8

Financial position of public-sector institutions

In brief

- The combined profitability of state-owned companies, measured by return on equity, fell from 0.8 per cent in 2015/16 to 0.3 per cent in 2016/17. Several are in financial distress.
- In recent months, government has installed new boards and senior managers at Eskom and South African Airways, with a mandate to stabilise these entities and restore good governance.
- Capital spending by the major state-owned companies is projected at R368.2 billion over the medium term.
- The three largest development finance institutions held assets totalling R258.9 billion at the end of 2016/17. Their loan book totalled R140.5 billion.
- The overall solvency of social security funds weakened, largely as a result of the liabilities of the Road Accident Fund. If the fund is excluded, their position has improved. A new road accident benefit arrangement was approved by Cabinet and tabled in Parliament in June 2017.
- The public-sector borrowing requirement is expected to be R329.1 billion in 2017/18, R77.4 billion higher than projected in the 2017 Budget, mainly due to a larger consolidated deficit.

Overview

Well managed, financially stable public institutions can support economic transformation and strengthen the state's ability to accelerate national development. Such entities also form a financially significant component of the public sector. State-owned companies, development finance institutions, social security funds and other entities generally operate without direct support from the National Revenue Fund, although in some cases their enabling statutes provide for contributions from appropriated funds.

Well managed, financially stable public-sector institutions contribute to national development

In 2016/17, state-owned companies contributed R95.2 billion of the public sector's total R249.9 billion infrastructure spending. The main development finance institutions issued loans totalling R28 billion. The

Government Employees Pension Fund (GEPF) paid out R88.3 billion in benefits, and the social security funds paid R45 billion in benefits.

Poorly governed and administered entities, however, burden the country with the substantial costs of operational inefficiency and financial mismanagement. Many public-sector institutions are not operating sustainably. Although a weak economy has contributed to low returns, corruption and mismanagement have taken a toll, and the finances of several large state-owned companies have continued to deteriorate.

Government has acted to strengthen governance at Eskom, Denel and SAA

The failure of a major public-sector institution would have broad economic and fiscal consequences. To address such risks, government has taken steps in recent months to strengthen governance and operations at Eskom, Denel and South African Airways (SAA). These initial reforms will be complemented by others in the period ahead.

Financial health of public institutions

Financial position of state companies deteriorated, while that of development finance institutions improved

Table 8.1 provides a snapshot of the financial position of public institutions by sector. Measured by combined net asset value, the financial position of state-owned companies deteriorated slightly between 2015/16 and 2016/17. The position of development finance institutions improved, mainly due to a recovery in the equity portfolio of the Industrial Development Corporation (IDC). The overall solvency of social security funds weakened as a result of the liabilities of the Road Accident Fund (RAF). If the RAF is excluded, their position has improved.

Table 8.1 Combined financial position of public institutions

R billion	2014/15	2015/16	2016/17
State-owned companies			
Total assets	1 042.2	1 183.7	1 225.2
Total liabilities	738.9	821.9	868.9
Net asset value	**303.2**	**361.8**	**356.3**
Development finance institutions[1]			
Total assets	233.8	245.1	258.9
Total liabilities	112.6	124.9	132.2
Net asset value	**121.2**	**120.2**	**126.8**
Social security funds			
Total assets	174.1	189.7	210.7
Total liabilities	151.7	194.3	230.2
Net asset value	**22.4**	**-4.6**	**-19.5**
Other public entities[2]			
Total assets	763.9	834.6	883.2
Total liabilities	190.1	209.3	227.2
Net asset value	**573.9**	**625.3**	**656.0**

1. Institutions listed in schedule 2 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

Although solvency is an important measure of an institution's financial health, it is not a guarantee that an entity can continue to operate. Positive liquidity and profitability are crucial conditions for financial sustainability. The poor financial performance of several entities is a risk to fiscal sustainability and service delivery.

Thoroughgoing reforms to business models of state-owned companies are required

The 2017 *Medium Term Budget Policy Statement* warned that the liabilities of several state-owned companies were falling due, and without an improvement in cash flows and governance they would be unable to meet these obligations. In several cases – notably Eskom and SAA – government has acted to stabilise operations, improve governance and engage with lenders. Without rigorous reforms to their business models, however, the long-term survival of these institutions is in doubt.

