ANNUAL REPORT 2006/07

FINANCIAL AND FISCAL COMMISSION

For an Equitable Sharing of National Revenue

The FFC provides insight and advises government on the equitable distribution of national revenue, within the overall context of the Intergovernmental Fiscal Relations system. In so doing, the FFC aims to empower its primary stakeholders.

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'African proverb', www.great-quotations.com

FINANCIAL
AND FISCAL
COMMISSION

For an Equitable Sharing of National Revenue

Contents

Back to contents

section 1

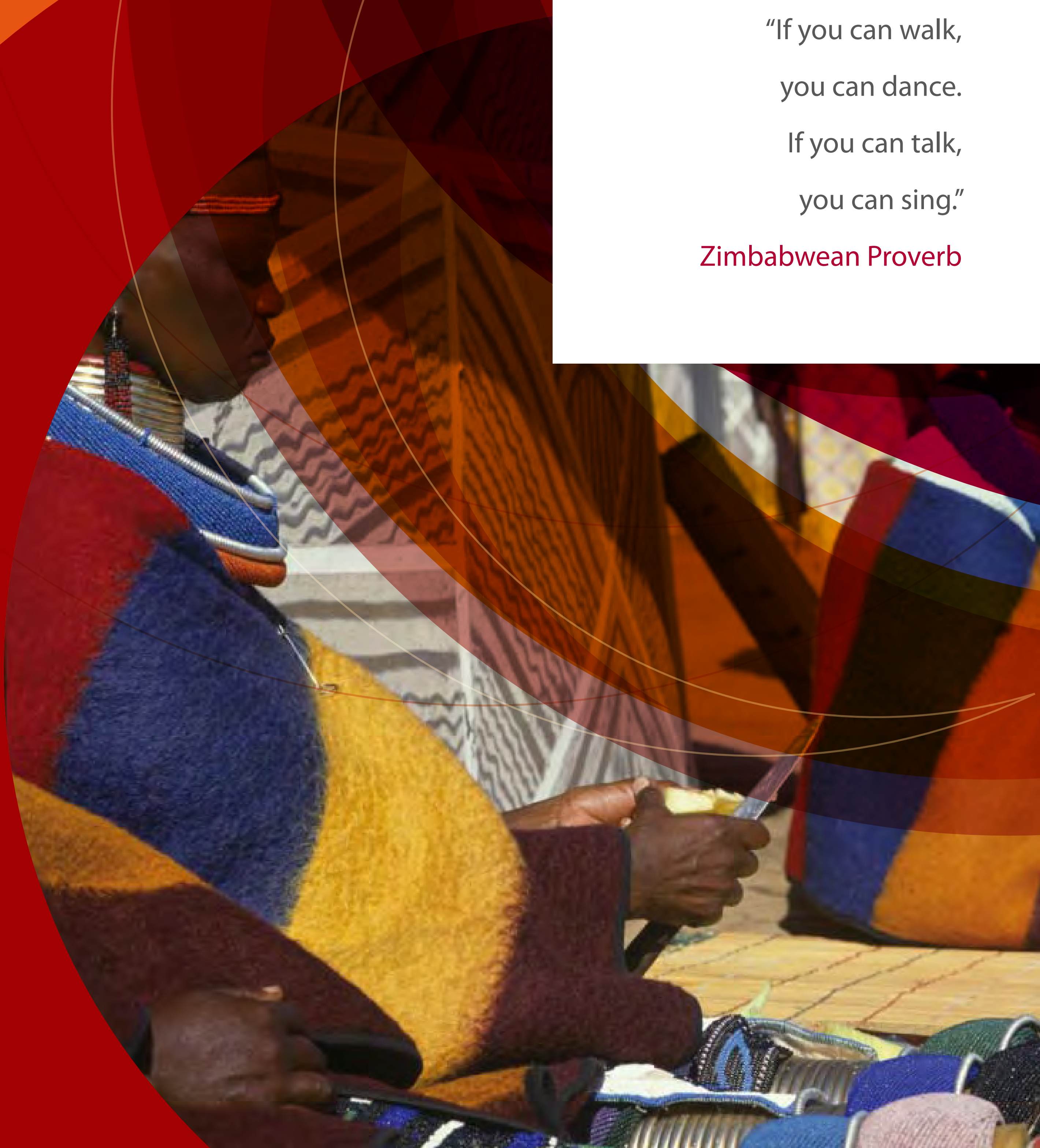
"If you can walk,

you can dance.

If you can talk,

you can sing."

Zimbabwean Proverb



FFC Profile

Vision

The FFC is a world-class impartial advisor on sustainable public finance and fiscal systems.

The projected vision of the FFC is one which illustrates the importance of positioning the Commission as an authoritative research body, which plays an integral role in the policy-making and decision-making process of the Intergovernmental Relations system in South Africa, while also remaining competitive within the larger global market. In order to maintain this competitive 'world-class' edge, advisory services are benchmarked against the most reputable international, continental and national research bodies of the same ilk. The aim of this projected vision of excellence is for the FFC to influence and add value to fiscal systems in the short- and long-term, in an independent, impartial and objective manner.

The significance of the FFC's vision statement rests in its representation of the Commission's future strategic direction – to provide world-class research and advisory services to its stakeholders.

FFC Profile

Mission

The FFC provides proactive independent intergovernmental fiscal relations research excellence to all stakeholders.

- **Attracting, retaining and developing top-class research capability;**
- **Adopting collaborative relationships with other world-class research institutions; and**
- **Building and leveraging our intellectual capability.**

The FFC's mission encompasses the core values of the Commission. This translates into a proactive and customer-oriented approach in communicating with key stakeholders, and disseminating research output of quality excellence that is created and enhanced within the Commission, in order to deliver timeous, original, rigorous and policy-relevant research within the IGFR system.

Role & Function of the FFC

The FFC contributes to the development of an equitable and sustainable system of intergovernmental fiscal relations in South Africa. However, further to this, the FFC boasts a unique position in objectively and transparently taking cognisance of the needs of local, provincial and national government, when submitting its recommendations on the division of national revenue among these three spheres of government.

Constitution of the Republic of South Africa, 1996

The constitutional legal mandate of the FFC, within the intergovernmental fiscal relations system, is set out in Sections 220, 221, 222 of the South African Constitution (as amended) and related Sections 214(2), 219(5), 228(2)(b), 229(5), 230(2), 230A(2) (as amended). The Constitution recognises the FFC as an independent, objective, impartial and unbiased advisory institution. Further to this, it stipulates that the FFC should be formally consulted in respect of the equitable division of revenue among the three spheres of government – national, provincial and local. Further consultation with the FFC is recorded in the Constitution, in government's enacting of legislation pertaining to provincial taxes, municipal fiscal powers and functions, and provincial and municipal loans.

Several further acts give effect and regulate the way in which the Commission fulfils its mandate. These include:

Financial and Fiscal Commission Act, No. 99 of 1997 as amended (No. 25 of 2003)

This Act stipulates that the "Commission acts as a consultative body for, and makes recommendations and gives advice to, organs of state in the national, provincial and local spheres of government on financial and fiscal matters."

Intergovernmental Fiscal Relations Act, No. 97 of 1997

This Act governs the process of the division of revenue, and specifies responsibilities of the parties involved, comprising Parliament, the FFC, the Minister of Finance, provinces, organised local government, the Budget Council, and the Budget Forum.

Intergovernmental Relations Framework Act, No. 13 of 2005

While this Act does not refer directly to the FFC, it "establish[es] a framework for the national government, provincial governments and local governments to promote and facilitate intergovernmental relations; to provide for mechanisms and procedures to facilitate the settlement of intergovernmental disputes; and … provide[s] for matters connected therewith."

Division of Revenue Act, No. 2 of 2006

This annual Act governs the equitable distribution of national revenue among the three spheres of government – national, provincial and local – as well as the responsibilities incurred via the division of revenue. Each year, the FFC submits its recommendations on the Division of Revenue.

Borrowing Powers of Provincial Governments Act, No. 48 of 1996

This Act stipulates the norms and conditions applicable to the borrowing powers of provincial government. In terms of this Act, the FFC is required to submit recommendations on the amounts loaned to provinces by national government, as well as the total amount of interest that a provincial government may incur on its expected outstanding debt during a financial year.

Provincial Tax Regulation Process Act, No. 53 of 2001

This Act, specifically Section 3, states that the formal comment should be obtained from the FFC on proposals to impose new provincial taxes.

Municipal Systems Act, No. 32 of 2000

This Act, specifically Section 9, stipulates the need for FFC's formal consultation and recommendation, as regards the shifting of functions or powers, from national or provincial government to local government. The FFC Amendment Act of 2003 elaborates on this point by requiring the Commission to advise government on the assignment of powers or functions between the three spheres of government.

Municipal Finance Management Act, No. 56 of 2003

This Act, specifically Section 4, stipulates the need for formal commentary from the FFC in respect of any proposed draft legislation, which may directly or indirectly amend said Act.

Public Finance Management Act, No. 1, 1999 as amended (No. 29 of 1999)

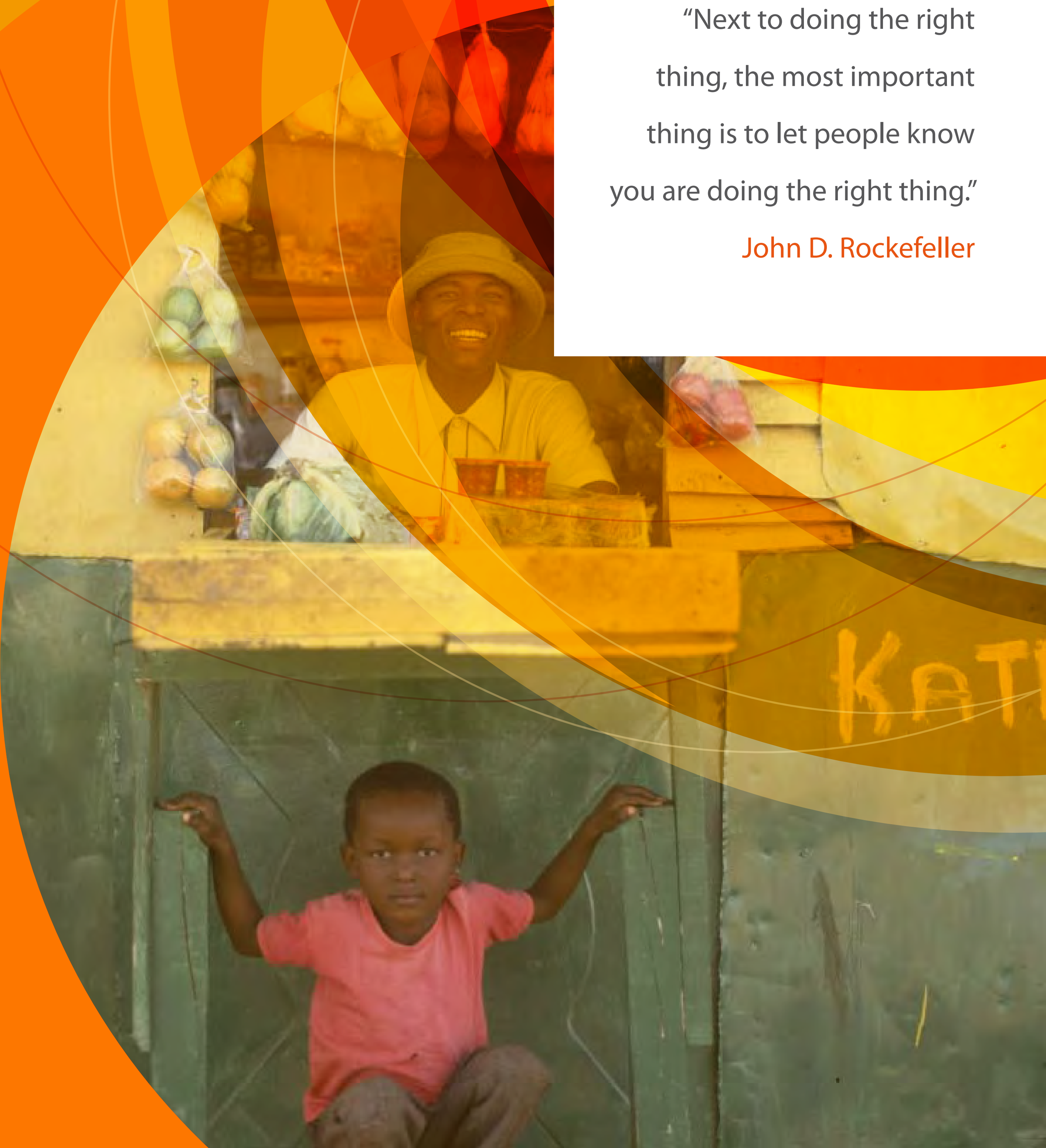
This Act serves to regulate the effective and efficient management of finances, including all revenue, expenditure, assets and liabilities, entrusted to all spheres of government. The Act also details the roles and functions of persons deemed responsible for the financial management of these resources. Due to the FFC being a public entity, the Commission is governed by the PFMA Act.

