8

Financial position of public-sector institutions

In brief

- Public-sector institutions play a central role in achieving South Africa's development goals. To deliver on their mandates, they need to be financially sound.
- The public-sector borrowing requirement will be R254.4 billion, or 5.8 per cent of GDP, in 2016/17, revised up by R32.8 billion since the 2016 Budget.
- State-owned companies project total capital spending of R432.8 billion over the medium term, with borrowing reaching R307.1 billion.
- Over the next two years, the aggregate loan portfolio of development finance institutions is projected to increase by 20.5 per cent to R195.9 billion, with support targeting farmers, industrial development and municipal infrastructure.
- The deteriorating financial position of the social security funds is a serious risk, owing to growing liabilities at the Road Accident Fund and the Compensation Fund.

Overview

Public-sector institutions need to be financially sound to achieve their mandates

Public-sector institutions, some of which dominate strategic sectors, can play an important part in transforming South Africa's economy. To deliver on their mandates, they need to be well governed and financially sound. This chapter reviews the financial position of major state-owned companies, development finance institutions, social security funds and the Government Employees Pension Fund. It also provides an overview of reforms under way to stabilise financially troubled entities.

State-owned companies operate in a wide range of sectors, such as energy, transport, telecommunications and water, and are responsible for much of the infrastructure on which the economy relies. Eskom, Transnet and the South African National Roads Agency Limited (SANRAL) account for about 42 per cent of public-sector capital formation. Over the past year, Eskom continued its capital investment programme – bringing new generating capacity to the electricity grid – and maintained steady power supply. Transnet continued to invest in getting more freight from road to rail. SANRAL maintained the road network at a high standard.

Development finance institutions support industry, agriculture and infrastructure

Development finance institutions fund infrastructure expansion, industrial development and agriculture, and improve access to housing and small business loans. During 2016, the Land Bank helped hundreds of black farmers increase cultivation; the Development Bank of Southern Africa (DBSA) supported energy, roads, water and sanitation projects benefiting about 2 million urban households; and the Industrial Development Corporation (IDC) approved 180 transactions valued at R14.5 billion.

Social security funds and the Government Employees Pension Fund compensate people who are out of work or injured, support a savings culture and promote investments that have a social impact. These funds support millions of pensioners, unemployed and injured workers.

State-owned companies and development finance institutions must operate independently of national budget

None of these public institutions should depend directly on the budget for revenue, but their financial condition has significant consequences for the fiscus. Well-managed and financially stable entities can support economic transformation and strengthen government's ability to accelerate national development.

At a consolidated level, the financial position of public entities improved in 2015/16. State-owned companies continue to bolster their aggregate net asset position (assets minus liabilities), largely as a result of capital investments and positive earnings. Table 8.1 shows the combined financial position of public institutions.

Table 8.1 Combined financial position of selected categories of public institutions

R billion	2013/14	2014/15	2015/16
State-owned companies			
Total assets	912.5	1 042.2	1 180.9
Total liabilities	635.0	738.9	819.0
Net asset value	**277.5**	**303.3**	**361.8**
Development finance institutions[1]			
Total assets	249.1	243.6	254.3
Total liabilities	106.6	113.5	125.7
Net asset value	**142.5**	**130.2**	**128.6**
Social security funds			
Total assets	144.8	174.1	191.1
Total liabilities	111.4	151.7	194.4
Net asset value	**33.4**	**22.4**	**-3.2**
Other public entities[2]			
Total assets	684.6	763.8	805.2
Total liabilities	138.1	154.4	167.9
Net asset value	**546.5**	**609.5**	**637.3**

1. Institutions listed in schedule 2, 3A and 3B of the PFMA

2. State-owned institutions without a commercial mandate and listed in either schedule 1 or 3 of the PFMA such as the National Library of South Africa

Source: National Treasury

The decline in the overall net asset position of development finance institutions resulted mainly from losses on the IDC's equity portfolio. The net asset value of social security funds declined owing to a sharp upward revision of liabilities at the Road Accident Fund and Compensation Fund.

A number of state-owned companies face serious financial problems. In recent years, these have led to lower rates of return and deteriorating balance sheets, prompting requests for capital injections and/or state guarantees. Poor financial health makes these companies more susceptible to rating downgrades, compounding their financial difficulties. Government reforms aim to make public entities stable and more efficient, so that they are able to contribute to higher growth and employment.

Reforms aim to make public entities stable and more efficient

The public-sector borrowing requirement

Government's budget deficit indicates how much the state needs to borrow to finance its spending. The public-sector borrowing requirement is a broader indicator that includes government's borrowing needs, as well as those of state-owned companies and local government – mainly to finance their capital expenditure requirements. In 2016/17 it will amount to R254.4 billion, or 5.8 per cent of GDP. This is R32.8 billion more than was projected in the 2016 Budget, reflecting a larger consolidated budget deficit and higher borrowing estimates by state-owned companies – primarily Eskom and Transnet.