In contrast, the development finance sector has performed well in recent years, enabling these institutions to increase developmental lending. The Compensation Fund, the Unemployment Insurance Fund (UIF) and the GEPF follow prudent investment policies that have resulted in significant investment portfolios that yield good returns.

Public-sector borrowing requirement

The public-sector borrowing requirement includes the borrowing needs of government as a whole, as well as those of local government and state-owned companies. It excludes the borrowing activity of development finance institutions.

In 2017/18, the public borrowing requirement was revised to account for a larger main budget deficit and increased borrowing by state-owned companies. Local government borrowing in the adjusted budget has been revised upwards by R2.4 billion in 2017/18, R1.8 billion in 2018/19 and R2.7 billion for 2019/20. This is due to municipalities adjusting their budgets to address backlogs, as well as new infrastructure identified in integrated development plans.

Public-sector borrowing requirement[1]

R billion/percentage of GDP	2014/15	2015/16	2016/17	2017/18		2018/19	2019/20	2020/21
		Outcome		Budget 2017	Budget 2018	Medium-term estimates		
Main budget	166.4	168.4	167.6	166.8	217.3	191.1	204.8	214.8
Social security funds	-11.6	-10.1	-8.2	-21.4	-9.8	-9.6	-7.2	-3.9
Provinces	-6.2	-0.6	2.6	-0.6	1.6	-0.3	-1.1	-1.6
Public entities	-8.6	-7.7	-6.1	4.1	-4.9	-1.0	-3.5	-4.5
RDP Fund	-0.4	1.0	0.2	0.2	0.1	0.3	0.3	0.3
Consolidated government	**139.7**	**151.0**	**156.1**	**149.0**	**204.3**	**180.5**	**193.3**	**205.0**
	3.6%	*3.7%*	*3.5%*	*3.1%*	*4.3%*	*3.6%*	*3.6%*	*3.5%*
Local authorities	**9.9**	**8.1**	**11.6**	**11.0**	**13.3**	**13.0**	**14.1**	**14.9**
	0.3%	*0.2%*	*0.3%*	*0.2%*	*0.3%*	*0.3%*	*0.3%*	*0.3%*
State-owned companies[2]	**79.6**	**121.9**	**88.4**	**91.8**	**111.5**	**104.0**	**107.3**	**118.1**
	2.1%	*3.0%*	*2.0%*	*1.9%*	*2.4%*	*2.1%*	*2.0%*	*2.0%*
Borrowing requirement	**229.2**	**280.9**	**256.1**	**251.7**	**329.1**	**297.6**	**314.7**	**338.1**
	5.9%	*6.8%*	*5.8%*	*5.3%*	*7.0%*	*5.9%*	*5.8%*	*5.8%*

1. A negative number reflects a surplus and a positive number a deficit
2. South African National Roads Agency Limited and Trans-Caledon Tunnel Authority are included in consolidated government net borrowing
Source: National Treasury

State-owned companies

The combined assets of state-owned companies continue to exceed liabilities, despite a decline in combined net asset value from R361.8 billion in 2015/16 to R356.3 billion in 2016/17. Profitability, measured by return on equity, fell from 0.8 per cent in 2015/16 to 0.3 per cent in 2016/17.

Declining profitability often reflects operational inefficiencies and rising financing costs

In cases where state-owned companies are making large investments in infrastructure, capital expenditure reduces profitability. Even after these investments are paid for, profitability is unlikely to match private-sector profit rates because these entities often provide public goods and services below the cost of production to enable economic activity. In many cases, however, falling profitability reflects mismanagement, operational inefficiencies and rising financing costs. Over the medium term, state-owned companies need to raise their returns to generate value, and to reduce their reliance on debt and injections from the fiscus.

Table 8.2 Combined balance sheets of state-owned companies[1]

R billion/per cent growth	2012/13	2013/14	2014/15	2015/16	2016/17
Total assets	800.3	910.7	1 042.2	1 183.7	1 225.2
	12.7%	*13.8%*	*14.4%*	*13.6%*	*3.5%*
Total liabilities	543.7	633.6	738.9	821.9	868.9
	15.5%	*16.5%*	*16.6%*	*11.2%*	*5.7%*
Net asset value	256.6	277.1	303.2	361.8	356.3
	7.2%	*8.0%*	*9.4%*	*19.3%*	*-1.5%*
Return on equity (average)	4.8%	3.3%	-2.9%	0.8%	0.3%

1. State-owned companies listed in schedule 2 of the PFMA, excluding development finance institutions
Source: National Treasury

Lenders are concerned about governance failures at several major state-owned companies. Over the past year, the majority of these entities' bond auctions have either been cancelled or undersubscribed. In several cases, this has led to severe liquidity shortfalls, and calls on government to extend assistance through guarantees or recapitalisation. State-owned companies that were able to issue debt in capital markets did so at a higher cost than in 2015/16. Some entities with sufficient cash reserves have redeemed maturing debt instead of rolling it over, helping to slow the growth of finance costs.