Back to contents

section 2

“Next to doing the right thing, the most important thing is to let people know you are doing the right thing.”

John D. Rockefeller



FFC Stakeholders

The FFC places great importance on establishing and maintaining relationships premised on trust and objective counsel. The Commission's recommendations and advisories are geared towards all spheres of South African government, comprising local, provincial and national government, on the equitable division of nationally raised revenue between and among these spheres.

Parliament

The FFC reports directly to the South African Parliament. The Commission has established a Parliamentary office in Cape Town, so as to be in regular communication with Members of the National Assembly and the National Council of Provinces, as well as to monitor relevant information emerging from various parliamentary processes. The FFC submits its annual recommendations on the Division of Revenue to Parliament, and is also the recipient of requests from this body.

Ministry of Finance

The FFC provides recommendations and advisories directly to the Office of the Minister of Finance, National Treasury, ten months prior to the tabling of the budget and Division of Revenue Bill. The Minister should consult the FFC at least 14 days prior to the introduction of the Division of Revenue (DoR) Bill.

The FFC's relationship with the Ministry of Finance extends to the implementation of all other obligations in terms of protocols and relevant legislation and regulations administered by the Ministry.

National Government

Interaction at the national level takes the form of ongoing consultation and meetings, the submission of recommendations and advisories on IGFR matters, and the Commission's response to specific requests emanating from the Government, Parliament and other organs of state. The President, in consultation with the Minister, is directly responsible for the appointment of FFC Commissioners, as well as the establishment and maintenance of protocols with the Commission. Furthermore, the FFC abides by certain obligations, as stipulated in the relevant legislation and regulations administered by the relevant Departments and Offices.

Provincial Government

At the provincial level, the FFC reports directly to the Provincial Legislatures in terms of submitting its annual recommendations for the DoR, as well as responding to specific requests, as per its mandate with respect to IGFR issues. Ongoing consultation is also conducted with Provincial Governments and relevant provincially owned entities.

Local Government

In relation to the local sphere of government, the FFC regularly consults, submits annual recommendations on the Division of Revenue, and responds to requests for advisories, in line with its mandate in the context of IGFR, to organised Local Government.

The Citizens of South Africa

The FFC actively engages the citizenry of South Africa via its relationship with various non-governmental organisations, research institutions, grassroots-interest groups, and Parliament itself.

Sponsors, Donors and Partners

Developing and maintaining strategic partnerships and networks is crucial to the work of the FFC. In order to project an image of world-class research excellence, collaboration, within the national, regional, continental and international contexts, is of great significance to retain a competitive edge. By increasing and varying the partnerships, memoranda of understanding, collaborative publishing agreements and primary research undertakings, the FFC will continue to enhance its public profile as a reputable, highly competent and proactive research body on the IGFR system. Networking and acquiring sponsorship for specific projects will also allow the Commission to expand its research scope and coverage to new and related sectors of interest to its stakeholders.

Tertiary Institutions and Acadaemia

The FFC actively engaged a number of tertiary institutions throughout South Africa, the African continent, and further abroad. Such interactions are based on the acquisition of technical expertise assistance in highly specialised fields, and permit the FFC to stay on par with current trends and methods of analysis and application within the broader academic community.

Media

The FFC's unique positioning among the three spheres of government results in the Commission's activities being relayed across the electronic, print and broadcast mediums of communication in the media. Such interactions are often focused on the FFC's recommendations in terms of the division of revenue, and include press releases, critiques, presentations, and high-level interviews.

Within the context of these varied interactions, the FFC's core values centre on the following principles:

- Empowerment and trust;
- Independence;
- Uniqueness;
- Objectivity;
- Flexibility;
- Innovation;
- Integrity;
- Policy-oriented;
- Impact-focused;
- Stakeholder-centric;
- Output-driven; and
- Performance-motivated.

Back to contents

section 3

"The future belongs to those who prepare for it today."

Malcolm X

Chairman's / Chief Executive's Review

The 2006/07 financial year was characterised by a milestone in the Commission's value proposition. The realisation which brought about a re-evaluation of the Commission's role, function, competencies and modus operandi, emanated from the need to enhance the FFC's profile as the leading advisory body on fiscal matters within the IGFR sector. A period of expansion and introspection took place within the institution, to optimise performance and maximise outputs. The future strategic direction of the Commission was one aimed at enhancing past positions, proactively strengthening stakeholder relations, widening the interpretation of the FFC's research agenda and scope within its mandate, and actively seizing networking opportunities for the generation of further knowledge and advisories within the IGFR system.

The review exercise interrogated matters of corporate governance, accountability, the alignment of strategic objectives with the organisational structure of the Commission, and the interpretation of the FFC's mandate, within the framework of relevant legislation governing its existence and functions. It also stimulated the development of an enhanced business performance profile, and the revision and implementation of internal policies, protocols and interfacing within the Commission, to strengthen good governance and pervasive ethical standards. More significantly, however, was the realisation that the application of the Commission's mandate was limited to responding to stakeholder requests and the Division of Revenue.

While the FFC may face a number of challenges in terms of the development and implementation phases of its strategic review, the Commission views the process as central to its continued existence and relevance. By enhancing our capabilities and strengths, the FFC hopes to carve a niche in the canvas of IGFR research.

The highlights of the Commission's work throughout the 2006/07 period should not be underestimated.

On a personal and professional note, the Commission's recommendations in relation to the National School Nutrition Programme and supporting school infrastructure, such as sanitation, merit special mention. The FFC is proud to have been involved in proposing means of improving the application of the Nutrition Programme, particularly among primary school learners, following a request to this effect from the Chair of the Select Committee on Finance, Mr Tutu Ralane.

In keeping with the relevance of these recommendations, the Commission will strive to produce further timeous, original, informative and impact-driven research outputs and advisories within the framework of the IGFR.

In closing, a debt of gratitude is owed to our Commissioners, internal stakeholders, and external stakeholders, for their demonstrated commitment and loyalty in furthering the aims of the FFC's mandate.

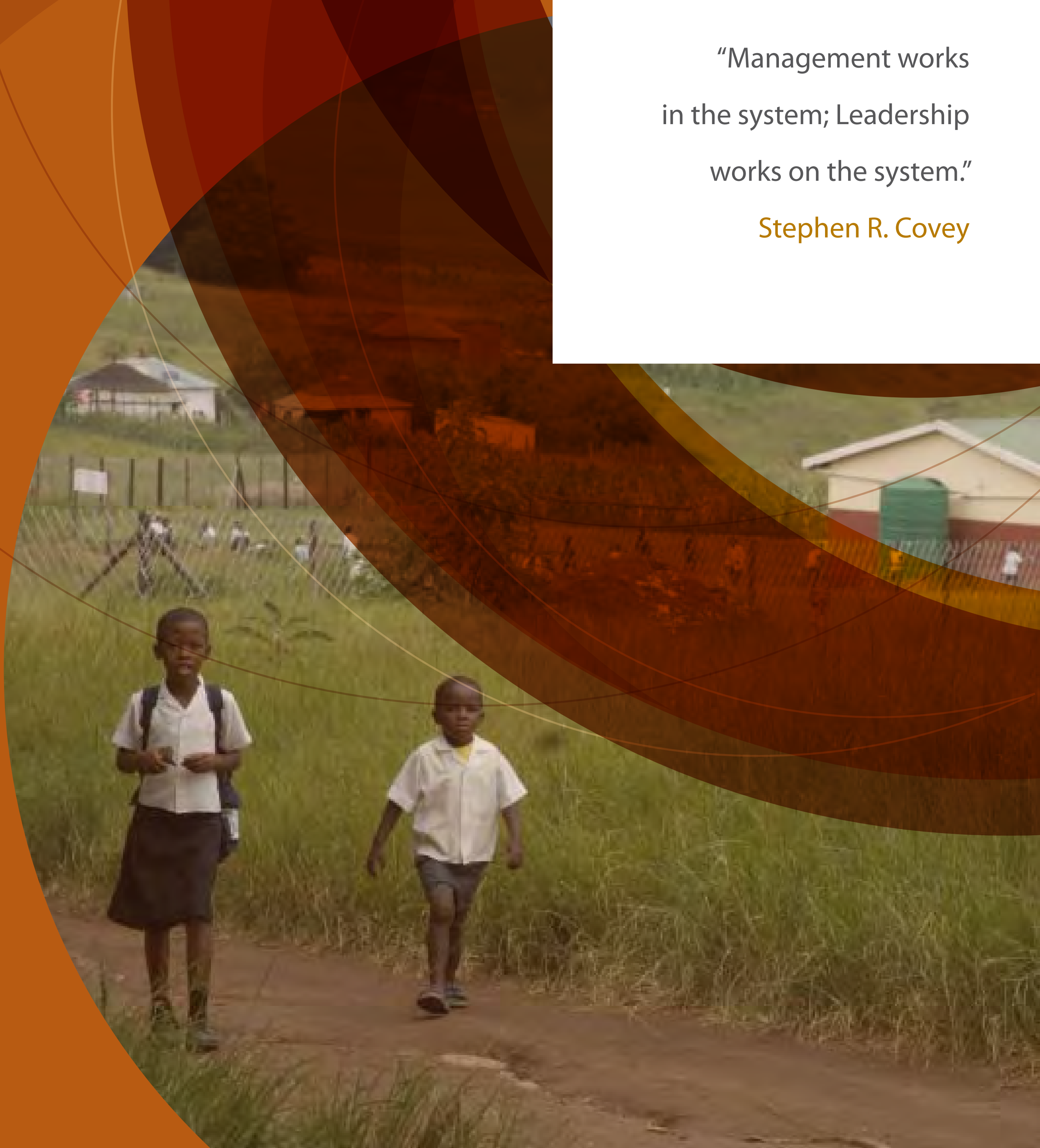
Dr Bethuel Setai
Chairperson / Chief Executive

Back to contents

section 4

"Management works in the system; Leadership works on the system."