Public-sector borrowing requirement for 2016/17 is R32.8 billion higher than projected

Table 8.2 Public-sector borrowing requirement[1]

	2013/14	2014/15	2015/16	2016/17		2017/18	2018/19	2019/20
		Outcome		Budget	Budget	Medium-term estimates		
R billion/percentage of GDP				2016	2017			
Main budget	160.4	166.4	168.4	156.3	170.5	166.8	171.2	180.7
Social security funds	-13.5	-15.8	-18.9	-20.6	-19.8	-21.4	-23.2	-24.4
Provinces	-4.3	-6.2	-0.6	1.0	0.6	-0.6	-0.8	-1.0
Public entities	-6.6	-9.5	-7.1	1.0	-2.6	4.1	-5.7	-9.9
RDP Fund[2]	-0.6	-0.4	0.5	1.2	-0.8	0.2	0.4	0.4
Consolidated government	**135.4**	**134.6**	**142.2**	**138.9**	**147.9**	**149.0**	**141.9**	**145.8**
	3.7%	*3.5%*	*3.5%*	*3.2%*	*3.4%*	*3.1%*	*2.8%*	*2.6%*
Local authorities	**7.8**	**9.4**	**11.0**	**9.8**	**11.4**	**11.0**	**11.3**	**11.5**
	0.2%	*0.2%*	*0.3%*	*0.2%*	*0.3%*	*0.2%*	*0.2%*	*0.2%*
State-owned companies[3]	**57.1**	**79.6**	**121.9**	**72.9**	**95.0**	**91.8**	**84.0**	**85.3**
	1.6%	*2.1%*	*3.0%*	*1.7%*	*2.2%*	*1.9%*	*1.6%*	*1.5%*
Borrowing requirement	**200.3**	**223.6**	**275.1**	**221.6**	**254.4**	**251.7**	**237.1**	**242.6**
	5.5%	*5.8%*	*6.7%*	*5.1%*	*5.8%*	*5.3%*	*4.6%*	*4.4%*

1. A negative number indicates a surplus and a positive number a deficit
2. Reconstruction and Development Programme Fund
3. SANRAL and Trans-Caledon Tunnel Authority are included as public entities under consolidated government borrowing
Source: National Treasury

In 2015/16, borrowing by the six largest state-owned companies – the Airports Company of South Africa (ACSA), Eskom, SANRAL, SAA, the Trans-Caledon Tunnel Authority (TCTA) and Transnet – reached R128 billion. Eskom and Transnet accounted for 74 per cent of the total. Foreign debt funding was lower than estimated, reaching R29.5 billion compared with an expected R42.6 billion.

The six companies project aggregate borrowing of R102.6 billion in 2016/17, and R307.1 billion between 2017/18 and 2019/20. Gross foreign borrowings are expected to account for the majority of total funding over the medium term, largely as a result of Eskom's efforts to obtain more developmental funding from multilateral lenders.

Foreign borrowings expected to account for most of state-owned companies' funding

There is scope for expanded municipal borrowing to finance infrastructure construction

Borrowing by local authorities averages R11.2 billion over the next three years. Chapter 6 discusses the scope for expanded municipal borrowing to finance infrastructure expansion. In the national accounts, development finance institutions are not included in the public-sector borrowing requirement. Their borrowing plans, discussed later in this chapter, amount to R78 billion in 2017/18.

State-owned companies

A sound legal framework governs state-owned companies. It includes the Public Finance Management Act (PFMA) (1999), Treasury regulations, the Companies Act (2008), codes of corporate governance, their own founding acts and memoranda of incorporation. This framework sets out explicit rules covering financial management, governance, transparency and accountability. In addition, independent bodies regulate the ports and electricity, piped-gas, aviation and petroleum industries. The regulators set and approve tariffs and prices to ensure that state-owned companies balance their interests with those of households and businesses.

Yet operational inefficiencies, poor procurement practices, weak corporate governance and failures to abide by fiduciary obligations have plagued several companies that are now in serious financial difficulty. Addressing this requires not only stabilisation measures at troubled entities, but a broader restructuring of state-owned companies to ensure they can deliver on their developmental mandates.

Private-sector participation framework for infrastructure projects

Government's programme to reform state-owned companies targets both short-term stabilisation measures and long-term efforts to strengthen the governance framework of these entities. In November 2016, Cabinet:

- Endorsed a framework to guide collaboration between state-owned companies and the private sector on infrastructure projects.
- Adopted a guideline for the remuneration and incentive standards for directors of state-owned entities.
- Approved the broad thrust of a guide for the appointment of boards and executive officers.
- Recommended further consultation on the first draft of a new government shareholder policy, which will culminate in overarching legislation for state-owned companies.
- Noted the proposal to determine and cost the developmental mandates of state-owned enterprises.