Infrastructure investment

Decline in capital spending by state-owned companies reflects weak demand and inability to raise finance

State-owned companies spent R95.2 billion on infrastructure in 2016/17. Capital spending by state-owned companies is projected to total R368.2 billion over the next three years, compared with R432.8 billion over the previous MTEF period. In some cases, companies plan to spend less on infrastructure because demand for their services is expected to decline. In other cases, it reflects an inability to raise finance at affordable rates or maturities. Details of public-sector infrastructure spending appear in Annexure D.

Eskom and Transnet account for R298.8 billion or 81 per cent of this spending. Eskom is making steady progress on its capital expenditure programme, and has commissioned two units at the Medupi power station, one at Kusile and all units at Ingula. It has also connected another unit of the Medupi power station to the national grid ahead of its latest schedule.

Most of Transnet's capital spending involves expanding its rail and pipeline capacity by 33 per cent and 97 per cent respectively.

Borrowing

In 2016/17, the six largest state-owned companies borrowed R98.1 billion against a projected R101.3 billion. The marginal difference was attributable to lower-than-projected borrowing by Eskom and the Trans-Caledon Tunnel Authority (TCTA).

State-owned companies borrowed R98.1 billion in 2016/17

Despite undersubscribed bond auctions, state-owned companies are projected to raise R118.8 billion in 2017/18, which is R17.1 billion higher than anticipated in the 2017 Budget. Most of this increase reflects prudential prefunding for future debt redemptions in light of liquidity challenges. Over the medium term, state-owned companies are projected to borrow over R360 billion, of which Eskom is expected to account for 56 per cent. State-owned companies will source this funding from commercial banks, development finance institutions and other lenders.

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

	2016/17		2017/18	2018/19	2019/20	2020/21
R billion	**Budget**	**Outcome**	**Revised**	**Medium-term estimates**		
Domestic loans (gross)	**51.8**	**54.6**	**53.9**	**60.2**	**62.2**	**72.3**
Short-term	23.3	26.9	16.2	15.0	14.2	22.2
Long-term	28.5	27.7	37.7	45.2	47.9	50.1
Foreign loans (gross)	**49.5**	**43.5**	**64.9**	**56.4**	**54.8**	**54.8**
Long-term	49.5	43.5	64.9	56.4	54.8	54.8
Total	**101.3**	**98.1**	**118.8**	**116.6**	**117.0**	**127.1**
Percentage of total:						
Domestic loans	*51.1%*	*55.6%*	*45.3%*	*51.6%*	*53.1%*	*56.9%*
Foreign loans	*48.9%*	*44.4%*	*54.7%*	*48.4%*	*46.9%*	*43.1%*

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

Domestic funding, which accounted for 55.6 per cent of total borrowing in 2016/17, will increase to 56.9 per cent of total borrowing in 2020/21. A large proportion of foreign borrowing will be from development finance institutions and export credit agencies. State-owned companies will hedge their positions, where appropriate, to protect themselves against adverse foreign exchange and interest movements.

Strengthening governance

Government has taken several steps to stabilise large state-owned companies over the past year. It has installed new, full-complement boards at Eskom and SAA, and is engaging intensively with their lenders.

State-owned companies are considering the feasibility of several projects in the context of Cabinet's approval of a private-sector participation framework. Eskom, for example, intends to use this framework to improve its capital structure and strengthen its balance sheet, and may invite private participation in various projects. Transnet intends to develop partnerships to build several port terminals. Such partnerships will enable these companies to deliver infrastructure without straining their balance sheets or requiring support from the fiscus.

Eskom to explore private-sector partnerships to strengthen its balance sheet

Work is also under way to clarify regulatory frameworks. The ports regulator is implementing a new pricing strategy that will lower the cost of doing business while providing Transnet with greater revenue certainty. Government has reiterated its commitment to road tolling. A draft tariff determination framework to oversee the setting of road tolls is being considered by a Cabinet committee. The finances of the South African National Roads Agency Limited, however, remain weak due to opposition to the Gauteng Freeway Improvement Project. The agency may require recapitalisation in 2018/19.