Stephen R. Covey



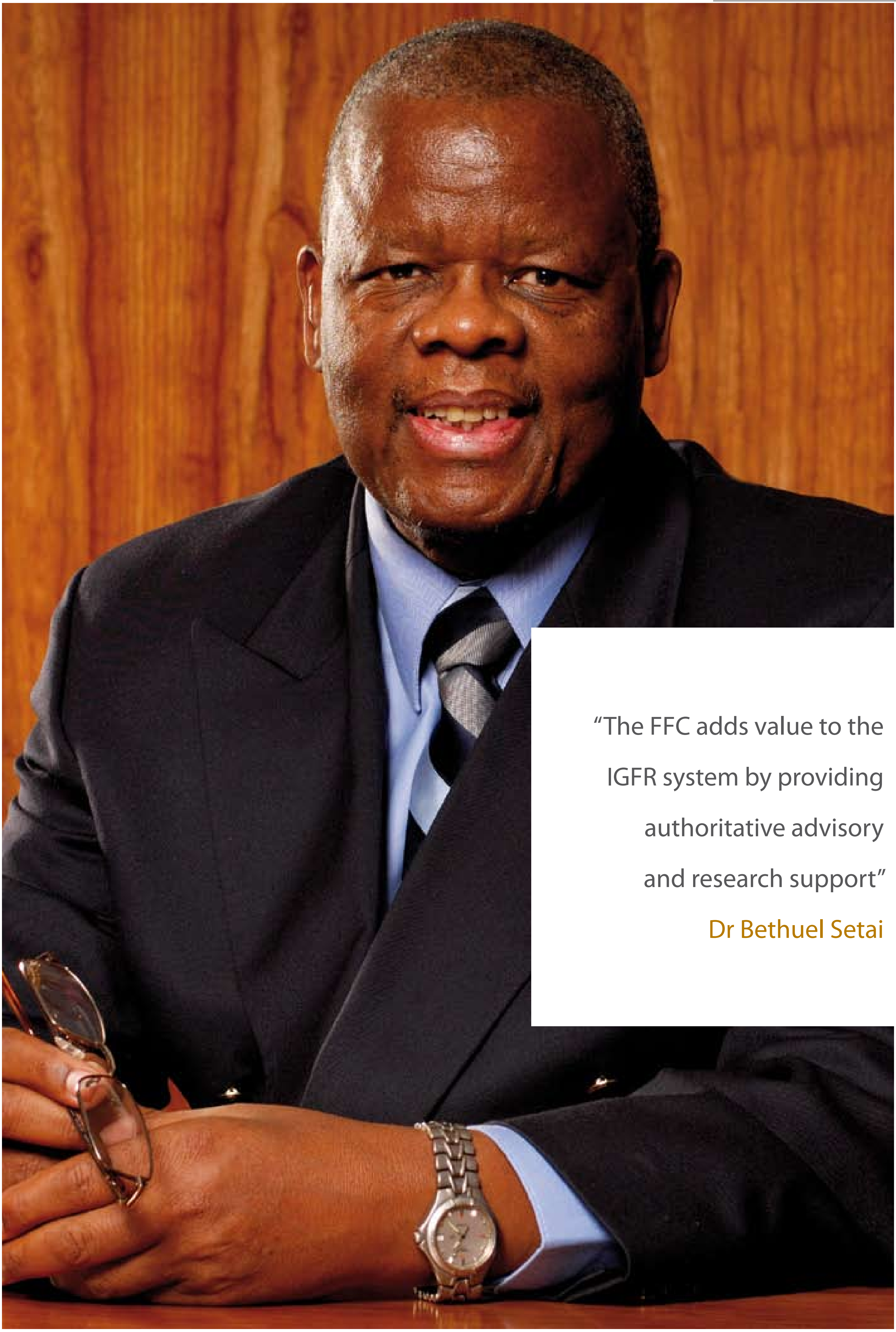
FFC Commissioners

FFC Commissioners provide advisory support and strategic direction for the work of the Commission. The appointment of Commissioners is executed in terms of the FFC Act. Various amendments have been made since the Commission's inception, in relation to the Executive, the latest of which called for the reduction of full-time Commissioners to nine, comprising:

1. A Chairperson and Deputy Chairperson;
2. The appointment of three persons, subsequent to consultation with the Premiers, from a list compiled in accordance with a process prescribed by national legislation;
3. The appointment of two persons, subsequent to consultation with organised local government, from a list compiled in accordance with a process prescribed by national legislation; and
4. Two other persons. These nine Commissioners embody the corporate values and principles underlying the identity of the Commission and its role in the Intergovernmental Fiscal Relations system. In essence, the FFC's shared values incorporate empowerment, proactivity, communication, teamwork, creativity, cooperation, integrity, objectivity, innovation and leadership excellence.

The Commission, as a collective group, provides guidance in respect of the FFC's future research endeavours, and delivers face-to-face mentorship and coaching to the Recommendations Research Programmes managers. During the 2006/07 financial year, Commissioners aided the Commissioner/Chief Executive in managing change within the Commission, in respect of its increased research scope; the depth of the organisation; the quality control mechanisms to achieve 'world-class' stature; and an increasing focus on being proactive and stakeholder-centric in the FFC's approach to tackling issues of an intergovernmental fiscal relations nature.

Back to contents



"The FFC adds value to the IGFR system by providing authoritative advisory and research support"

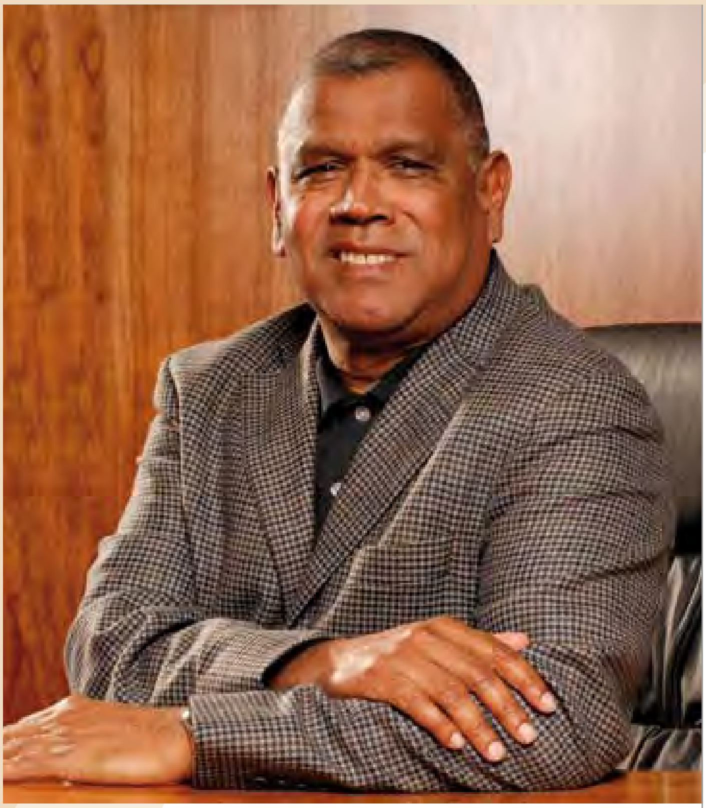
Dr Bethuel Setai

FFC Chairperson / Chief Executive

Dr Bethuel Setai

Dr Bethuel Setai is the Chairperson and Chief Executive of the Financial and Fiscal Commission. He formerly served as Director-General of the Free State province. Dr Setai possesses extensive lecturing experience, having taught *inter alia* at the Universities of California in Santa Cruz, Lincoln University in Pennsylvania University of Vermont in Burlington, Vermont, and the National University of Lesotho. He is a presidential appointee and is currently serving a five-year term of office at the FFC.

Dr Setai's leadership has played an important role in the transformation of the Commission's strategic analysis, formulation and implementation. Strategic plans have been set in motion to vigorously promote the FFC's competence and capability, as a world-class advisory and research body, which proactively aims to influence the optimal development of intergovernmental financial and fiscal relations in South Africa and beyond. In so doing, the FFC has rekindled the vitality of its unique attributes – its independence, impartiality and objectivity – as the Commission's key value propositions.



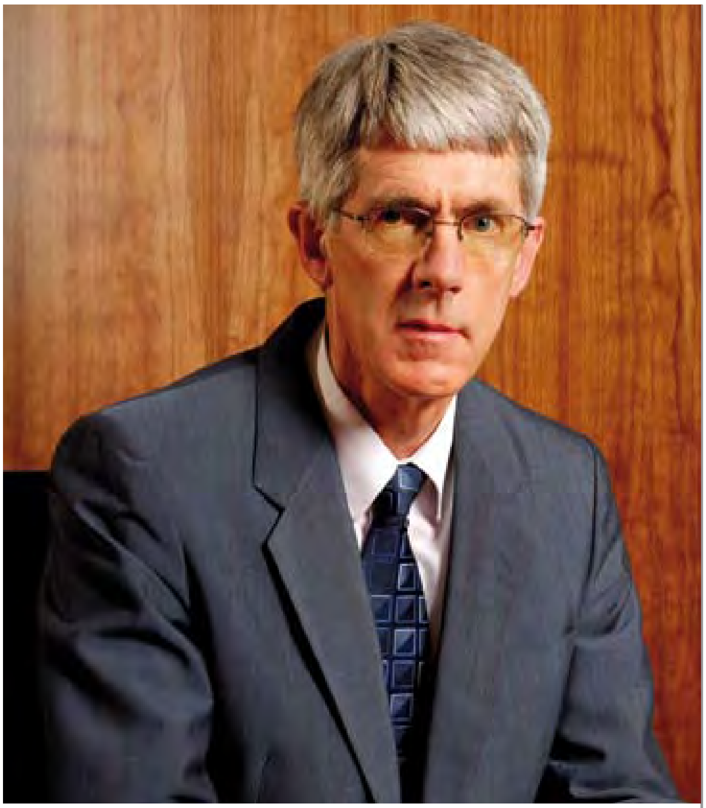
Deputy Chairperson
Jaya Josie

Jaya Josie is Deputy Chairperson of the FFC. He is a national nominee and serves on the Commission until 31 December 2007. He has been the full-time Deputy Chairperson of the Commission responsible for the Research and Recommendations Programme since 2002, Acting Deputy Chairperson from 1999 to 2002 and a Commissioner since 1994. Prior to his appointment as Deputy Chairperson, he was Director of Development Economic Services at Ernst and Young. Between 1991 and 1996 he was head of the Macroeconomic Research Group (MERG) and later Executive Director of the National Institute for Economic Policy (NIEP).

Mr Josie has published several research reports and articles on public finance and macroeconomic policy in South Africa. He is a trained development economist having undertaken post-graduate studies at the School of Oriental and African Studies (SOAS), University of London and the International Institute of Public Administration (IIAP), National School of Administration, Paris. Mr Josie lectured in Public Finance and Macroeconomic Policy at School of Government (University of Western Cape) and the Institute of Government, (University of Fort Hare). He currently holds a part-time joint research fellowship from the Belgian Interuniversity Council and the University of the Western Cape (UWC).

Commissioner
Tania Ajam

Tania Ajam is a Public Finance Economist. She is the Director of the Knowledge Centre at the Applied Fiscal Research Centre (AFReC) (Pty) Ltd, a UCT affiliated company and the Managing Director of PBS (Pty) Ltd which implements performance budgeting systems. Tania serves on the Financial and Fiscal Commission as a provincial nominee and her term of office ends on 30 June 2009.

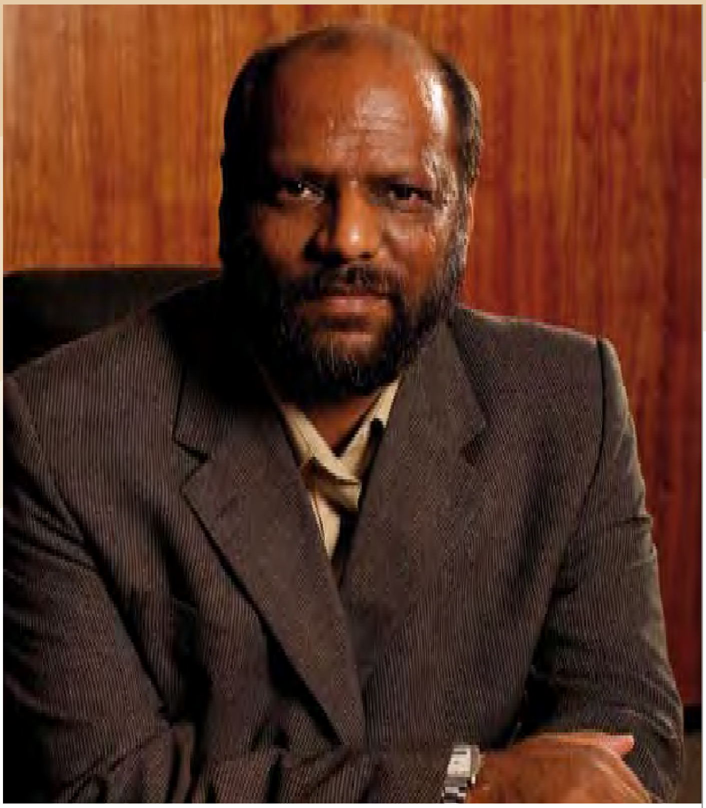


Commissioner
Prof. Antony Melck

Antony Melck was previously Professor of Economics at the University of Stellenbosch and *inter alia* Principal and Vice-Chancellor at the University of South Africa (Unisa). Prof Melck served as the first Deputy Chairman of the Financial and Fiscal Commission. He is currently Advisor to the Rector of the University of Pretoria. He has been appointed, as a national nominee, for a second term as member of the Financial and Fiscal Commission. His current term of office will end on 31 December 2007.