Since 2011/12, state-owned companies have spent R514.4 billion on infrastructure

Since 2011/12, state-owned companies have spent a total of R514.4 billion on infrastructure, mostly in energy, transport and logistics. Transnet's investment in new locomotives and rail infrastructure helped raise capacity by 26.4 million tons in the general freight business, 9 million tons on the export coal line and 7.2 million tons on the export iron ore line. Eskom has increased generating capacity by 1 893MW as new units have come online. During 2015/16 ACSA spent R1.3 billion on improvements and refurbishments at airports across the country. Capital expenditure by state-owned companies over the next three years is projected at R432.8 billion, with Eskom, Transnet and SANRAL accounting for 42 per cent of public-sector capital formation. Annexure D contains further details.

Table 8.3 Borrowing requirement of selected state-owned companies[1]

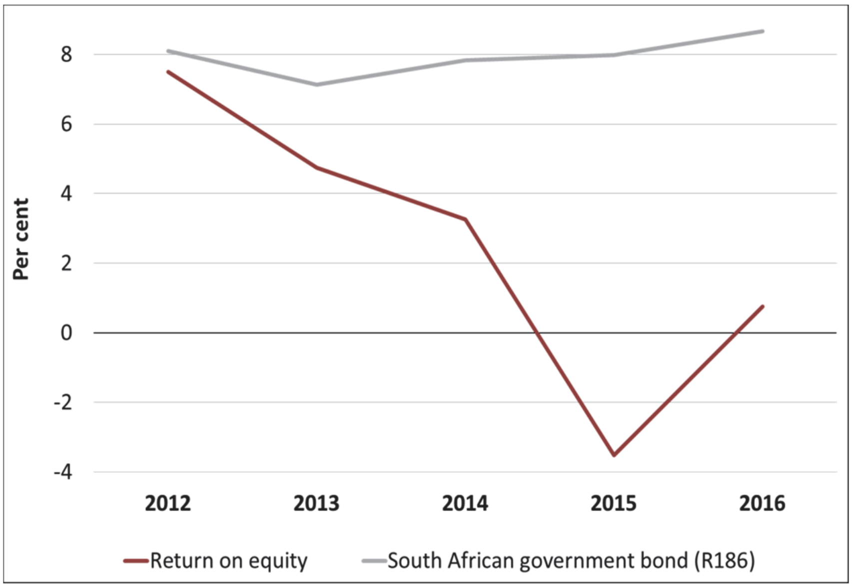
	2015/16		2016/17	2017/18	2018/19	2019/20
R billion	**Budget**	**Outcome**	**Revised**	**Medium-term estimates**		
Domestic loans (gross)	**65.5**	**98.5**	**53.1**	**39.0**	**46.2**	**47.1**
Short-term	13.8	21.8	23.3	7.8	12.4	11.9
Long-term	51.7	76.7	29.8	31.2	33.9	35.1
Foreign loans (gross)	**42.6**	**29.5**	**49.5**	**62.7**	**55.7**	**56.4**
Long-term	42.6	29.5	49.5	62.7	55.7	56.4
Total	**108.1**	**128.0**	**102.6**	**101.7**	**102.0**	**103.4**
Percentage of total:						
Domestic loans	*60.6%*	*77.0%*	*51.7%*	*38.4%*	*45.3%*	*45.5%*
Foreign loans	*39.4%*	*23.0%*	*48.3%*	*61.6%*	*54.7%*	*54.5%*

1. Airports Company of South Africa, Eskom, SANRAL, SAA, Transnet and Trans-Caledon Tunnel Authority
Source: National Treasury

While state-owned companies have a developmental mandate, the 16 largest companies are required to be financially sustainable under the PFMA. In 2015/16, their combined return on equity, which measures how much profit is generated with shareholder funds, was 0.8 per cent. Using the R186 bond as a proxy, government's average cost of borrowing is 8 per cent. When government borrows at 8 per cent and provides capital to state-owned companies that are generating a lower return on equity, it represents value lost to the public finances.

Difference between return on equity and government's borrowing rate represents loss of value to public sector

Figure 8.1 Return on equity vs government bond yield



Source: State-owned companies' annual reports and National Treasury

Several state-owned companies play a dominant role in key sectors of the economy. In those sectors, government's twin objectives of economic growth and transformation would be well served by a shift from monopoly control to well-regulated, competitive markets that are open to new entrants. Public companies would continue to play a strategic role, pursuing developmental mandates, but lowering the costs of business would enable inclusive economic development.

Several sectors dominated by state firms would benefit from well-regulated, competitive markets

Eskom

South Africa's electricity utility made headway on its capital expenditure programme over the past 24 months. One additional unit at Medupi power station and another at Kusile are expected to be in commercial operation by mid-2018, with the remaining units expected to be operating by 2022, adding 10.1GW of electricity to the national grid.

Higher prices and containment of primary costs improved Eskom's profitability

Eskom's financial performance improved in 2015/16 as a result of a 12.7 per cent tariff hike, with revenue increasing by 10.5 per cent to R161 billion. In addition, government's R23 billion equity injection and the conversion of the R60 billion subordinated loan to equity, have shored up the balance sheet. Higher prices and containment of primary costs improved profitability. Earnings before interest, tax, depreciation and amortisation grew by 37.4 per cent to R31 billion.