Allegations of corruption in public entities to be investigated

In January 2018, a judicial commission of inquiry was appointed to look into allegations of state capture and corruption in the public sector. The commission will investigate whether any public office-bearers facilitated the unlawful awarding of tenders by state-owned companies. It will also examine the nature and extent of corruption allegations in the awarding of contracts and tenders by state-owned companies, including Eskom.

Eskom

The national electricity utility's profits fell sharply, from R5.1 billion in 2015/16 to R888 million in 2016/17, despite an average 8 per cent tariff increase. This is largely attributable to a near doubling of finance costs as more power units became operational, resulting in Eskom having to expense historical interest obligations. Reduced electricity demand has also contributed to flat revenue growth. As new generating capacity comes on-line, Eskom may have excess supply until economic growth accelerates and demand increases. Eskom has committed to speeding up delivery on its capital projects, which will help prevent further cost escalations. Build programme costs have not been revised since 2016.

To remain financially sustainable, Eskom needs to reduce operating costs and change its business model

The National Energy Regulator of South Africa rejected Eskom's request for a 19.9 per cent tariff increase for 2018/19, approving an average increase of 5.2 per cent. Eskom may be able to earn more revenue if the regulator rules favourably on its revenue-clearing account application for costs incurred in the previous multi-year price determination period. It is apparent, however, that Eskom can no longer rely on tariff increases to compensate for flat electricity sales growth. To remain financially sustainable, the utility needs to reduce operating costs. Eskom's business model will also have to change as part of broader transformation in the electricity sector.

Eskom's most recent financial statements received a qualified audit opinion related to inadequacies in the reporting of irregular spending. As a result, the entity has been unable to raise the required funding to maintain prudent levels of liquidity. To address these issues, government has installed a new board and acting CEO, and removed several senior executives. The Minister of Energy has instructed Eskom to conclude all power-purchase agreements with independent power producers.

Transnet

Transnet, which recorded a R14.1 billion profit, needs to address concerns about governance lapses

Transnet operates South Africa's port, freight rail and pipeline infrastructure. The group achieved an operating profit of R14.1 billion in 2016/17, up 28 per cent from a year earlier. Revenue grew by 5.3 per cent to R65.5 billion in 2017, supported by a tariff increase granted to the pipeline division and a recovery in freight rail volumes. Over the next three years, Transnet will scale back its capital investment plans due to weaker-than-expected demand. This will allow it to pay down its debt over a five-year period. The group expects to have sufficient cash to pay its interest obligations in the medium term. To maintain investor confidence, Transnet will have to address concerns about governance lapses, including concerns about its supply-chain management practices.

Trans-Caledon Tunnel Authority

The TCTA is a management entity responsible for developing bulk raw water infrastructure. Originally established to implement the Lesotho Highlands Water Project, it has since taken responsibility for multiple projects. At the end of 2016/17, the TCTA had about R20.9 billion in outstanding government-guaranteed debt. The agency relies on payments from the Department of Water and Sanitation's Water Trading Entity to settle obligations with lenders. The Water Trading Entity has acknowledged that it needs to improve its financial management and settle its R1.6 billion debt to the TCTA.

TCTA has about R20.9 billion in outstanding government-guaranteed debt

South African Airways

South Africa's national airline lost R5.6 billion in 2014/15 and R1.5 billion in 2015/16. Government is working closely with the Auditor-General to finalise the carrier's 2016/17 financial statements.

Government appointed a new SAA board in October 2017. Since then, the carrier has appointed permanent chief executive, financial and restructuring officers. Government is also working with SAA's lenders and advisors to restructure its debt and implement a turnaround strategy. SAA has begun implementing extensive remedial actions to build a sustainable entity. Some loss-making routes have been closed and schedules have been reduced in an effort to return to profitability.

Government working closely with new board and SAA's lenders to strengthen the national airline

Denel

Denel is a manufacturer of defence and aerospace equipment. In 2016/17 it recorded profits of R333 million on its combined operations. Despite strong growth in revenue and profitability in recent years, Denel has struggled to generate sufficient positive cash flows. Historically, the group has been able to access funding from capital markets, but lenders have become increasingly cautious following widely reported lapses in corporate governance. In December 2017, Denel experienced a liquidity shortfall. Government extended an additional R580 million guarantee on condition that the entity improves its corporate governance. The Department of Public Enterprises and the National Treasury are working with Denel to implement these changes.