Commissioner
Martin Kuscus

Martin Kuscus was the former MEC for Finance in the Northwest Provincial Government from 1994–2004. Since June 2004 he became President and CEO of the South African Bureau of Standards. He holds a BA Cur degree from Unisa and a post-graduate Diploma in Company Direction. In June 2005 he became the Chairperson of the first Board of Trustees for the Government Employee Pension Fund. He was recently appointed to the PRI Board, UN Global Compact initiative on responsible investment and also serves as a member of the International Standards Organization (ISO) Council based in Geneva. He is a provincial nominee.



Commissioner
Kamalasen Chetty

Kamalasen Chetty is currently the Municipal Manager of the Cape Winelands District Municipality. He holds degrees from the University of Natal and Unisa in Public Finance, Economics, and under-graduate degrees in Social Science as well as in Chemistry. Mr Chetty has completed numerous short courses in Management, Finance and Development from various national and international institutions. He has wide-ranging experience that includes numerous executive positions as the Chief Financial Officer of National Parliament, Institutional Economist in the World Bank, Director of FCR, a research institution, and an Analytical Chemist at Pfizer. His work experience includes projects in 15 countries internationally and in Southern Africa. Mr Chetty is a Commissioner for the Financial and Fiscal Commission, and is also involved in the following institutions: Corporate Footprint, Contact Trust (until 2005) and chairs the reference group for the Earth Equity Fund, and the SAWIT Audit Committee.

Commissioner
Blake Mosley-Lefatola

Blake Mosley-Lefatola is an Honours graduate from Wits University, in Industrial Sociology. He is a local government specialist having worked in and with the Public Sector for 16 years. He is the former Municipal Manager of the City of Tshwane Metropolitan Municipality, and presently the Group Chief Executive of the AKANI Group Holding Company. He is a nominee of SALGA and will serve on the Commission until 30 June 2009.

Commissioner
Risenga Maluleke

Risenga Maluleke graduated from the University of the North in 1991. Since December 2001 he has been working at Stats SA as an Executive Manager in the office of the Statistician-General, where he provides strategic support to the Statistician-General and the Executive Management Team. He also served as Chairperson of the Advisory Board for Statistics in Africa. He is a provincial nominee and his term of office ends on 30 June 2009.

Commission Secretary / Executive Manager
Mashumi Mzaidume

Audit Committee: Tania Ajam, Martin Kuscus, and Antony Melck (left to right)

FFC Governing Committees

Audit Committee

Membership	
Chairperson:	Martin Kuscus
Commissioner Members:	Prof. Antony Melck and Tania Ajam
Member:	Jerry Sithole

During the 2006/07 financial year, the Audit Committee was responsible for financial oversight and accountability. Further to this, the Committee deliberated on issues pertaining to the external audit, reports from the internal audit unit, the internal audit three-year plan, fraud prevention plan, the supply chain management policy, risk management, and approved the financial statements ending March 2007.

The Audit Committee's responsibilities, in terms of risk management, extended to the evaluation of the adequacy and effectiveness of the risk management process and fraud prevention plan followed by the FFC, which was in the process of being finalised and implemented. In this respect, the Committee would assume responsibility for monitoring risk management initiatives, and provide an assurance function in terms of the integrated risk management of the Commission, following the referral of significant risk issues from the Chairperson/Chief Executive or as otherwise delegated by his office.

The effective and efficient functioning of the FFC's Audit Committee would continue to be focused on the overall risk management process within the FFC; the management and control of 'typical' risks inherent to the functions and activities of the Commission; areas of major change in risk factors; and the FFC's action plans in controlling the levels of risk to the institution.

Remuneration Committee: Kamalasen Chetty, and Blake K. Mosley-Lefatola (left to right)

Remuneration and Performance Review Committee (RPRC)

Membership	
Chairperson:	Risenga B. Maluleke
Commissioner Members:	Blake K. Mosley-Lefatola and Kamalasen Chetty
Vacancy:	Gugu Moloi [resignation in May 2006]

The RPRC strengthened corporate governance principles by overseeing all aspects of the remuneration and performance evaluations of managers and executives. During the period under review, the Committee managed and approved all personnel costs; evaluations; expenditure; promotions; recruitment; skills development; and performance reward-related aspects of the Commission, as recorded in the HR Management report.

Risenga B. Maluleke (above)

Research Committee: Tania Ajam, Kamalasen Chetty, Dr Bethuel Setai, Jaya Josie, and Antony Melck (left to right)

Research Committee

Membership	
Chairperson:	Dr Bethuel Setai
Deputy Chairman:	Jaya Josie
Commissioner Members:	Tania Ajam, Antony Melck and Kamalasen Chetty

The Research Committee of the FFC, comprising Commissioner-subject specialists and prominent academics in the field of fiscal and financial matters, is tasked with ensuring that research projects undertaken by the RRP are relevant, timeous, comparable with international and national best practice in terms of quality, and that they make optimal use of in-house research capabilities and resources.

The Committee thus played an oversight role in assisting research managers to meet the highest quality standards, while also aligning and tailoring these research endeavours to the strategic vision and priorities of the FFC. Where possible, primary research was encouraged, to further dialogue with key stakeholders and to ensure the cutting-edge nature of the Commission's advisory inputs. From a strategic level, the Committee's work was geared towards ensuring that the Commission's research and recommendations proposals, projects, and outputs, would collectively contribute to the FFC's policy-making and decision-making capabilities, and solidify its status as a national asset within the IGFR system of South Africa. Other areas of focus for the Committee, in terms of guiding the work of the Commission, included the area of networking and outward-facing research; the need for the FFC to carve a research niche out of its unique positioning and mandate, as well as retain and stimulate the in-house capabilities of its RRP division.

Research Committee meetings were scheduled on a quarterly basis, while interaction with the respective research units was ongoing throughout the period under review.

Executive Committee: Mashumi Mzaidume, (top left) Mavuso Vokwana, (top right) Dr Bethuel Setai, and Jaya Josie (below)

Chief Financial Officer
Mavuso Vokwana (above)

Executive Committee

Membership	
Chairperson:	Dr Bethuel Setai
Deputy Chairman:	Jaya Josie
Executive Manager:	Mashumi Mzaidume
Chief Financial Officer:	Mavuso Vokwana

During the 2006/07 financial year, the Executive Committee (Exco) met on a monthly basis to attend to all matters requiring decision-making at the executive level of the Commission.

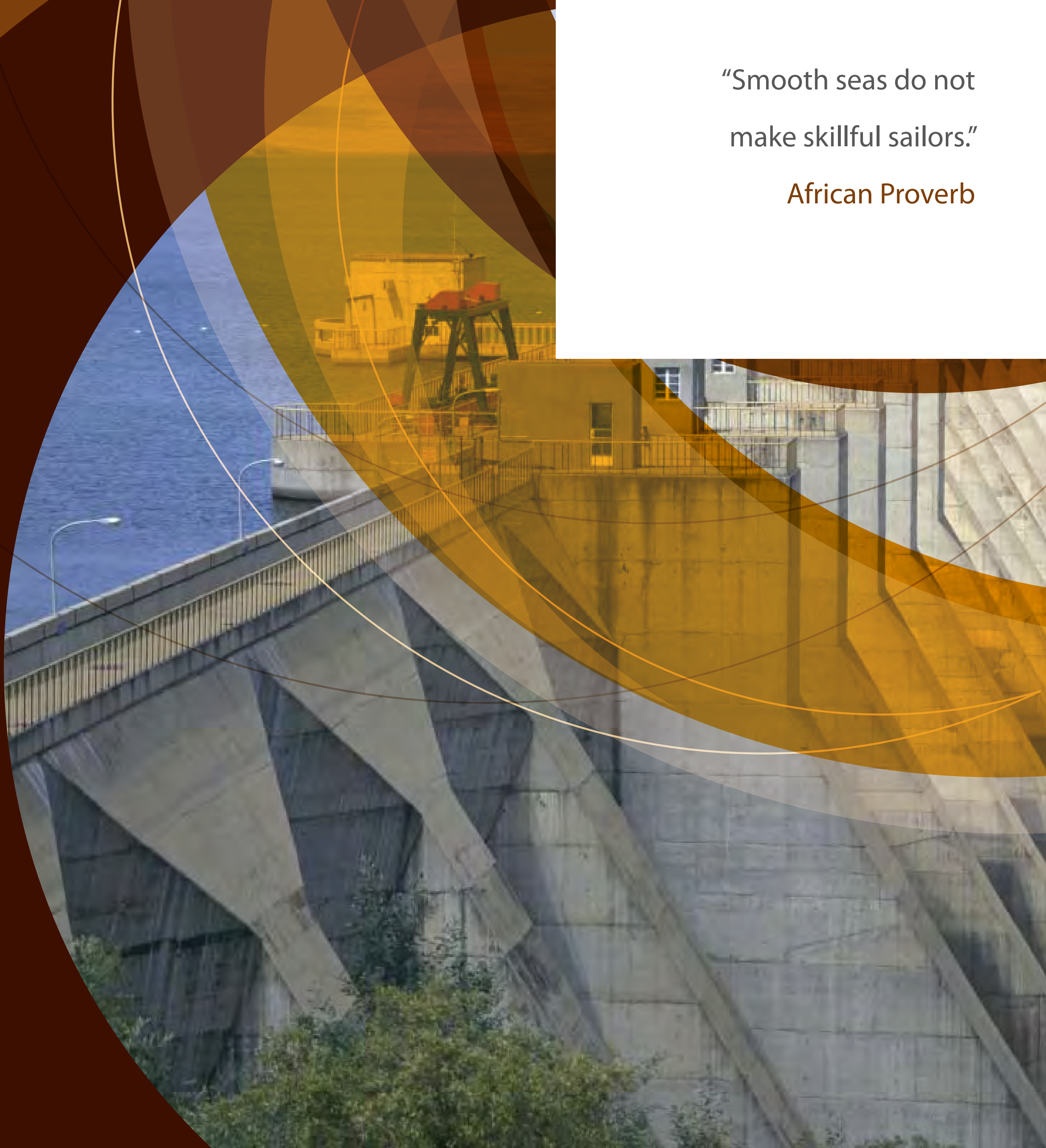
Management Committee

Membership	
Chairperson/Chief Executive:	Dr Bethuel Setai
Deputy Chairperson:	Jaya Josie
Executive Manager/ Chairperson of Mancom:	Mashumi Mzaidume
Chief Financial Officer:	Mavuso Vokwana
Members of Management:	Bongani Khumalo; Ramos Mabugu; Conrad van Gass; Lyn Desai; Amanda Wortmann; Leonard Martin; Henry Eksteen; Melinda Potgieter; and Kirstin Kilian

The FFC's Management Committee (Mancom) was responsible for the day-to-day management of the Commission's corporate affairs and research activities, as well as the administration and monitoring of strategic objectives; divisional and institutional accountability; and the communication of the Commission's shared corporate values, behaviour and branding qualities.

Back to contents

section 5



"Smooth seas do not make skillful sailors."

African Proverb

Repositioning Strategy

The FFC is future-centric, focused on its long-term strategic thinking, planning and objectives.

Purpose

During the period under review, the FFC launched the first phase of its institutional strategic review, as an internal audit of the interpretation of its constitutional and legislative mandate, its roles and responsibilities, and options for future positioning.

The FFC's value-add rests on the following laurels – its independence, objectivity and impartiality; and its acting as arbitrator in cases of conflict concerning IGFR matters.

Strategic Repositioning of the Commission

In order to pursue long-term world-class excellence in all aspects of its work, the FFC acknowledged the importance of entrenching this core value within the Commission and amongst its internal stakeholders. Accordingly, the following strategic activities were identified as part of the strategic review exercise:

- The then strategy of the FFC was assessed by conducting interviews at the highest strategic level, including face-to-face interviews with Commissioners on the perceived and actual gaps and shortcomings in the functioning of the Commission. The results of these qualitative exercises yielded fruitful recommendations for improvement in engendering a 'world-class' vision and focus for the FFC.
- The FFC's vision and mission statements would be tailored towards broadening the interpretation of the Commission's mandate, and in so doing, capture the essence of the FFC's repositioning and transformation strategy for the forthcoming financial year.
- The Commission noted the need for improvements in the active pursuit of strategic objectives, via a balanced scorecard business planning system, which would be implemented henceforth. The development of implementation (business/operational) plans would be aligned in executing the goals of the redefined strategy.