Government has extended Eskom's R350 billion guarantee from 31 March 2017 to 31 March 2023. The extension will allow the utility to use the remaining portion of the guarantee to complete its current capital expenditure programme through 2023. As at 31 December 2016, R187 billion of the R350 billion government guarantees had been drawn down and it is expected that R218.2 billion will be utilised by 2016/17 year-end. Eskom increased planned borrowings in 2016/17 from R46.8 billion to R68.5 billion. The increase results from Eskom's revised assumptions of cost savings and lower-than anticipated tariffs during the current price determination period. From 2017/18, foreign loans are expected to account for 77.3 per cent of Eskom's total funding.

Decision on tariff hikes and recovery of municipal arrears will affect Eskom's financial position

The scale of tariff hikes and recovery of municipal debt will affect Eskom's financial position. The utility has appealed a High Court ruling setting aside the regulator's decision to grant it a 9.4 per cent tariff increase for 2016/17. As at 31 December 2016, municipal arrears to Eskom stood at R9.7 billion, 72 per cent of which was owed by 20 municipalities.

Transnet

South Africa's freight rail, ports and pipelines utility grew revenues by 1.7 per cent to R62.2 billion during 2015/16. Capital investment amounted to R34.3 billion, including R8.8 billion for locomotives, R2.3 billion for wagons, R2.3 billion to sustain rail infrastructure and R1.3 billion for a new multi-product pipeline. Transnet reported freight rail volume of 214.2 million tons, down from 226.6 million tons in the prior year. Its capital investment programme focuses on upgrading and modernising ports, rail and pipeline infrastructure. In the five years ended 2015/16, Transnet had spent R122.4 billion on capital expenditure.

Transnet plans capital investments of R273 billion

Transnet has adjusted to the weak economic environment by rescheduling part of its capital spending plans. Over the next seven years, it plans capital investments of R273 billion, to be funded by earnings and borrowings against its balance sheet. Foreign borrowing will decline.

South African Airways

SAA pared its losses from R5.6 billion in 2014/15 to R1.5 billion in 2015/16. The improvement resulted mainly from lower fuel prices and lower asset impairments. However, the carrier remains technically insolvent. Its going-concern status depends on state guarantees totalling R19.1 billion. Government continues to help SAA secure funding with its existing lenders.

SAA remains technically insolvent; its going-concern status rests on government guarantees of R19.1 billion

A new board, appointed in September 2016, finalised the 2014/15 and 2015/16 annual financial statements as required by law. The board is finalising the recruitment process for a chief executive officer and a chief financial officer. The process will be submitted for government's consideration and approval.

SAA's liquidity constraints are expected to persist over the medium term. Government will work closely with the board to reduce associated risks. During 2017/18, government will provide some financial support to SAA in a manner that does not increase the budget deficit. The support will strengthen the new board's ability to effect a comprehensive turnaround strategy that allows SAA to function on a financially sustainable basis.

Advisors are assisting government with a review of the state's aviation assets. The review is expected to be complete by the end of March 2017. The goal is to develop a stronger, more efficient and sustainable state aviation sector. The possibility of merging SAA with South African Express, and introducing a strategic equity partner, will be considered.

Review of state aviation assets to be complete by end-March 2017

South African Post Office

The South African Post Office (SAPO) aims to return to profitability by 2017/18. In 2015/16, it recorded a R1.14 billion loss, down from a loss of R1.5 billion in 2014/15. The improvement was mainly attributed to reduced costs. Revenue fell by about R440 million due to the knock-on effects of a protracted strike in the prior year and liquidity constraints, which affected its ability to pay creditors and suppliers.

SAPO is working to stabilise its traditional mail service, grow its logistics and parcel delivery business, and expand Postbank. To reduce high staff costs, voluntary severance packages will be offered in phases.

Since 2014, government has granted SAPO guarantees of R4.44 billion, enabling it to raise R2.7 billion to fund its operations and execute a turnaround. Government reprioritised other expenditure to provide SAPO with a recapitalisation tranche of R650 million in April 2016. Government continues to closely monitor the financial position of SAPO.

Postbank has a temporary banking license and will be corporatised over medium term

Postbank has a temporary banking license and will be corporatised over the medium term. Postbank's application for a full banking licence has been submitted to the Reserve Bank. The appropriate holding company structure, as well as the additional capital that may be required to give effect to this structure, is under discussion.

South African National Roads Agency Limited

SANRAL is responsible for the 21 946km national road network connecting major cities, towns and rural areas. Toll roads, financed through public-private partnerships or capital market borrowings, make up 15 per cent of the network; the remaining 85 per cent is financed through allocations from the national budget.