Denel experienced liquidity shortfall in December 2017

South African Post Office

The South African Post Office's cost-containment initiatives helped narrow losses from R1.1 billion in 2015/16 to R978 million in 2016/17. In the 2017 Adjustments Budget, government allocated R3.7 billion to the entity to pay down its debts. Over the medium term, it will focus on increasing revenues by diversifying its business, reducing costs and improving operational efficiency. Government continues to closely monitor its financial position and turnaround plan.

South African Post Office working to reduce costs and improve efficiency

Postbank is in discussions with the South African Social Security Agency to distribute social grants. Postbank has a temporary banking licence and work to corporatise the bank is under way. An application for a full banking licence has been submitted to the Reserve Bank.

Development finance institutions

Development finance institutions are generally healthy

Development finance institutions support transformation by channelling savings into productive investments in industry, infrastructure, agriculture and housing. Unlike state-owned companies, the development finance institutions' business model relies on their ability to borrow from capital markets, enabling them to issue loans. This means their assets and liabilities are closely matched, resulting in low net asset values.

The three largest institutions – the Development Bank of Southern Africa (DBSA), the IDC and the Land Bank – held assets totalling R258.9 billion at the end of 2016/17. Their loan books totalled R140.5 billion.

Table 8.4 Financial position of selected development finance institutions

R billion	2014/15	2015/16	2016/17
IDC			
Total assets	**122.3**	**121.3**	**129.8**
Loan book	22.4	23.9	26.7
Equity and other investments	99.9	97.4	103.2
Total liabilities	**32.4**	**36.5**	**41.5**
Net asset value	**89.9**	**84.8**	**88.3**
DBSA			
Total assets	**70.9**	**82.3**	**83.7**
Loan book	58.0	70.8	72.8
Equity and other investments	12.9	11.6	10.9
Total liabilities	**47.3**	**53.1**	**51.6**
Net asset value	**23.7**	**29.3**	**32.0**
Land Bank			
Total assets	**40.5**	**41.4**	**45.4**
Loan book	36.7	36.4	41.0
Equity and other investments	3.8	5.0	4.5
Total liabilities	**32.9**	**35.3**	**39.0**
Net asset value	**7.6**	**6.1**	**6.5**

Source: National Treasury

During 2016/17, these three institutions borrowed R67.5 billion, largely in line with their planned borrowing of R65.3 billion. The largest borrower was the Land Bank. Favourable lender sentiment towards development finance means that, unlike state-owned companies, most loans are from domestic capital markets.

Table 8.5 Borrowing requirement for development finance institutions[1]

	2016/17		2017/18	2018/19	2019/20	2020/21
R billion	**Budget**	**Outcome**	**Revised**	**Medium-term estimates**		
Domestic loans (gross)	**58.8**	**58.0**	**41.4**	**46.6**	**69.9**	**19.4**
Short-term	53.2	49.0	25.3	18.7	20.7	15.3
Long-term	5.6	9.1	16.1	27.9	49.1	4.1
Foreign loans (gross)	**6.5**	**9.4**	**5.2**	**1.8**	**0.7**	**1.9**
Long-term	6.5	9.4	5.2	1.8	0.7	1.9
Total	**65.3**	**67.5**	**46.6**	**48.4**	**70.6**	**21.3**
Percentage of total:						
Domestic loans	*90.0%*	*86.0%*	*88.7%*	*96.3%*	*98.9%*	*90.9%*
Foreign loans	*10.0%*	*14.0%*	*11.3%*	*3.7%*	*1.1%*	*9.1%*

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

Development Bank of Southern Africa

The DBSA provides debt finance for infrastructure programmes. In 2016/17, it reported a net profit of R2.8 billion, up 7.7 per cent from R2.6 billion in the prior year. Development loans increased by 3 per cent during the same period from R69.5 billion to R71.5 billion.