- The research focus would be internalised, in respect of human capacity and capability, in order to create and sustain an environment conducive to retaining researchers of world-class excellence. Further to this, the Commission would aim to reduce its use of external technical expertise by attracting and retaining its internal research talent. In so doing, the FFC would increase the capacity for knowledge- and information-sharing, and capture and safeguard its institutional memory and intellectual capital.
- The appropriate mechanisms would be put in place to monitor the performance of Commissioners and encourage their interaction with researchers and support staff.
- A redefinition of governance instruments and the role of Commissioners would be linked to the process of becoming more quality-centric in terms of outputs.
- Via the introduction of a communications and public relations function, the FFC would vigorously market its brand values, competencies and capabilities, as a unique, objective and expert advisory and research body of world-class excellence. Essentially, branding would be at the heart of the Commission's new business strategy, and would involve the marketing, maintaining, protection, reinforcement and enhancement of the FFC's redefined brand values.
- While the FFC possessed a sound understanding of its key stakeholders, the Commission would also embark on relevant surveys to assess the value-add of its research outputs; perception-focused surveys to ensure that it was satisfying the specific needs of the elected entities and diverse partners and market segments.
- The Commission's most important stakeholder element, that of its staff, would be acknowledged as such, and mechanisms to ensure positive employee morale and motivation would be actively pursued.
- The restructuring of the Commission would impact on the organisational structure of the organisation, which, to date, was not designed in a manner that facilitated interaction, interconnectedness and information-sharing between support and research divisions.
- The research prospectus of the Commission would be transformed to be proactive in nature, outward-looking, and comparable with that of national and international research bodies of the same ilk. The Commission would acquire new skills sets, in line with the refocused strategy of the Commission, and attract the best talent, in terms of breadth and depth of knowledge. Leadership in research would focus on grassroots conceptualisation, and new strategic directions for expanding the scope and coverage of FFC's research output.

Strategic Thrusts of the FFC's Repositioning Strategy

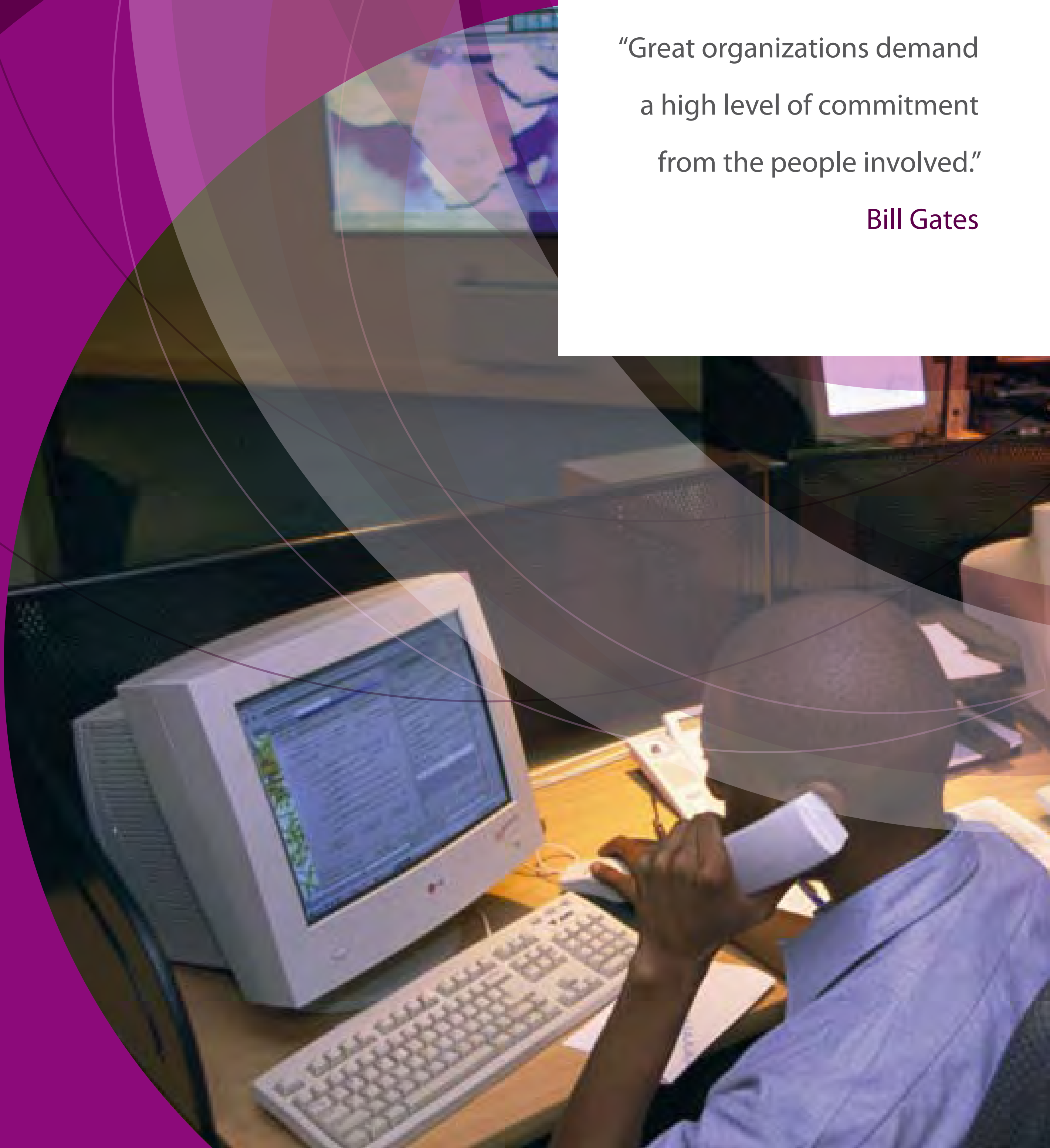
1. The development of capacity – human, financial and technological;
2. The development of systems and processes to facilitate the implementation of strategic plans;
3. The institutionalisation of knowledge-sharing and management;
4. The development of capacity to capture institutional memory;
5. A redefinition of the vision, mission, strategic objectives and values of the Commission; and
6. The development of an institutional communications strategy to brand and communicate the FFC's objectives via effective channels to create awareness, increase appreciation and knowledge of the Commission's role, and encourage dialogue with its key stakeholders.

Back to contents

section 6

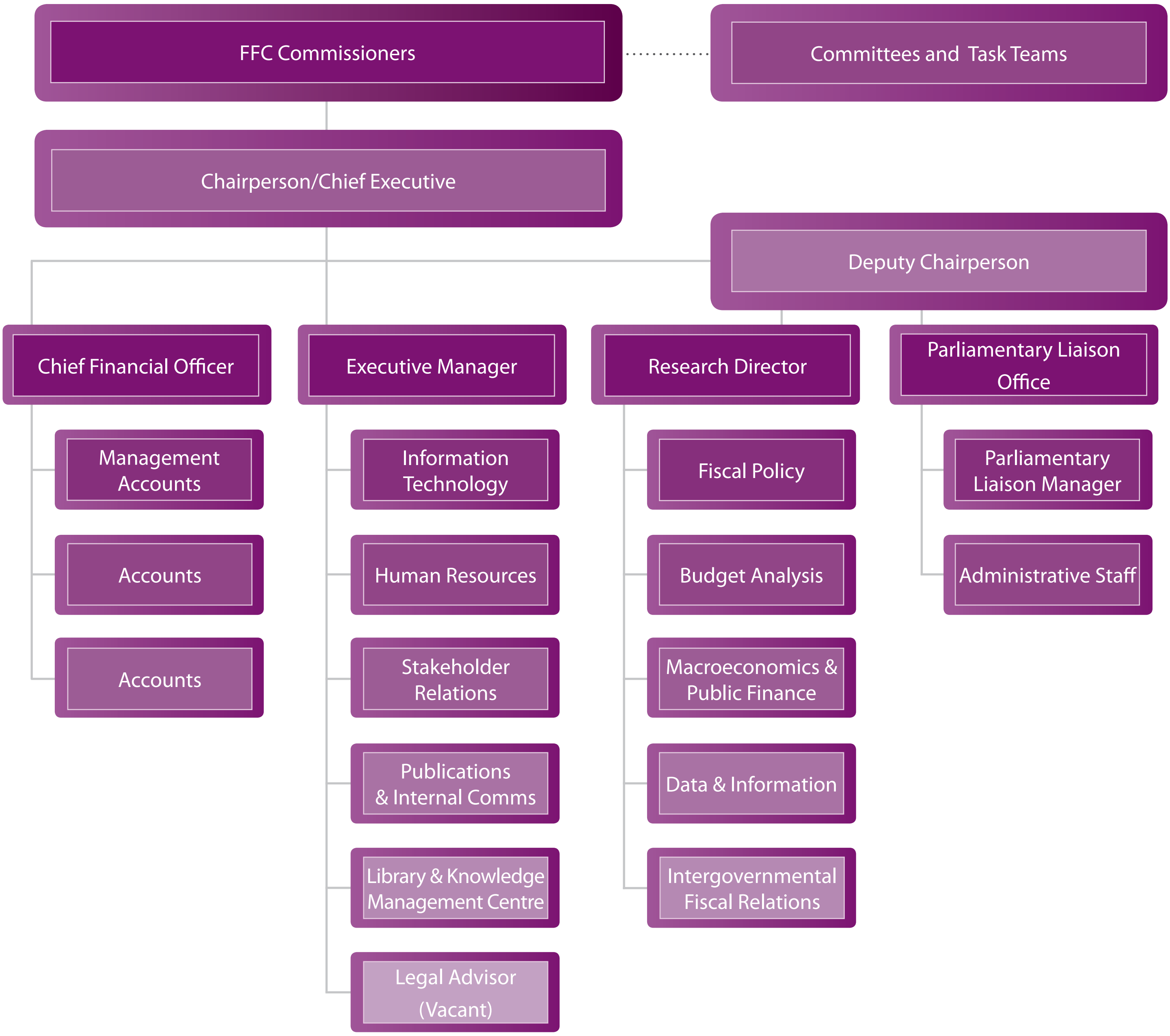
"Great organizations demand a high level of commitment from the people involved."

Bill Gates



FFC Organisational Structure

2006 / 07



Back to contents

section 7

“A feeble effort

will not fulfil the self.”

African Proverb

Operational Highlights

Notwithstanding the need to expand the scope and coverage of the FFC's research output, the Commission successfully fulfilled its constitutional and legislative responsibilities, in disseminating its research and recommendations outputs to the relevant elected entities of government.

Submissions and Reports

A number of submissions were made by the FFC during the year under review. These include:

1. Submission on the Division of Revenue Bill;
2. Submission for the Division of Revenue 2007/08;
3. Review of the Western Cape Fuel Levy;
4. Review of National Treasury Proposals to replace the Regional Service Council and Joint Services Board Levies;
5. Comments on the Development Component of the Local Government Equitable Share; and the
6. FFC Annual Report 2005/06.

Submission for the Division of Revenue

As per its prescribed mandate, the FFC delivered its annual recommendations on the division of revenue in May 2006, entitled *Submission for the Division of Revenue 2007/08: Recommendations from the FFC Review of the Transfers in the Intergovernmental Fiscal Relations System in South Africa.*

Part A of the submission document provided a comprehensive review of conditional grants in South Africa's IGFR system, placing particular emphasis on the National Tertiary Services Grant (NTSG) and the Health Professions Training and Development Grant (HPTDG), following prior FFC recommendations to the effect that both the former and latter Grants should be retained as conditional grants. Further analysis and relevant proposals were also included in respect of the Integrated Housing and Resettlement Grant and the National Housing Allocation formula for the funding of housing development.

Part B provided a detailed appraisal and assessment of the equitable sharing of nationally raised revenue, in relation to the funding of social welfare services via the Provincial Equitable Share (PES). Additional analyses focused on the review of the local government equitable share allocations, as well as that of provincial own revenue trends, for which findings and recommendations were presented.