During 2015/16, SANRAL recorded total revenues of R11.6 billion, down marginally from R11.7 billion in 2014/15. Over the medium term, government has allocated R1.2 billion to SANRAL to compensate for the reduction in the standard toll tariff on the Gauteng Freeway Improvement Project from 60c to 30c per kilometre, and the halving of monthly caps.

SANRAL held two successful bond auctions during second half of 2016

Some degree of uncertainty around Gauteng toll fees persists. However, investor confidence has returned, as demonstrated by SANRAL's two successful bond auctions during the second half of 2016. It plans to borrow R35.5 billion in the domestic market over the medium term in addition to its total borrowings of R48.8 billion as of 31 March 2016.

Passenger Rail Agency of South Africa

The Passenger Rail Agency of South Africa (PRASA) runs Metrorail, which provides the bulk of public commuter rail services, and the long-distance mainline passenger rail service. During 2015/16, cost-containment efforts yielded savings of R403 million. But fare revenue, the largest source of revenue after operational subsidies, declined by 7 per cent or R205 million, due to lower volumes.

PRASA expects to deliver 70 new train sets and 1 230 refurbished coaches over medium term

PRASA is in the third year of a 10-year, R53 billion capital expenditure programme to renew its fleet of rolling stock. It expects to deliver 70 new train sets, 1 230 refurbished coaches for Metrorail and Shosholoza Meyl, and complete 141 train station improvement projects over the medium term. Over the medium term, the Department of Transport will provide a capital transfer of R49.3 billion to PRASA.

Trans-Caledon Tunnel Authority

TCTA, which delivers water infrastructure, receives no government allocations, but has R25.7 billion guarantee

The TCTA raises debt to finance water infrastructure projects. As at the end of 2015/16, 89 per cent of the debt raised was in the domestic market. The company receives no allocations from government but has a R25.7 billion guarantee facility. TCTA's outstanding debt increased by R557 million to R28.4 billion in 2015/16 due to drawdowns for two projects – the Mooi-Mgeni transfer scheme in KwaZulu-Natal and the Komati water scheme augmentation project in Mpumalanga. The authority maintained its borrowing within prescribed limits.

Over the medium term, TCTA's activities include financing the Lesotho Highlands Phase 2 project, which provides water to Gauteng. The borrowing limit for Lesotho Highlands includes financing acid mine drainage in the Witwatersrand basin. Phase 2 of the Mokolo-Crocodile Water Augmentation project, in Limpopo, is expected to start in 2017/18.

Development finance institutions

Development finance institutions advanced loans of R65.3 billion during 2015/16

South Africa's development finance institutions advanced loans of R65.3 billion during 2015/16 to support industrial development, infrastructure, agriculture and housing. Over the next two years, their aggregate loan portfolio is projected to increase by 20.5 per cent to R195.9 billion to support projects in these areas.

As Table 8.4 shows, the net asset value position of major development finance institutions declined marginally during 2015/16 to R120.2 billion from R121.2 billion a year earlier. The decline resulted mainly from losses on the IDC's equity portfolio associated with lower commodity prices.

Table 8.4 Financial position of selected development finance institutions

R billion	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
		Outcome		Estimate	Forecasts	
IDC						
Total assets	**138.6**	**122.3**	**121.3**	**128.1**	**151.9**	**171.4**
Loan book	20.8	22.4	23.9	37.8	43.8	48.9
Equity and other investments	117.8	99.9	97.4	90.3	108.1	122.5
Total liabilities	**31.6**	**32.4**	**36.5**	**43.9**	**55.4**	**58.2**
Net asset value	**107.0**	**89.9**	**84.8**	**84.2**	**96.5**	**113.2**
DBSA						
Total assets	**63.8**	**70.9**	**82.3**	**94.3**	**103.4**	**110.6**
Loan book	50.8	58.0	70.8	84.6	93.2	100.3
Equity and other investments	13.0	12.9	11.6	9.7	10.2	10.3
Total liabilities	**43.9**	**47.3**	**53.1**	**64.1**	**72.2**	**78.3**
Net asset value	**19.9**	**23.7**	**29.3**	**30.2**	**31.2**	**32.3**
Land Bank						
Total assets	**36.8**	**40.5**	**41.4**	**43.6**	**47.6**	**51.7**
Loan book	33.3	36.7	36.4	40.1	43.4	46.6
Equity and other investments	3.5	3.8	5.0	3.5	4.2	5.1
Total liabilities	**30.0**	**32.9**	**35.3**	**37.0**	**40.4**	**43.8**
Net asset value	**6.8**	**7.6**	**6.1**	**6.7**	**7.2**	**7.9**

Source: National Treasury

Smaller development finance institutions such as the National Empowerment Fund, National Housing Finance Corporation, and National Urban Reconstruction and Housing Agency promote financial inclusion by financing black businesses and housing for lower-income households not serviced by commercial banks. The combined asset value of these institutions contracted by 6.5 per cent to R9.2 billion in 2015/16 from R9.8 billion in the prior year, and their combined loan portfolio contracted by 12.3 percent to R3.4 billion.

