's wage bill or contribute to further surplus accumulation by the Fund. As a temporary measure, UIF contributions by employers and workers will be reduced by an estimated R15 billion in 2015/16 through a reduction in the contributions income threshold. This will have no effect on benefits.

Road Accident Fund

RAF is inequitable and unaffordable, and will be replaced in the near future with a no-fault scheme

The current RAF model is inequitable and unaffordable. The Fund's long-term liabilities are estimated at R98.5 billion and projected to grow at 15 per cent each year. The deterioration in the RAF's financial position has been exacerbated by an improvement in the processing of claims lodged, which has reduced the number of open claims from 253 111 in 2011/12 to 198 407 in 2013/14. As the claims backlog has been processed, the average value of claims concluded has increased substantially. The result has been a substantial cash shortfall as reserves are exhausted.

While the proposed 50 c/litre increase in the fuel levy will reduce pressure on the RAF, it is insufficient to resolve the liquidity shortfall in 2015/16. Further increases in fuel taxes, however, are not proposed at this time.

In 2002, the Road Accident Fund Commission recommended moving to a no-fault system that would provide equitable, sustainable and affordable support to accident victims. This system would replace the current fund and its compensation system with the Road Accident Benefit Scheme. During 2015, government will table legislation to replace the RAF with the new scheme. From 2016/17, fuel levies will be reserved to finance the new arrangement. The National Treasury is considering options to address the RAF's accumulated liability. The intention is to pay down outstanding claims over a reasonable period of time.

Compensation Fund

Employer compliance, equity investments contribute to strong financial performance of Compensation Fund

Despite receiving disclaimer audit opinions over the past two years, the Compensation Fund has had a robust financial performance, largely as a result of increased employer compliance. The fund's asset base has grown from R32.6 billion in 2011/12 to R43.6 billion in 2013/14, supported by the performance of its investments, which reached R41.4 billion in 2013/14. Between 2010/11 and 2013/14 the Fund registered 1.9 million new employers.

The Compensation Fund has invested in an information technology system to process claims faster and reduce turnaround times. As a result, the Fund expects the number of claims processed to grow from 196 000 at present to 552 000 in 2017/18. To cater for this growth in claims the Fund will increase its prudent provisions, which will see total liabilities grow from R17.2 billion in 2013/14 to R20.5 billion by 2017/18.

Government Employees Pension Fund

Valuations show that GEPF is in good financial health

The Government Employees Pension Fund provides retirement security to 1.2 million public employees and pays retirement benefits for 300 000 current pensioners. Pensions were increased at the full rate of consumer price inflation in 2015, as has been the practice over the past decade. The 2014 valuation report by the fund's actuaries showed the fund held R1.425 trillion in assets, which were sufficient to cover 121.5 per cent of its liabilities on a best-estimate basis. On a stricter solvency-based liability measure, the assets cover 83.1 per cent of liabilities, which is a significant improvement on the 2012 valuation. The main factor leading to the improvement was the high returns enjoyed by the Fund's investments.

Table 8.8 Government Employees Pension Fund actuarial valuation, 2008 – 2014

R billion	2008	2010	2012	2014
Assets at market value	707.0	801.0	1 038.9	1 425.7
Best estimate liabilities	613.6	736.7	1 011.6	1 173.5
Solvency liabilities	828.5	1 081.6	1 475.8	1 714.9
Funding position				
on best estimate liabilities	115.2%	108.7%	102.7%	121.5%
on solvency liabilities	85.3%	74.1%	70.4%	83.1%

Source: Government Employees Pension Fund

Higher-than-anticipated public-sector wage increases grow GEPF liabilities

The funding position deteriorated between 2008 and 2012, largely as a consequence of higher-than-anticipated salary increases in the public sector. In 2015, each percentage point increase in public-sector salaries will increase the Fund's liabilities by about R9 billion, without having any effect on its assets. The National Treasury is working closely with the Fund to ensure that current funding levels can be maintained over the long term.

Summary

Government will align its portfolio of institutions and mandates, and develop complementary financing models

In aggregate, South Africa's public-sector institutions are solvent and many are performing well. However, poor-performing and inefficient entities are significant risks to public finances. Government is working with these institutions to develop sustainable financial frameworks supported by turnaround plans. In the short term, many of these interventions focus on stabilising the finances of these entities – in particular bolstering liquidity. Over the longer term, in line with the recommendations of the Presidential Review Committee, government will better align its portfolio of institutions and mandates with national development requirements and develop complementary financing models.

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