DBSA reported net profit of R2.8 billion in 2016/17

Total loan disbursements in 2016/17 were R12.4 billion, of which R5.6 billion went to 19 municipal projects to develop energy, roads and water and sanitation infrastructure. In addition, R1.9 billion was disbursed for infrastructure projects across the Southern African Development Community. Using a fiscal allocation under the Accelerated Schools Infrastructure Delivery Initiative of the Department of Basic Education, the DBSA is project managing the construction of 144 schools. It also supported the construction of 28 health facilities and the creation of 9 077 jobs, and provided R439 million in funding to 500 small and medium-sized enterprises in 2016/17.

Land Bank

The Land Bank reported a profit of R367 million in 2016/17. It disbursed R4.8 billion in new loans, including R100 million for black farmers to buy land at subsidised rates. The bank also issued loans of R25.2 million to 33 small-scale women farmers. These disbursements helped to create about 15 000 jobs of varying duration.

Land Bank disbursed R100 million for black farmers to buy land at subsidised rates

Industrial Development Corporation

The IDC finances industrial development programmes. It recorded a profit of R2.2 billion in 2016/17, up from R223 million in 2015/16, mainly as a result of capital gains from the sale of investments and a reduction in impairments. The IDC disbursed R11 billion in funding in 2016/17. It also approved funding of R10.1 billion for black-empowered companies – an increase of 104 per cent on the prior year. In addition, the corporation approved R3.2 billion in funding for women-owned businesses.

The IDC is unique among development finance institutions because of the equity stakes it holds in some of South Africa's largest companies. It is working to diversify its investment portfolio and reduce concentration risk in the commodities sectors.

IDC diversifying investments and reducing concentration risk in commodities sectors

Social security funds

RAF driving deterioration in social security funds' position

The consolidated net asset position of the social security funds is expected to deteriorate from a deficit of R19.5 billion in 2016/17 to a deficit of R109 billion in 2020/21. The single factor driving this erosion is the unreformed RAF. Extensive detail on the operational and financial performance of the social security funds is available in the *Estimates of National Expenditure* and their respective annual reports.

Table 8.6 Financial position of social security funds

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
R billion		**Outcome**		**Estimate**		**Medium-term estimates**	
Unemployment Insurance Fund							
Total assets	113.6	124.7	139.0	155.0	168.5	183.0	198.5
Total liabilities	4.1	4.6	5.6	6.8	8.0	9.2	10.4
Net asset value	109.4	120.1	133.3	148.2	160.6	173.8	188.1
Compensation Fund							
Total assets	53.2	55.2	62.6	51.1	53.6	56.6	59.5
Total liabilities	30.0	34.7	35.4	11.7	12.2	12.8	13.5
Net asset value	23.2	20.5	27.2	39.4	41.5	43.8	46.0
Road Accident Fund							
Total assets	7.4	9.8	9.2	9.6	10.8	11.6	12.2
Total liabilities	117.6	155.0	189.2	224.7	260.0	302.7	355.3
Net asset value	-110.2	-145.3	-180.0	-215.1	-249.2	-291.0	-343.1

Source: National Treasury

Unemployment Insurance Fund

The UIF provides benefits to workers who are out of work due to retrenchment or illness, or on maternity leave (including adoption). It also provides a death benefit. It has accumulated a substantial surplus of funds, which are managed by the Public Investment Corporation. The fund expects its net asset value to increase from R133.3 billion in 2016/17 to R188.1 billion in 2020/21.

Table 8.7 Selected revenue and expenditure of the Unemployment Insurance Fund

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
R billion		**Outcome**		**Estimate**		**Medium-term estimates**	
Revenue	**15.8**	**16.7**	**17.8**	**19.6**	**21.1**	**22.6**	**24.3**
Contributions	15.8	16.7	17.8	19.6	21.1	22.6	24.3
Expenditure	**8.8**	**9.8**	**11.0**	**14.7**	**17.7**	**20.2**	**23.1**
Benefits payments and other transfers	7.2	7.8	8.6	11.2	13.8	16.4	19.0
Other expenditure	1.7	2.0	2.4	3.5	3.9	3.9	4.1
Budget balance	**7.3**	**7.4**	**7.3**	**5.2**	**3.7**	**2.7**	**1.6**
Interest and dividends re-invested	4.2	5.3	8.8	10.5	11.2	11.9	12.7

Source: Unemployment Insurance Fund

In 2016/17, the UIF approved 729 919 claims, up from 691 536 in 2015/16. It also improved its level of benefits following legislative amendments. As a result, it expects to pay out an annual average of R16.4 billion between 2018/19 and 2020/21, compared with R7.9 billion between 2014/15 and 2016/17. Income from contributions and investments will be more than sufficient to cover benefit payments. The fund will help to prevent job losses by contributing R250 million over the next three years to Productivity South Africa.