Review of provincial development finance institutions complete

In 2016, government completed its review of provincial development finance institutions, and its findings have been consolidated with those of an earlier review of national development finance institutions. The recommendations for individual provincial agencies include strengthening risk management to reduce impairments, improving governance, enhancing monitoring and evaluation of development activities, and reducing costs and boosting self-generated revenue to improve financial sustainability. The results of the review are being canvassed within government, and will inform a broader discussion about development finance policy to be completed by the end of 2017/18. Consideration will be given to rationalising some institutions to create a more streamlined and effective development finance system.

DBSA, IDC and Land Bank to borrow R242.3 billion over medium term

During 2015/16, the three largest development finance institutions – the DBSA, the IDC and the Land Bank – borrowed R58.8 billion against a budgeted estimate of R76.2 billion. Lower-than-expected borrowings were the result of weak economic conditions, which reduced demand for development finance. The Land Bank accounted for 57 per cent of borrowing, followed by the DBSA (26 per cent) and the IDC (17 per cent). Borrowing is expected to increase to R65.3 billion in 2016/17 in line with demand. Medium-term borrowings, concentrated in domestic markets, are estimated at R242.3 billion.

Table 8.5 Borrowing requirement of selected development finance institutions[1]

	2015/16		2016/17	2017/18	2018/19	2019/20
R billion	Budget	Outcome	Revised	Medium-term estimates		
Domestic loans (gross)	**65.1**	**48.8**	**58.8**	**69.9**	**74.2**	**74.3**
Short-term	50.5	39.3	53.2	54.3	59.5	57.1
Long-term	14.6	9.5	5.6	15.5	14.7	17.2
Foreign loans (gross)	**11.1**	**10.1**	**6.5**	**8.0**	**9.1**	**6.7**
Long-term	11.1	10.1	6.5	8.0	9.1	6.7
Total	**76.2**	**58.8**	**65.3**	**77.9**	**83.3**	**81.1**
Percentage of total:						
Domestic loans	*85.4%*	*82.9%*	*90.0%*	*89.7%*	*89.1%*	*91.7%*
Foreign loans	*14.6%*	*17.1%*	*10.0%*	*10.3%*	*10.9%*	*8.3%*

1. Land Bank, DBSA and IDC
Source: National Treasury

Development Bank of Southern Africa

The DBSA provides infrastructure project preparation, financing and implementation programmes. During 2015/16, it supplied R8 billion for municipal energy, roads, water and sanitation projects benefiting about 2 million urban households. The bank's project management facility supported construction of 35 schools and 111 health clinics.

DBSA expects to increase developmental lending for infrastructure investment by about R26 billion

In 2015/16, the DBSA reported a net profit of R2.6 billion, up 116 per cent from R1.2 billion in the prior year. Loans grew by 23 per cent over the same period, reaching R69.5 billion. Loan disbursements reached a new high of R17.1 billion, of which R8.1 billion financed municipal infrastructure. Borrowings amounted to R15.3 billion in 2015/16 against a projected R18.2 billion. The bank plans to raise R21.4 billion in 2016/17, of which R14.9 billion is expected to be from domestic sources, mainly commercial paper issuances. Over the medium term, it expects to increase developmental lending for infrastructure investment by about R26 billion.

Land Bank

Land Bank loans supported cultivation of 254 909ha of arable land in 2015/16

The Land Bank disbursed R841 million in loans to emerging farmers during 2015/16, supporting the cultivation of 254 909ha of arable land. Despite the severe and lengthy drought, the Land Bank made a profit of R182 million in 2015/16, with its asset base increasing by 6 per cent to R41.4 billion. During this period the bank negotiated a R400 million drought relief facility with the IDC to assist farmers in affected areas. Planned borrowings for 2016/17 are estimated at R39.9 billion. During 2015/16 the Land Bank completed an organisational review, focused on restructuring its balance sheet, improving its operational efficiency and ensuring its sustainability. Government guarantees to the bank amount to just over R11 billion.

Industrial Development Corporation

The IDC finances industrial development. Total assets declined by R1 billion to R121.3 billion in 2015/16. Weak commodity prices and the fluctuating rand exchange rate affected performance and reduced dividend income. Profit declined to R223 million for 2015/16, from R1.7 billion in the previous year. During 2015/16 the IDC approved loans to the value of R2.9 billion to promote black industrialists. Over the next three years it plans to raise R56.6 billion, of which R15 billion will be from international lenders, and to extend loans of R60 billion, focusing on agro-processing, chemicals, and mining and metals.

Weak commodity prices and volatile rand dragged down IDC profits and dividend income

National Housing Finance Corporation

The National Housing Finance Corporation (NHFC) provides affordable housing finance for low- to middle-income households. Despite reducing its cost-to-income ratio from 60 per cent in 2014/15 to 41 per cent in 2015/16, the corporation reported an operating loss of R56 million, following an operating profit of R40 million a year earlier. The decline was attributed to impairments, which surged by 122 per cent to R78 million, and a 150 per cent increase in bad debts written-off, totalling R110 million.