Supplementary submissions included reviews of the Western Cape's fuel levy; National Treasury's recommendation for the replacement of the Regional Service Council and Joint Services Board Levies; as well as observations and recommendations in respect of the development component of the local government equitable share.

Government's Response to the Recommendations of the Submission for the Division of Revenue 2007/08

Section 214 of the Constitution and Section 9 of the Intergovernmental Fiscal Relations Act (Act 97 of 1997) require the FFC to submit recommendations in April of each year, or soon thereafter, on the division of revenue for the coming budget. During the period under review, the FFC duly complied with this obligation by tabling its submission, entitled Submission for the Division of Revenue 20007/08, to Parliament in May 2006. The FFC also submitted a supplementary and detailed publication of research supporting this year's recommendations. In December 2006, the FFC made a supplementary submission, Financial and Fiscal Commission Supplementary Submission for the Division of Revenue 2007/08 – the Fiscal Implications of the Re-demarcation of Provincial Boundaries, which covered proposals on the management of the impact of the re-demarcation on provincial and municipal finances in the year ahead.

This part of the explanatory memorandum complies with the Constitution and Section 10 of the Intergovernmental Fiscal Relations Act by setting out how government has taken into account the FFC's recommendations when determining the division of revenue for the 2007 MTEF. The FFC proposals, although covering a broad range of issues, are divided into three main parts. The first part deals mainly with the review of conditional grants in the intergovernmental relations system; the second part reviews the equitable sharing of nationally-raised revenue; the third part reviews the Western Cape Fuel Levy, assesses the proposals to replace RSC and JSB levies, comments on the development component of the local government equitable share formula, and looks at the impact of re-demarcation on provincial and municipal finances.

Review of Conditional Grants in the South African Intergovernmental Fiscal Relations System

FFC General Proposals on Conditional Grants

The FFC recommended that:

- Conditional grants should be solely used to address problems of spill-over benefits and funding of national priority programmes that still required institutionalisation in provincial or municipal budgets.
- In the latter case, these conditional grants should be phased into the equitable share once institutionalised by provinces and municipalities.
- National government departments should clearly define norms and standards for delivery in areas of concurrent responsibility, and should monitor the performance of provinces to ensure that the minimum requirement for the use of conditional grants are met.

FFC's Comments on Government's Response

The bulk of the Commission's submission in the last year was concentrated on the various conditional grants that are in the system. An overriding principle embedded in the recommendations was that conditional grants should only be used to deal with spill-over benefits and to address the funding of new national priorities that require institutionalisation in the provincial/ local government budget processes. Furthermore the Commission recommended clearly defined national norms and standards in areas of concurrent responsibilities and the need to monitor service delivery to ensure compliance with the minimum requirements for the conditional grants. The Commission noted that these recommendations and proposals have been accepted and in reviewing the conditional grant schedules, the Commission noted the changes introduced in some of the grant frameworks to ensure that grant recipients would be able to spend, and also that the transferring departments would be able to monitor and check the progress of programmes.

Norms and Standards

Specific Recommendations on Conditional Grants to Provinces

FFC Proposal on the HIV/Aids Grant

The FFC recommended that:

- The HIV/Aids Grant, administered by the Department of Health, should remain a conditional grant, to ensure that sufficient focus and resources continue to be channeled to deal with the pandemic.
- This recommendation was in line with the Commission's previous view that funding for all HIV/Aids programmes should be done through the conditional grant mechanism.

FFC Proposal on the Hospital Revitalisation Grant

The FFC proposed that:

- The Hospital Revitalisation Grant be incorporated into the provincial infrastructure grant, as there was a strong convergence of purpose between the two infrastructure conditional grants, and this could improve the efficacy of the grant.
- The stricter conditions attached to the Hospital Revitalisation Grant were the main drivers for poor spending. By merging the grant with the Provincial Infrastructure Grant, a Schedule 4 grant, with less stringent conditions, spending would be enhanced.

FFC's Comments on Government's Response

The Commission recommended a merging of the HRG and the PIG. While there is no principal disagreement between the Government and the FFC on this matter, the two grants continue as separate grants. Government was of the view that there was a need to streamline all infrastructure transfers to the provinces. In this regard, government would explore the issues around the two grants and report in the 2008 Budget. The Commission would closely follow government's work on the matter while continuing with its current work on the financing of infrastructure backlogs.

FFC Proposal on the Land Care and Comprehensive Agriculture Support Grants

The FFC recommended that:

- The Land Care and Comprehensive Agricultural Support Programme (CASP) grants be merged into a single Schedule 4 grant, as their objectives overlapped.
- The merger would reduce the administrative burden and improve the efficiency of spending on the grants.

FFC's Comments on Government's Response

The Commission recommended that the two grants be merged, as they shared a common objective. The merging would also ease the administrative burden in the form of reporting. Government did not agree with the recommendation and emphasised the difference in the objectives. CASP targeted the extension of agricultural services to land reform beneficiaries while LC was focused on the promotion of sustainable natural resource use and management.

FFC Proposal on the National School Nutrition Grant

The FFC proposed that:

- The conditions to the conditional grant, which relate to the development and approval of business plans, should be refined, to take into account the minimum time spent on the process of developing and approving plans, and the delays in the submission of plans and excessive non-compliance by provinces.
- Consideration should be given to relax the stringent conditions, especially for those grants that sought to ensure adherence to national norms and standards, which could allow for some level of decision space, innovation and creativity in spending.

FFC's Comments on Government's Response

The Commission recommended that the conditions assigned to the grant be reviewed with a view to relaxing some of them. Government indicated that a baseline study around this grant was underway, and the Commission's recommendations would be addressed as part of the study. The Commission would await the results upon conclusion of the study.

FFC Proposal on the HIV and Aids Life Skills Education Programme Grant

The FFC proposed that:

- The grant continue to be conditional, with a clear focus on enrolment as opposed to the then current allocation mechanism, which used the education component of the provincial equitable share formula.

FFC's Comments on Government's Response

The Commission recommended the continuation of this grant, but with the allocation mechanism linked to the actual enrolment rate in provinces, rather than the approach at the time. Government was of the view that a long-term view needed to be taken in deciding on the allocation mechanism for the grant. The view was that the programme should be integrated into the education system such that provinces assume full responsibility of it.

Government's response was consistent with the Commission's general recommendation on the need to institutionalise some of the programmes that were considered to be of a national priority, and to fold them into the equitable share, once institutionalised and integrated into provincial budget processes. The Commission wished to emphasise that in this respect, the specification of a timeframe over which provinces would be expected to integrate the programme into their overall education system, was very important to ensure certainty. The Commission further noted that in the 2007 draft framework for this grant, government indicated that the programme should be fully integrated into the school curriculum over the next three years. Therefore the expectation was that the grant would be phased into the provincial equitable share over the same period.

Specific Recommendations on Conditional Grants to Local Government

FFC Proposal on the Municipal Infrastructure Grant

The FFC recommended that:

- The Municipal Infrastructure Grant go beyond funding the B (Basic residential infrastructure), P (Public municipal service) and E (Social institutions and micro-enterprise) components in the formula.
- The formula should include operational and maintenance costs.

FFC's Comments on Government's Response

The Commission recommended that the formula for MIG should include operation and maintenance costs. Government was of the view that municipalities should fund maintenance and operations from their own budgets in line with Section 17(2) of the MFMA. Further, government observed that municipalities had a substantial revenue base and should therefore accordingly fund the operation and maintenance of municipal infrastructure from their own resources. While the FFC subscribed to the view that municipalities should comply with the legislation and indeed provide for operational and maintenance expenditure from their own revenue and equitable share funding, the reality was that some municipalities did not have sufficient resources to dedicate to the operational and maintenance needs of their infrastructure. Certain measures should have been put in place to assist the poorer municipalities that did not have sufficient revenue raising capacity (and were unlikely to have it in the foreseeable future) and primarily relied on the equitable share as a revenue source.

While the equitable share was premised on four basic services, many municipalities also performed a range of crucial functions not catered for in the LES formula. For many municipalities lacking expansive revenue raising capacity, equitable share allocations had to be prioritised and allocated in a manner that did not compromise delivery of services. Utilising MIG funds in the roll-out of new infrastructure implicitly meant that municipalities had to set aside resources for maintaining and operating infrastructure projects.

For municipalities struggling with funding operations of providing free basic services (and other legislated functions), the need to source funds for operating and maintaining MIG projects on already tight budgets, might create a disincentive to address infrastructure backlogs. Where such backlogs were to be addressed, the lack of maintenance and operational budgets could, in the long term, lead to dilapidation of infrastructure, an effect that would spiral into high rehabilitation and replacement costs. The Commission opined that it would be self-defeating for the government to continue pumping resources for the roll-out of basic municipal infrastructure without ensuring that all municipalities possess sufficient resources to sustain that infrastructure through maintenance.

Given the above, the Commission proposed that the formula be reviewed, not necessarily to fund but to take into account the operational and maintenance needs of infrastructure roll-out. This was made in context that it was very difficult to link the MIG to the LES formula so that the equitable share allocations would adjust automatically to changes in the level of infrastructure that municipalities build through MIG.

Review of Health Conditional Grants

FFC Proposal on the National Tertiary Service Grant

The FFC recommended that:

- An allocation framework based on approved policy norms and standards underpinned by an explicit service plan, be introduced. This allocation framework should ensure that funds flow in accordance with the calculated full cost of norms and standards and per achievements of these.
- Norms and standards be specified for health care services like casualty, outpatients, theatres, acute beds by level of care and resource requirements per health care service like staff ratio and non staff cost. According to the proposal these indicators can be reported by hospital and activity and further utilised to incorporate planned upgrading and downgrading of any service in the area.
- Government develop a national service plan to include all level 1 services for hospitals as a matter of urgency.
- The national department of Health establish a chief directorate (or unit) dedicated to the provision of ongoing technical assistance to support the framework for administering the grant.
- The redistribution of services be achieved through separate capital allocations, either conditional or appropriated at a provincial level.
- The grant be retained as a conditional grant, given that the allocation criteria would be based on the set norms and standards and would also reduce the spill-over effect associated with downgrading of referral services by provincial services.

FFC Proposal on the Health Professions Training and Development Grant

The FFC recommended that:

- The organisational structure of the National Department of Health be adjusted to include a unit of sufficient technical capacity to coordinate and manage the HPTD grant.
- A standing committee comprising all role players in the teaching and training of health professionals and bodies, be established for joint decision-making on policy targets, input requirements and the flow of funding.
- Measurable policy targets be set as gazetted minimum norms and standards for any sphere of government and/ institution receiving earmarked funding for the training of health professionals.
- The policy framework underpinning the training of health professionals be determined nationally and that the allocations flowing under the Department of Health should be made a conditional grant, while those flowing through the Department of Education should form an earmarked subsidy to tertiary education institutions.
- All institutions receiving funding from this grant should be subjected to an annual external audit.
- The grant be converted to a specific purpose grant with the allocation by province based on target enrolment by the type of health professional and all institutions receiving funding from this grant should be subjected to an annual external audit.

FFC's Comments on Government's Response

As part of its recommendations, the Commission proposed that the HPTDG be converted to a schedule 5 grant. Government, while supporting the Commission's recommendation, also highlighted some of the challenges that would have to be addressed in dealing with this. The Commission appreciated the challenges that had been identified and agreed that since there was ongoing work regarding the development of policy and targets for the grant, the recommendation would need to be dealt with in this context.

FFC Proposal on the National Housing Allocation Formula

The FFC recommended that:

- The housing subsidy formula should, as much as possible, use variables that take account of provincial disabilities and peculiarities, as this will, to a large extent, eliminate bias. Factors like traditional housing, delivery capacity and development potential should be taken into account.
- The housing subsidy formula should recognise variation in regional cost, such as building and land costs, to enable provinces to meet the same minimum standard in all provinces irrespective where the house is built.
- The delivery of housing should not result in communities being forced to live in areas where there is neither supporting infrastructure nor economic or livelihood potential. Funding for houses should also contributes to the attainment of sustainable rural development and the formula should take into account rural housing needs when backlogs are calculated.
- Monitoring of compliance to minimum quality standards should be enhanced to ensure that rapid delivery of housing targets does not result in compromised or poor quality housing. Poor quality housing will result in additional costs in future, with negative implications for eradicating backlogs.

