

**IN THE FIRST SESSION OF THE SEVENTH
PARLIAMEN TOF THE FOURTH REPUBLIC
OF GHANA**

REPORT OF THE

FINANCE COMMITTEE

ON THE

**2016 ANNUAL REPORT ON THE
PETROLEUM FUNDS**

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21st JULY, 2017

1.0 INTRODUCTION

Further to the presentation of the Budget Statement and Economic Policy of the Government of Ghana for the year ended 31st December, 2017, the 2016 Annual Report on the Petroleum Funds was first presented to the House pursuant to Section 48 of the Petroleum Revenue Management Act, 2011 (Act 815) as amended by Act 893.

The Report was referred to the Finance Committee for consideration and report in accordance with article 179 of the 1992 Constitution, and Orders 140 (5) and 169 of the Standing Orders of the House.

The Committee met and considered the Report with the Deputy Minister for Finance, Hon. Abena Osei Asare. Also in attendance were the Chief Director for the Ministry of Finance, and his technical team of Officials as well as Officials from the Bank of Ghana, Public Interest Accountability Committee (PIAC), Ministry of Energy, Ghana National Gas Company (GNGC), Ghana Revenue Authority (GRA), Petroleum Commission and the Ghana National Petroleum Company (GNPC).

2.0 REFERENCES

The Committee referred to the following documents

1. 1992 Constitution
2. Petroleum Revenue Management Act, 2011 (Act 815) as amended by Act 893
3. Standing Orders of Parliament

PURPOSE OF THE REPORT

The Purpose of the Report as stipulated in Section 48 of Act 815 as amended by Act 893 is to inform the House on audited financial statements of the previous year comprising:

- (i) the receipts and transfers to and fro the Petroleum Holding Fund,
- (ii) the deposits into and withdrawals from the Ghana Stabilization Fund (GSF) and the Ghana Heritage Fund (GHF), and
- (iii) the Balance Sheet, including a note listing the qualifying instruments of the Ghana Petroleum Funds;

3.0 OBSERVATIONS

3.1 Receipts from the Petroleum Holding Fund

Total petroleum receipts as at the end of 2016 was US\$247.18 million (GH¢972.55 million). Details of 2016 receipts is shown in table 1 below:

Table 1

	Budget	Actual	Variance
	A	B	B-A
	US\$	US\$	US\$
Royalties – Jubilee Royalties	78533594.14	57,851,210.69	(20,682,383.45)
SOPCL Royalties			
Carried and Participating Interest	208,475,417.95	149,936,375.74	(58,539,042.21)
Surface Rentals	1,051,277.25	465,029.74	(586,247.51)
Corporate Income Tax		29,546,823.00	29,546,823.00
PHF income		73,148.74	73,148.74
Gas royalties	2,462,541.12	379,554.50	(2,082,986.62)
Gas carried and Participating Interest	57,893,858.88	8,923,251.85	(48,970,607.03)
	348,416,689.34	247,175,394.26	(101,241,295.08)

From the table, actual receipts amounted to GH¢247,175,394.26 giving a negative variance of US\$101.24million over the 2016 budgeted estimate of GH¢348, 416, 689.34. Corporate Income Tax receipts for the year was US\$29.55 million (GH¢122.78 million), while Surface Rentals receipts amounted to US\$0.47 million (GH¢1.80 million).

3.2 Allocation of the 2016 receipts

The Report revealed on page 17 that out of the total revenue of US\$247.18 million, US\$88.50 million was allocated to GNPC (the NOC) as Equity Financing Cost (US\$58.11 million) and its share of the net Carried and Participating Interest (US\$ 27.55 million for crude oil and US\$2.84 million for gas). Details of the allocation is shown on Table 2 below:

Table 2 – Allocation of 2016 receipts

Item	US\$
Transfer to GNPC	88,497,092.01
o/w Equity Financing Cost	58,114,054.06
o/w Crude oil net Carried and Participation Interest	27,546,696.50
o/w Gas Net Carried and Participation Interest	2,836,341.45
ABFA and GPFs	140,536,308.25
o/w Annual Budget Funding Amount	98,375,415.77
o/w Ghana Infrastructure Investment Fund	17,215,697.76
o/w Ghana Petroleum Fund	42,160,892.47
o/w Ghana Stabilization Fund	29,512,624.73
o/w Ghana Heritage Fund	12,648,267.74
Total	229,033,400.26

3.3 Utilization of the Annual Budget Funding Amount (ABFA)

Total programmed ABFA expenditure for the 2016 fiscal year was GH¢1,009.01 million. The Committee was informed that this amount was revised downwards to GH¢613,460,974 due to the decline in both price and output that impacted heavily on petroleum receipts during the year.