During 2017/18, the Department of Human Settlements aims to consolidate the three housing development finance institutions – the NHFC, the National Urban Reconstruction and Housing Agency and the Rural Housing Loan Fund.

Three housing development finance institutions to be consolidated

Social security funds

Social security funds provide social insurance benefits to employees and compensation for road accident victims.

Table 8.6 Financial position of social security funds

R billion	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
		Outcome		Estimate		Forecasts	
Unemployment Insurance Fund							
Total assets	94.3	113.6	124.7	156.2	174.2	192.7	192.7
Total liabilities	3.9	4.1	4.6	4.8	5.1	5.4	5.4
Net asset value	90.4	109.4	120.1	151.4	169.1	187.3	187.3
Compensation Fund							
Total assets	42.8	53.2	56.7	48.6	51.1	53.6	56.6
Total liabilities	9.1	30.0	34.7	10.9	11.7	12.2	12.8
Net asset value	33.8	23.2	21.9	37.7	39.4	41.5	43.8
Road Accident Fund							
Total assets	7.6	7.3	9.8	9.5	9.9	10.1	10.2
Total liabilities	98.4	117.6	155.1	192.5	230.0	278.0	339.0
Net asset value	-90.8	-110.2	-145.3	-183.0	-220.1	-267.9	-328.8

Source: National Treasury

The funds' balance sheets exhibit large financial imbalances. The Unemployment Insurance Fund, for example, has net assets of R120.1 billion. The Road Accident Fund's (RAF's) liabilities exceed its assets by R145.3 billion. This marked decline in solvency poses a risk to

Large financial imbalances of social security funds not sustainable over long term the RAF's operations and the fiscus, and highlights the importance of implementing long-delayed reforms.

Unemployment Insurance Fund

The UIF provides benefits to workers who are out of work due to retrenchment or illness, or on maternity leave. It is funded by employee and employer contributions. In 2015/16 it approved 720 625 claims. Over the medium term, the UIF expects to receive R59.5 billion in contributions and pay R31.3 billion in benefits. In the next three years, income from investments will be more than sufficient to cover the UIF's benefit pay-outs. The fund's surplus is expected to reach R160 billion.

Table 8.7 Revenue and expenditure of the Unemployment Insurance Fund

R billion	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
		Outcome		Estimate		Forecasts	
Revenue	**19.3**	**20.4**	**22.4**	**26.9**	**28.8**	**30.8**	**32.5**
Contributions	15.1	15.8	16.7	17.6	18.7	19.9	20.9
Interest and dividends	4.2	4.6	5.7	9.4	10.1	10.9	11.7
Expenditure	**19.3**	**20.4**	**22.4**	**26.9**	**28.8**	**30.8**	**32.5**
Benefits payments and other transfers	7.2	7.2	7.8	9.3	9.8	10.4	11.1
Other expenditure	1.4	1.6	1.9	2.4	2.7	2.9	3.1
Budget Balance	**10.8**	**11.5**	**12.6**	**15.1**	**16.0**	**17.6**	**18.4**

Source: Unemployment Insurance Fund

The Unemployment Insurance Amendment Act, which has come into effect, will result in enhanced maternity benefits and extend death and disability benefits. The UIF will contribute to job creation by allocating 20 per cent of its investment portfolio to socially responsible investments.

Road Accident Fund

RAF has been insolvent for more than 30 years

The RAF, which compensates victims of road accidents for losses and damages, has been insolvent for over 30 years. Total revenue collected by the fund increased in 2015/16 due to the 50c increase in the RAF levy in the fuel price in April 2015. This enabled the fund to settle additional claims, and payments increased from R21.5 billion in 2014/15 to R28.6 billion in 2015/16. Despite the rise in claims payments, claims finalised but not paid increased to R34 billion. The RAF's total liabilities in 2015/16 amounted to R155.1 billion. Of this amount, the fund's actuaries estimate that claims incurred to date, but not yet reported to the fund, exceed R143 billion. This represents future obligation to pay for accidents that have taken place, but against which claims have not yet been made.

Table 8.8 Revenue and expenditure of the Road Accident Fund

R billion	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
		Outcome		Estimate		Forecasts	
Revenue	19.9	21.7	31.5	35.3	36.9	38.9	41.2
Expenditure	23.5	23.1	30.5	35.5	36.8	39.0	41.2
Budget Balance	**-3.6**	**-1.5**	**1.0**	**-0.4**	**-0.0**	**-0.0**	**-0.0**

Source: National Treasury

During 2016 draft legislation was prepared to create a new Road Accident Benefit Scheme to replace the RAF. Following a review process, a bill is expected to be tabled in Parliament this year. The new arrangement is designed to provide equitable, affordable and sustainable compensation and is based on social security principles, as opposed to the current liability insurance model. Once the new scheme is established, government will consider options to pay down the RAF liability.