FFC's Comments on Government's Response

As part of the recommendations on the formula, the Commission proposed that the formula should take into account the variations in regional costs of constructing subsidised housing and ensuring uniform standards across provinces. Government did not support this recommendation and cited the fact that it would be difficult to capture such variations with reasonable accuracy, since such variations were not only between provinces but also within provinces. Government also raised concern and cautioned the FFC from making recommendations that would complicate the formula.

While the Commission noted government's concern regarding additional complexity being introduced to the housing formula, the FFC was of the view that such variations were quite important and particularly so when one considered coastal against inland provinces. The recommendation stemmed from the significant impact that variations in regional costs had on the quality, completion and lifespan of government subsidised houses. Key factors that affected cost variations included soil type, topography, and climate (whether houses were developed along the coast or inland). Land cost was also a significant factor that varied significantly across regions. The resulting implication was that the cost of meeting the same quality and standards, as set by the National Department of Housing, could differ greatly, depending on the location of the housing project.

FFC Proposal on the Incorporation of the Social Welfare Component into the Provincial Equitable Share

The FFC recommended that:

- A social development component based on population, population in poverty and institutional capacity, be incorporated into the provincial equitable share formula.
- The funding for social welfare services should take into account the need to maximise the spread of both welfare delivery institutions and human resources.

The Review of Provincial Own Trends

- On the provincial own revenue, the FFC did not make specific recommendations.
- It noted the progress with the implementation of the Provincial Tax Regulation Process Act in some provinces.
- The FFC further noted that its previous recommendations with respect to the structures and systems relating to the collection of provincial own revenues were being implemented.

FFC Recommendation on the Basic Services Component of the Local Government Equitable Share Formula

The FFC recommended that:

- Government revise the current estimated cost of basic services (R130) to reflect current realities as it was not sufficiently close to the true cost of providing basic services across a range of municipalities facing different socio-economic and geographical disabilities and disparities.
- Government consider raising the basic services cost to R175. This would enhance the LES stated objectives of ensuring that grant allocations were directed towards enhancing the ability of poor municipalities to carry out their constitutional mandate. Within a revenue neutral scenario, this estimate allocated more basic services grants to Category A and B municipalities by only R22 million.
- Conduct a comprehensive review and assessment of the costs of providing basic services, as in the longer term, the efficiency of the LES formula in addressing its stated principles and objectives would be enhanced.
- An extensive exercise of this nature should take into account the crucial differences in the demographic composition, as well as the regional and geographical disparities, that impacted on the quality and quantity of service delivery.

FFC Proposal on the Development Component of the Local Government Equitable Share Formula

The FFC proposed that:

- The development component not be incorporated in the local government equitable share formula as it would not result in an overall increase in the local government equitable share but would rather result in the realignment of the relative shares within the same envelope.
- The developmental needs of local governments should be better accounted for by designing a formula that fully accounted for the full expenditure needs of local government, requiring recognition that for municipalities to fully engage in stimulating local economic development, they did not need to provide four basic services, but additional services covering a wide array of public services such as all-weather roads, street lights, and environmental health care, public transport, housing, etc.
- Designing a process of "costing out" a full array of local services to ensure that the basic services and the development needs of municipalities were taken into account in the formula, and together accounted for the full expenditure needs of local government.

FFC Proposal on the Use of the Grant as a Replacement for the RSC Levy

- The FFC supported the proposal (as implemented in the 2006 Division of Revenue) to use a grant as a replacement of the RSC/JSB levy, as a transitional measure to ensure that municipalities benefited from the RSC/JSB levy and were not prejudiced as a result of this.

The FFC proposed that:

- Any long-term replacement revenue instrument for RSC levies should ensure that proposals are viewed as part of the broader exercise of assigning revenue sources to local government. Hence the proposals to replace RSC/JSB levies should be understood in a broader context, where replacement options are not just limited to already constitutionally assigned revenue sources but are also opened up to other completely new sources.
- The objectives that the replacements were supposed to meet should be clearly defined.
- There was a need for wider discussion on the overall objectives of local government revenue and expenditure assignments and how these were expected to be aligned with the new proposals. Such an approach would ensure that the choice between decentralising and centralising revenue sources is an informed one, guided by the clear assignment of expenditure responsibility and the degree to which South Africa wishes to entrench the fiscal autonomy of sub-national governments. In effect, this would mean that the replacement of Regional Services Council/Joint Services Board (RSC/JSB) levies should be viewed as an opportunity for aligning the local government fiscal framework with the assignment of powers and functions.

FFC Proposal on the Fiscal implications of the Re-demarcation of Provincial Boundaries

The FFC recommended that:

- Both provincial and local government equitable share formulae be revised to take into account changes, including the revised census data from StatsSA, resulting from the re-demarcated boundaries for municipalities and provinces.
- Any additional costs faced by provinces and municipalities, which could not be met through the revised equitable share allocations, be funded through a once-off allocation from national government. Such an allocation may be justified on basis that in principle, the formulae were designed in a way that facilitated funding following the needs determined by the demographic composition in provinces and municipalities. However, the formulae did not fund the administrative costs associated with the prioritisation and the choice of norms and standards for the delivery of basic services.
- Any changes to the boundaries of sub-national authorities be aligned with the financial year(s) system applicable for provincial and municipal authorities. This would allow for the required fiscal changes to be phased in and reduce the fiscal burden related to dealing with fiscal implications that might arise out of the re-determination of boundaries.

section 8

"By coming and going,

a bird weaves its nest."

Ashanti, Ghana

Financial Highlights

All revenue received, and expenditure in exercising the Commission's power and performance of its functions, are reflected in the Audited Financial Statements of this report.

Review of Operations

Revenue

The Commission's total funding for the year under review stood at R24 484 608 which comprised a cash injection of R21 705 000 from a government grant, R390 853 from foreign donations, and the balance mostly consisting of interest earned. The total revenue for the 2006/07 financial year represented an 11.83% increase in comparison with that of the previous financial year. This increase was attributable to inflation, in addition to an augmented staff complement.

Operating Costs

Operating costs in 2006/07 totalled R25 480 693, compared to R19 019 540 in 2005/06, the latter constituting a replicate effect arising from additional activities undertaken by the Commission.

Operating Results

The Commission recorded a net deficit of R3 039 998 during the year ended 31 March 2007. Furthermore, as of that date, the FFC's liabilities exceeded its assets by R733 550. Nevertheless, this condition is not indicative of the Commission's inability to continue as a going concern.

Review of Financial Position

Assets

Overall, the asset base grew by 55%, which occurred mainly as a result of the replacement of obsolete plant and equipment.

Capital Reserves

Capital Reserves dropped to (R733 550) due to a recorded deficit of R3 039 998

Back to contents

section 9

"That which is good

is never finished."

Sukuma, Tanzania

Corporate Governance

Sound corporate governance structures and processes have been applied by the Commission since its inception. These are constantly reviewed and adapted to accommodate internal corporate developments and reflect national and international best practice.

The Commission endorses the principles of the South African Code of Corporate Practices and Conduct, as recommended in the second King Report (King II). The FFC continues to review and benchmark the Commission's governance structures and processes. The FFC considers corporate governance a priority that requires more attention than merely establishing the steps to be taken to demonstrate compliance with legal and regulatory requirements. Issues of governance will continue to receive the Commission's and its committees' consideration and attention during the year ahead. Sound governance remains one of the top priorities of Executive Management.

The Commission and Non-Executive Commissioners

The Constitution of the Republic of South Africa and the Financial and Fiscal Commission Act require the Commission to consist of a maximum of nine.

The Commission is, however, of the view that all non-executive Commissioners bring independent judgement to bear on material decisions of the Commission.

Because of the size of the organisation, the offices of the Chairman and Chief Executive are merged into one office.

In terms of the Constitution, and the Financial and Fiscal Commission Act, the President appoints the Chairperson/Chief Executive. Such an appointment may not exceed a five-year tenure.

Commission Powers and Procedures

The FFC has adopted a Commission charter. It provides a concise overview of:

- the demarcation of the roles, functions, responsibilities and powers of the Commission, individual Commissioners, officers and executives of the Commission;
- the terms of reference of the FFC committees;

- matters reserved for final decision-making or pre-approval by the Commission; and
- the policies and practices of the Commission for such matters as corporate governance, declarations of conflicts of interest, Commission meeting documentation and procedures and the nomination, appointment, induction, training and evaluation of Commissioners and members of Commission committees.

Within the powers conferred upon the Commission by legislation, the Commission has determined its main function and responsibility as adding significant value to the Commission by:

1. retaining full and effective control over the Commission;
2. determining the strategic direction of the Commission;
3. determining and setting the tone of the Commission's values, including principles of ethical business practice;
4. bringing independent, informed and effective judgement to bear on material decisions of the Commission, including material Commission and Commission policies, appointment and removal of executive Commissioners, approval of the appointment or removal of Commission management members, capital expenditure transactions and the consolidated Commission budget;
5. satisfying itself that the Commission is governed effectively in accordance with corporate governance best practice, including risk management and internal control systems to:

- maximise sustainable returns;
- safeguard the people, assets and reputation of the FFC;
- ensure compliance with applicable laws and regulations; and
- monitoring implementation by FFC committees and executive management of the Commission's strategic direction, decisions, values and policies by a structured approach to reporting, risk management and auditing.

Non-executive Commissioners are chosen on the basis of the appropriateness of their skills and acumen. Considerations of gender and racial diversity, as well as diversity in business, geographic and academic backgrounds, are taken into account by the Commission when appointments to the Commission are considered.

Newly appointed Commissioners are inducted in the Commission's business, Commission matters and their duties as Commissioners in accordance with their specific needs. The Audit committee annually reviews the effectiveness and performance of the Commission, its committees and the individual Commissioners.

All Commissioners have access to the advice and services of the Commission secretary, and who is responsible to the FFC for ensuring the proper administration of Commission proceedings. The Commission secretary also provides guidance to the Commissioners on their responsibilities within the prevailing regulatory and statutory environment and the manner in which such responsibilities should be discharged.

Commissioners are entitled to seek independent professional advice at Commission's expense concerning the Commission's affairs and have access to any information they may require in discharging their duties as Commissioners. In terms of the Constitution and the Financial and Fiscal Commission Act, Commissioners must retire at the expiry of their term, and are eligible for re-election.

Remuneration and Performance Review Committee (RPRC)

Members:

Chairperson:	Blake K. Mosley-Lefatola
Commissioner Member:	Risenga B. Maluleke
Vacancy:	Gugu Moloi [resignation in May 2006]

All the members of the Committee are independent non-executive Commissioners.

The functions of the remuneration committee are to:

- assist the Commission in exercising its function of ensuring that affordable, fair and effective compensation practices are implemented in the Commission;
- determine the compensation of Commission management members;
- make recommendations to the Commission on Commissioners' fees and the compensation and service conditions of executive Commissioners; and
- provide a channel of communication between the Commission and management on compensation matters.

The RPRC is mandated to:

- review and approve general proposals for salary and wage adjustments;
- review and approve proposals for the general adjustment of standard conditions of service, including matters relating to leave,
- housing, motor vehicles, bonuses, incentives, pension funds, provident funds, medical aid, deferred compensation and share schemes;
- review the Commission's compensation policies and practices and proposals to change these and to make recommendations in this regard to the Commission;
- determine and approve any criteria for measuring the performance of executive Commissioners in discharging their functions and responsibilities;
- review (at least annually) and approve the terms and conditions of executive Commissioners' employment contracts, taking into account information from comparable institutions;
- determine and approve any grants to executive Commissioners and other senior employees made pursuant to the Commission's executive incentive scheme;
- review and approve any disclosures in the annual report or elsewhere on compensation policies or Commissioners' compensation; and
- at least annually assess the performance of the committee and committee members.

The RPRC has determined the remuneration philosophy of the Commission, which is to offer remuneration designed to attract, retain, motivate and reward employees with the skills required for the Commission to achieve its business goals and to base remuneration on personal and Commission performance in accordance with competitive market practices.