The total programmed ABFA for Goods and Services and CAPEX were accordingly revised downwards by 39.2 percent, to GH¢184.04 million and GH¢429.42 million, respectively.

Out of the total revised budget for the year, actual receipts for the period amounted to GH¢388,850,869.72. Actual utilization, on the other hand, amounted to GH¢311,123,056.96, leaving a balance of GH¢77,727,812.79.

The utilization of the ABFA was in line with the provisions of the PRMA as shown in the table below:

Table 3 Utilization of ABFA

Item	Utilization (GH¢)
Expenditure and Amortization of loans for oil and Gas Infrastructure	-
Road and other Infrastructure	199,447,492.13
Agriculture Modernization	27,671,280.88
Capacity Building (including Oil)	83,037,283.91
Total Spending	310,156,56.92
Transfers to the Public Interest and Accountability Committee	967,000.00
Total ABFA Spending	311,123,056.92



3.4 Challenges with the Turret Mooring system

GNPC informed the Committee that in 2015, a potential issue was identified with the turret bearing following an inspection of the turret area of the Jubilee Floating Production Storage and Offtake vessel (FPSO) Kwame Nkrumah. A subsequent technical investigation confirmed the turret bearing on the FPSO has been damaged and is no longer able to rotate as originally designed.

According to the Company, the turret system contains a bearing system that allows the vessel to rotate around the fixed geostatic part of the turret. With this kind of damage, the ideal solution was to shut down the FPSO, move it to the dry dock and fix the problem.

The partners, however opted to use three tug boats to hold the vessel on a fixed heading to enable production and lifting operations continue.

GNPC indicated that the partners are currently working on a more permanent solution to the problem and are hopeful that by 2018, the turret challenge would have been addressed. The ongoing repair works require that at scheduled times, the FPSO has to be shut down. It is expected that for 2017 the facility would be shut down for eight weeks instead of twelve weeks.

3.5 Investment choices of the Ghana Heritage and Stabilization Funds

Bank of Ghana made the Committee aware that the investment choices they make for the Ghana Heritage Fund (GHF) and the Ghana Stabilization Fund (GSF) are based on the law. The law clearly spells out all the investment instruments that BoG has to use to invest the funds.

These instruments, provided for in Section 61 of the PRMA are as follows:

- Overnight and call deposits
- Discount notes
- Treasury bills
- Short-term deposits
- Investment grade bonds
- Certificate of deposits
- Commercial papers, and
- Medium term notes

BoG indicated that in their view, the law sought to protect the funds rather than going for high returns with its attendant risks. The Bank opined that if the funds are to attract high yields, then there is the need for an investment mix of instruments which are risky but gives high returns and security based instruments with very low returns. The blend would also help address the low returns that the funds are currently attracting. In order to do this, there would be the need to review the law.

The Deputy Minister for Finance, Hon. Abena Osei Asare informed the Committee that the Ministry is in discussions with the relevant stakeholders but no decision has been taken yet on the matter.

3.6 Reduction in Ghana Stabilization Fund

The Committee observed on page 26 of the Report, that Closing Book Value of the Fund also revealed that in 2014, it amounted to US\$286,644,064. In 2015, it declined to US\$177,396,127 and increased to US\$207,748,663 in 2016.

In 2014, the net return amounted to US\$1,531,824. In 2015, it declined to US\$531,818 but in 2016, it appreciated slightly to US\$839,912.

BoG explained that Section 12 of the PRM law provides that the Ministry of Finance is empowered to make withdrawals from the Fund to support the Annual Budget Funding Amount approved in the Appropriation Act during volatile situations. The Fund is therefore kept liquid most of the time in order to provide this support when the need be. Further, the law also permits the Ministry of Finance to cap the fund and the excess funds used to support the Sinking Fund.

BoG therefore takes these issues into consideration as well as oil prices before investing the GSF funds. Where there are indications to show that the economic situation is volatile, then the funds is not invested but rather kept. The withdrawals adversely impact on investment returns of the GSF.

3.7 Withdrawal from the Ghana Stabilization Fund

In a response to whether there were withdrawals from the GSF for 2016, BoG informed the Committee that there were no withdrawals from the GSF even though there were revenue shortfalls. It was purely a decision of the government not to make withdrawals even though the law permitted withdrawals.

3.8 Error in Opening Book Balance for combined funds in 2016 (page 26)

The Committee observed on page 26 that the Closing book balance for the Combined funds for 2015 amounted to US\$508,044,818. This was at variance with the opening balance for same in 2016 which amounted to US\$436,779,600.

The technical team informed the Committee that this was a typographical error and that the Opening Balance for 2016 should read US\$508,044,818 and not US\$436,779,600.

3.9 Business Interruption Insurance (BII) for GNPC

The Committee inquired from GNPC as to why they did not take a BII for GNPC operations.