Road Accident Benefit Scheme bill should be tabled in Parliament during 2016/17

Compensation Fund

The Compensation Fund supports victims of workplace injury and disease. It is funded mainly by levies paid by employers. While cash receipts grew by 8.3 per cent between 2014/15 and 2015/16, on an accrual basis revenues in 2015/16 declined to R11.35 billion from R14.7 billion in the previous year. At the same time expenditure increased to R12.4 billion from R8.0 billion in 2014/15 due to impairments on financial assets. As a result the fund recorded an accrual deficit of R1 billion in 2015/16.

Compensation Fund accrual deficit was R1 billion in 2015/16

The fund's net asset position declined to R21.9 billion in 2015/16 from R23.2 billion in 2014/15. Liabilities have been revalued to R34.7 billion from R10.2 billion in the 2016 *Budget Review* due to an increase in provisions for all outstanding claims and expected future claims. The Compensation Fund's liabilities are expected to decline to R12.8 billion by 2019/20 as it clears the claims backlog.

Government Employees Pension Fund

The Government Employees Pension Fund (GEPF) provides retirement security to 1.3 million employees and 423 130 pensioners. Total contributions to the fund in 2015/16 increased by R4.1 billion to R60.3 billion, mainly due to higher salaries.

Table 8.9 Selected income and expenditure of the GEPF

R billion	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Revenue						
Employer contributions	14.3	15.8	17.1	18.7	20.3	21.7
Employee contributions	25.7	28.4	30.8	33.5	36.1	38.6
Investment income[1]	40.6	44.5	49.9	54.0	68.5	69.0
Expenditure						
Benefits paid	29.9	37.2	43.2	57.9	85.8	83.1

1. Dividends on listed equities, interest on bonds and money market instruments and income from unlisted properties and unlisted investments excludes adjustments for the value of financial assets

Source: Government Employees Pension Fund

The GEPF paid out R83.1 billion in benefits during 2015/16, down slightly from R85.8 billion in the prior year, because of a decline in member resignations. Pensions will be increased by 6.6 per cent from April 2017 in line with the policy of granting increases of 75 to 100 per cent of the consumer price index rate if affordable.

GEPF will increase pensions by 6.6 per cent from April 2017

The 2016 actuarial valuation report showed the fund held R1.6 trillion in assets. This is sufficient to cover 115.8 per cent of its liabilities on a best-estimate basis, which measures the present value of future pension payments. On a stricter liability measure, taking into account the reserves the fund has to hold to make pensions payments and remain solvent, the assets cover 79.3 per cent of liabilities. On both measures the funding position of the GEPF has deteriorated from the 2014 valuation.

Table 8.10 Government Employees Pension Fund actuarial valuations

R billion	2008	2010	2012	2014	2016
Assets at market value	707	801	1 039	1 426	1 630
Best estimate liabilities	614	737	1 012	1 174	1 407
Liabilities including reserves	829	1 082	1 476	1 715	2 055
Funding position					
on best estimate liabilities	*115.2%*	*108.7%*	*102.7%*	*121.5%*	*115.8%*
on liabilities including reserves	*85.3%*	*74.1%*	*70.4%*	*83.1%*	*79.3%*

Source: Government Employees Pension Fund

Public Investment Corporation

The Public Investment Corporation (PIC) invests the funds of the GEPF and the social security funds.

Table 8.11 Breakdown of assets under management by the PIC in 2015/16

R billion	Government Employees Pension Fund[1]	Unemployment Insurance Fund	Compensation Fund	Other	Total
Asset class					
Equity	946.9	25.6	7.6	3.7	983.7
Bonds	546.8	75.0	24.6	13.2	659.6
Money market	24.4	15.5	1.8	29.6	71.2
Property	55.9	5.8	–	–	61.6
Unlisted Investments	77.0	2.6	1.2	–	80.8
Total	**1 650.9**	**124.4**	**35.3**	**46.4**	**1 857.0**

1. Includes the Associated Institutions Pension Fund
Source: Public Investment Corporation and National Treasury

At end-March 2016, the PIC had R1.9 trillion in assets under management. Of these funds, 88 per cent belonged to public employees and 10 per cent was managed on behalf of the social security funds.

These investments must generate sufficient returns to pay pensions and social security obligations. Assets invested on behalf of the GEPF delivered returns of 9.2 per cent during 2015/16, compared with 15.9 per cent in 2014/15. In 2015/16 the PIC increased the size of its developmental investment portfolio from R11 billion to R29.2 billion. These investments created about 28 000 jobs, supported 299 small and medium enterprises and contributed to 302MW of electricity generation capacity.

Summary

To contribute to national development, public entities need to be well run and financially sound

Public entities have an important role to play in transforming the South African economy. To contribute to national development, they need to be well run and financially sustainable. Government's efforts to reform state-owned companies are expected to bear fruit over the medium term.