Road Accident Fund

Increase in RAF levy covers only short-term liquidity requirements

The RAF, which compensates victims of road accidents for losses and damages, remains insolvent. The fund collected R33.7 billion in revenue in 2016/17. It paid R32 billion in total benefits during the year. The RAF's cash receipts and expenditures are expected to largely match one another over the medium term. The 30c increase in the RAF levy covers short-term liquidity requirements. The fund's liabilities, however, are expected to grow from R189.2 billion 2016/17 to R355.3 billion in 2020/21, while its asset growth base will remain largely flat.

To make road accident compensation more affordable, equitable and sustainable, the RAF will be replaced with a no-fault arrangement. The Road Accident Benefit Scheme was approved by Cabinet and the Minister of Transport tabled it in Parliament in June 2017.

Table 8.8 Revenue and expenditure of the Road Accident Fund

R billion	2014/15	2015/16 Outcome	2016/17	2017/18 Estimate	2018/19	2019/20 Medium-term estimates	2020/21
Revenue	21.7	31.5	33.7	35.7	41.2	44.7	47.1
Expenditure	23.1	30.5	34.0	35.6	41.1	44.6	47.0
Budget balance	**-1.4**	**1.0**	**-0.4**	**0.1**	**0.1**	**0.1**	**0.1**

Source: Road Accident Fund

Compensation Fund

The Compensation Fund provides insurance for workers who have been injured or contracted disease at work, or have died as a result. Its main revenue source is levies paid by employers. Total revenue grew by 10 per cent between 2015/16 and 2016/17. Claims expenditure increased from R3.7 billion in 2015/16 to R4.3 billion in 2016/17 due to increased claims processing capacity and spending on workplace reintegration programmes. The fund projects an average annual surplus of R3.9 billion over the medium term, which will help improve the consolidated balance.

Government Employees Pension Fund

Total GEPF contributions increased by R5 billion to R65.4 billion in 2016/17

The GEPF provides retirement security to 1.3 million employees and more than 437 000 beneficiaries. Total contributions in 2016/17 increased by R5 billion to R65.4 billion. Active membership growth was flat, reflecting government's efforts to stabilise headcounts, while the number of pensioners and beneficiaries drawing a benefit from the fund grew by 3.3 per cent.

The GEPF paid out R88.3 billion in benefits during 2016/17. Since 2011/12, the fund's benefits have grown faster than contributions. The GEPF is fully funded and has been able to pay the difference between contributions and benefits through its investment returns. Of benefits paid out in 2016/17, 34 per cent were to members resigning from the fund, down from 44 per cent in the prior year. Excluding resignations, benefit payments grew by 20 per cent. The GEPF's next actuarial valuation, due in 2018, will be reported in the 2019 *Budget Review*.

Table 8.9 Selected income and expenditure of GEPF

R billion	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Revenue						
Employer contributions	28.4	30.8	33.5	36.1	38.6	42.1
Employee contributions	15.8	17.1	18.7	20.3	21.7	23.3
Investment income[1]	44.5	49.9	54.0	68.5	69.0	75.2
Expenditure						
Benefits paid	37.2	43.2	57.9	85.8	83.1	88.3

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 Pensions Administration Agency

Public Investment Corporation

The Public Investment Corporation (PIC) invests the funds of the GEPF and the social security funds. By the end of March 2017, 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.

Table 8.10 Breakdown of assets under management by PIC, 2016/17

R billion	Government Employees Pension Fund[1]	Unemployment Insurance Fund	Compensation Fund	Other	Total
Asset class					
Equity	926.5	34.8	12.7	0.2	974.2
Bonds	538.2	78.0	34.8	12.4	663.4
Money market	71.5	12.1	6.8	32.6	123.1
Property	58.7	5.8	–	0.2	64.7
Unlisted investments	96.6	4.7	1.4	–	102.7
Total	**1 691.4**	**135.5**	**55.7**	**45.5**	**1 928.2**

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

To enhance transparency, the PIC has disclosed the details of its private equity investments. The Minister of Finance has also asked the PIC board and management to make its investments and beneficiaries public, and to undertake a forensic investigation into alleged irregularities at the corporation. Consideration is being given to improving stakeholder representation on the PIC board.