GNPC conceded that it did not have a BII. Further, in responding to a question on whether the other oil companies have BII, GNPC explained that their parent companies' partners hold global insurances that cover them. GNPC indicated that they were looking at having a common BII with all the partners for their operations. In furtherance of this, a proposal have been submitted to the partners for consideration. The Committee was assured that whatever the outcome, GNPC is taking steps to cover its operation with a BII.

3.10 Shutting down of Saltpond Field

In responding to why Saltpond was shut down, awaiting decommissioning, GNPC explained that Saltpond was a struggling field. It was operating at a loss. Further, there were a number of challenges with the field. Challenges included leaking oils and challenges with the platform making it unsafe to produce. As a result, there was no production even though the letter to stop production came in August, 2016.

GNPC assured the Committee that they were in support of the shutdown of the Saltpond field. Options available are to sell it to an investor or decommission it.

3.11 Compliance with Section 48 of Petroleum Revenue Management Act

PIAC drew the Committee's attention to the fact that the Report under consideration did not cover all the headings under Section 48 (2) (b) which provided that the Annual Report on the Petroleum Funds would also include a report from the Minister describing the stage of implementation of the programmed activities funded by and the expenditures incurred on the activities covered by the Annual Budget Funding Amount in the financial year of the report.

The Deputy Minister for Finance, Hon, Abena Osei Asare informed the Committee that the Monitoring and Evaluation Division of the Ministry is currently assisting to compile the status reports of all the projects that come under the Section. The Ministry did not attach it to the Report because they faced some difficulties in the compilation. These difficulties have been largely addressed and come November, when the Budget is submitted to the House, the Ministry would fully comply with the Section 48 of Act 815.

3.12 Ghana Gas - GNPC

It was revealed that Ghana Gas is now fully owned by GNPC. GNPC is the Gas Aggregator and shipper whereas Ghana Gas is the Transporter. So GNPC, the National Oil Company is now the offtaker for gas, by implication.

3.13 Petroleum Agreements

The Committee was also informed about the progress of work of the Petroleum Agreements signed in 2016. Two of the Petroleum Agreements were in the Western Basin, Springfield and Eni block-4 and Swiss Africa, in the Accra-Keta basin.

4.0 RECOMMENDATIONS

4.1 Amendment to the Petroleum Revenue Management law

The Committee noted that returns to the Funds especially the Ghana Heritage Fund was very low. Per the law, after fifteen (15) years, the dividend on the Funds are to be used for development activities.

From page 26, the Committee observed that income from investment for the two funds amounted to GH¢5, 794,058 (made up of GH¢845, 150 from GSF and GH¢4,930, 551 from GHF).

The Committee holds the view that at this rate, not much would be realized for the needed development in fifteen years.

The Committee therefore recommends to the House to urge the Minister to amend the law to give BoG the mix of instruments to invest the funds in higher yielding instruments without comprising the security of the funds.

4.2 Error in Opening Book Balance for combined funds in 2016 (page 26)

The Committee took note of the error on page 26 and therefore recommended that the Ministry of Finance should correct the error accordingly

4.3 Taking a Business Interruption Insurance

The Committee observed that the partners that insured their operations were not adversely affected by the volatility of prices. However, the operations of GNPC was severely affected by the decline in oil prices.

The Committee urges GNPC to take up a Business Interruption Insurance to protect its operations.



4.4 Compliance with Section 48 of the PRMA

The Committee noted that the Report did not capture information describing the stage of implementation of the programmed activities funded by and the expenditures incurred on the activities covered by the Annual Budget Funding Amount in the financial year as required by Section 48 (2) of the PRMA.

The Committee urges the Minister for Finance to comply with all the provisions of Section 48 of the PRMA when compiling the next report.

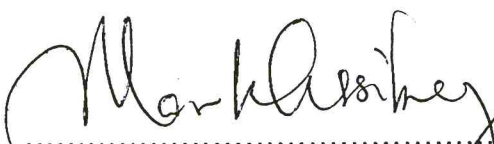
5.0 CONCLUSION

After careful consideration of the Report, the Committee is of the view that the Report generally complies with the requirements of the Petroleum Revenue Act (Act 815). It accounted for the use of the petroleum funds and the returns on the Ghana Stabilization Fund and Ghana Heritage Fund.

It also urges the Minister for Finance to implement the valuable recommendation in the Report as required by Law.

The Committee accordingly recommends to the House to adopt this report and adopt the 2016 Annual Report on the Petroleum Funds.

Respectfully Submitted.


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HON. MARK ASSIBEY YEBOAH (DR)
(CHAIRMAN TO THE COMMITTEE)


.....
EVELYN BREFO-BOATENG (MS)
(CLERK TO THE COMMITTEE)