Commissioners' emoluments and other relevant remuneration information are disclosed in the remuneration report on the following pages.

The Committee meets at least once a year and is empowered to obtain such external or other independent professional advice as it considers necessary to carry out its duties.

Audit Committee

Members:

Chairperson: Martin Kuscus

Commissioner Members: Prof. Antony Melck and Tania Ajam

Non-Commissioner Member: Jerry Sithole

The Audit Committee is an important element of the Commission's system of monitoring and control. In compliance with the PFMA and King II, all members are non-executive and Jerry Sithole has been designated as the Audit Committee's financial expert.

All Audit Committee members have extensive Audit Committee experience and are financially literate. The Chairman/Chief Executive of the Commission attends Committee meetings on invitation.

The Audit Committee was established primarily to assist the Commission in overseeing:

- quality and integrity of the Commission's financial statements and public disclosures thereof;
- the scope and effectiveness of the external audit function; and
- the effectiveness of the Commission's internal controls and internal audit function.

The FFC has delegated extensive powers in accordance with King II corporate governance requirements to the Audit Committee to perform these functions. In line with these requirements Committee has, among other things, determined which categories of non-audit services provided by the external auditor should be pre-approved by the Audit Committee and which could be approved by a designated member of the Committee. The Committee meets the Commission's external and internal auditors and executive management regularly to consider risk assessment and management, review the audit plans of the external and internal auditors and to review accounting, auditing, financial reporting, corporate governance and compliance matters. The Audit Committee approves the external auditors' engagement letter and the terms, nature and scope of the audit function and the audit fee. The internal audit charter, internal audit plan and internal audit conclusions are similarly reviewed and approved by the Audit Committee.

Research Committee

The Commission established its Research Committee in 2002, with the intention of establishing a high-level support and overseeing body for the research work of the RRP. Meetings were scheduled on a quarterly basis, or more frequently, as needed. Activities would involve the monitoring of research plans, resources, outputs and external inputs, as well as the acceptance and reviewing of research proposals, and providing strategic direction and guidance during the research process.

The role of the Committee is to perform the following functions:

- Provide guidance and oversee the activities of the Commission and the Secretariat relating to research and recommendations executed on behalf of the Commission by the Secretariat;
- Facilitate and promote communication regarding the above and any other related matters between the Commission and the Secretariat;
- Be able to assist the Commission and the Chairperson of the Commission with the implementation and supervision of the Commission's plans and activities relating to and/or arising from the implementation of the FFC's research and recommendations programme;
- Present to stakeholders, on behalf of the Commission, the

Commission's recommendations on fiscal and financial matters as well as engage such stakeholders (whenever necessary) with a view to informing the development of the Commission's recommendations;

- Ensure that research and recommendations projects are consistent with overall programme direction of the Commission;
- Review and assess all research plans and timeframes to ensure that their scope and depth fall within the broad scope and responsibilities of what's expected of the Commission; and
- Monitor and evaluate through reports from the research staff progress with research plans, timeframes and activities.
- Provide advice on the effective use of any such resources;
- Assist in the supervision and assessment of the efficacy of the use of such resources for the implementation of the Commission's activities in carrying out its mandate;
- Through the institution of a quality assurance regime, ensure that research outputs are of a quality and standards commensurate with the high level of rigour expected of/by the Commission;
- Give advice, guidance, supervision and directives where/ when appropriate, to the Secretariat in the preparation of the Commission's research outputs, submissions and final documents;
- Give advice on and provide guidance on the use of external resources and inputs for the implementation of the Commission's research and recommendations activities and plans; and
- Evaluate and assess external inputs into the research process and oversee and guide the appropriate and relevant use of such inputs in research activities and tasks.

Back to contents

Record of Commissioner/Non-Commissioner Attendance of Meetings

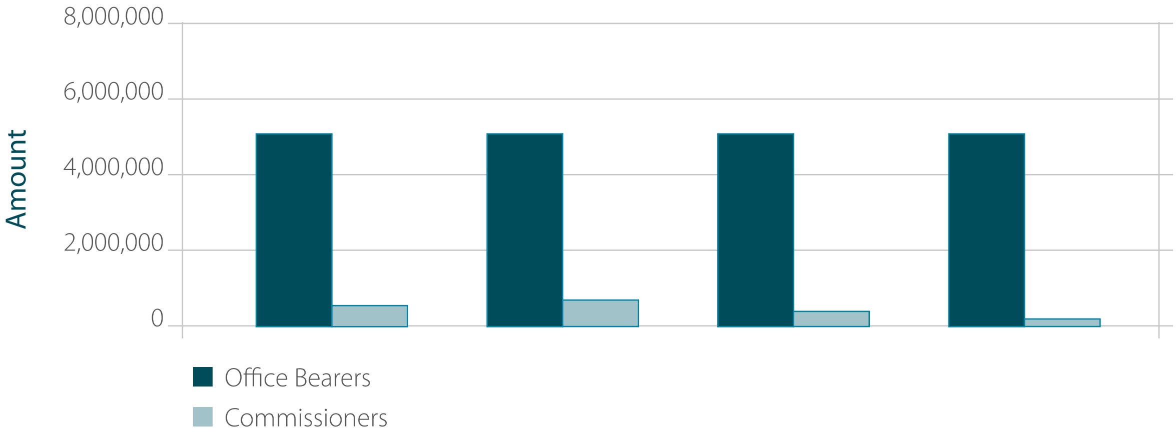
Commissioners	Commissioner Meetings	Audit Committee	Remuneration and Performance Review Committee	Research Committee
Number of meetings	8	3	1	1
Commissioners:				
Dr Bethuel Setai	8	-	-	1
Jaya Josie	7	-	-	-
Tania Ajam	8	2	-	1
Risenga Maluleke	8	-	1	-
Blake Mosley-Lefatola	5	-	1	-
Prof. Antony Melck	7	2	-	1
Kamalasen Chetty	3	-	1	-
Martin Kuscus	6	2	-	-
Gugu Moloi (resignation in May 2006)	-	-	-	-
Non-Commissioner members:				
Jerry Sithole	-	2	-	-

Remuneration of Commissioners

Though both Section 221(3) of the Constitution and Section 8 of the Financial and Fiscal Commission Act deal with the tenure of office of Commissioners (full-time and part-time), and Section 9 of the latter enjoins the President to determine their remuneration, allowances and other benefits after taking due consideration of certain matters, such determination has invariably been extemporised (See Section C Paragraph 14.5.1).

Neither the Constitution nor the Financial and Fiscal Commission Act make provision for benchmarking the remuneration of the Chairperson/Chief Executive and the Deputy Chairperson (both full-time members of the Secretariat), against market equivalents (See Section C Paragraph 14.5.2)

Figure 1: Commissioners' Remuneration, 2001/02 - 2005/06



Tabular Breakdown of Commissioners' Remuneration vs that of Office Bearers

Years	Office Bearers	Commissioners
2001/02	5,101,408	280,611
2002/03	5,731,437	384,116
2003/04	7,190,532	296,795
2004/05	6,959,321	222,689
2005/06	7,363,322	72,965

Note: No clear guidelines exist for the remuneration packages of office bearers and Commissioners consistent with either the private or the public sector.

Sustainability Report

Stability

In relation to questions posed by the Parliamentary Ad Hoc Committee on the Review of Chapter 9 and Associated Institutions, regarding the continued existence of the FFC, it should be noted that while intergovernmental fiscal relations may be stable at this particular point in time, this may, however not remain as such. In fact, there was no guarantee that favourable conditions would always remain as such, hence the need for the Commission's continued existence, to mediate between the three spheres of government, provide expert independent advisory support and research excellence on areas impacting on the effective and efficient delivery of services by the elected entities.

On 27 April 1994, the Interim Constitution came into operation and the FFC was subsequently borne. In September 1995, the Commission released its first recommendations in respect of the allocation of financial resources between national, provincial and local spheres of Government.

The South African Constitution thus makes provision for the establishment of a Financial and Fiscal Commission (FFC), the task of which is *inter alia* to advise Parliament on the division of revenue (DoR) collected nationally amongst the three spheres of government for the equitable sharing of revenue. The concept which brought light to the establishment of an independent, objective and impartial financial advisory body was stipulated in both the Interim Constitution and the Constitutional Principles, with which the final Constitution was intended to comply. As such, the FFC represented an important element of the settlement reached through the political negotiations for the new democratic order in South Africa. The question, however, remains as to why this occurrence was considered to be of such importance to the new dispensation.

Although the Constitution makes provision for a unitary state and the principle of cooperative governance between the various spheres of government (national, provincial and local government), it also demands a considerable degree of decentralised responsibility and competence (as set out in Schedules 4 and 5 of the Constitution). The underlying assumptions on which this decentralisation rests, are firstly, that persons at the same level of that at which particular government services are provided, are best able to evaluate priorities in their areas of expertise; and secondly, that the users of these services will benefit from being able to choose their place of residence, following an assessment of the level of services provided. Nevertheless, under the Constitution, responsibilities and competencies assigned to provincial and local spheres of government are not matched with concomitant revenue-raising powers. The resulting fiscal gaps thus need to be filled by transfers from national government, in terms of revenue-sharing agreements. These agreements must be based on the criteria listed in Section 214 of the Constitution, rather than being influenced by party political factors.

As it is possible that the position taken by the majority of the parties represented in provincial and local government may differ from that of national government, and because the allocation of resources can become a major instrument of political control, the Constitution thus makes provision for an independent assessment of the DoR collected nationally and its apportionment amongst the spheres of government. It is this very task which has been delegated to the FFC, which it fulfils in a non-partisan, technical manner, by offering sound and informed inter-governmental fiscal advice to Parliament.

Since the advent of democracy in South Africa, the country's political landscape has been marked by a remarkable degree of cohesion, resulting in differences of opinion on the collection of the national DoR, between the spheres of government, not being overtly pronounced in the public domain. However, the time will come when this status quo will be changed, at which point the existence and role of the FFC will be crucial.

History has shown that as the nature of economic activity in a country and region changes, new problems and unanticipated fiscal gaps are subsequently encountered. Accordingly, the South African Constitution has adopted a flexible approach whereby a clearly defined procedure and principles for the DoR is prescribed, rather than the revenue sources themselves. The FFC plays an integral role in this procedure, which should be duly retained. An analogous explanation of this concept is thus: it would be unwise to throw away one's umbrella merely because it may not be raining today.

The Commission's authority derives from:

- being a product of an all-inclusive negotiations process;
- its prominence and specific responsibilities designated in the Constitution;
- its neutrality in respect of any sectional interest, be it any public sector entity, labour, business or any other component of the private sector or civil society;
- Commissioners not being office bearers of any political party or organisation;
- the Commission's constitutional requirement, and its commitment, to perform its responsibilities in a transparent and accountable manner;
- its 'expert' technical nature; and
- its ability to draw on the experience of similar institutions and systems of intergovernmental fiscal relations in other countries.

Funding

The funds of the Financial and Fiscal Commission consist of money

1. appropriated by Parliament for the purpose of the Commission;
2. earned on investments;
3. obtained by the alienation or letting of movable or immovable property;
4. accruing to the Commission from any other source; and
5. otherwise becoming available to the Commission.

The FFC's budget is submitted to Chairperson/Chief Executive of the Commission for approval and then referred to National Treasury as part of the Medium-Term Expenditure Committee (MTEC) process. The Commission does not allocate funds.

The budgetary and administrative arrangements of the FFC are allocated within the budget vote of National Treasury, with no clear indication of the programme in which they are located. This arrangement has the potential of compromising the autonomy of the Commission (See Section C, Paragraph 14.8).

The Commission may accept a donation or bequest, provided that it will not result in a conflict of interest. All donations and bequests must, however, be disclosed in the Annual Report of the Commission, and all material donations or bequests must be itemised.

Code of Ethics

The FFC possesses a number of policies applicable to issues of information security, confidentiality and copyright. Within the context of research ethics, the Commission subscribes to principles of sound research conduct in the broad sense, but saw the need for further improvement in this regard. Accordingly, the FFC was in the process of developing and codifying a comprehensive, customised set of research principles and guidelines, as part of its broader research policy framework.

Back to contents

section 10

"When deeds speak,

words are nothing."

African Proverb

Performance Against Objectives

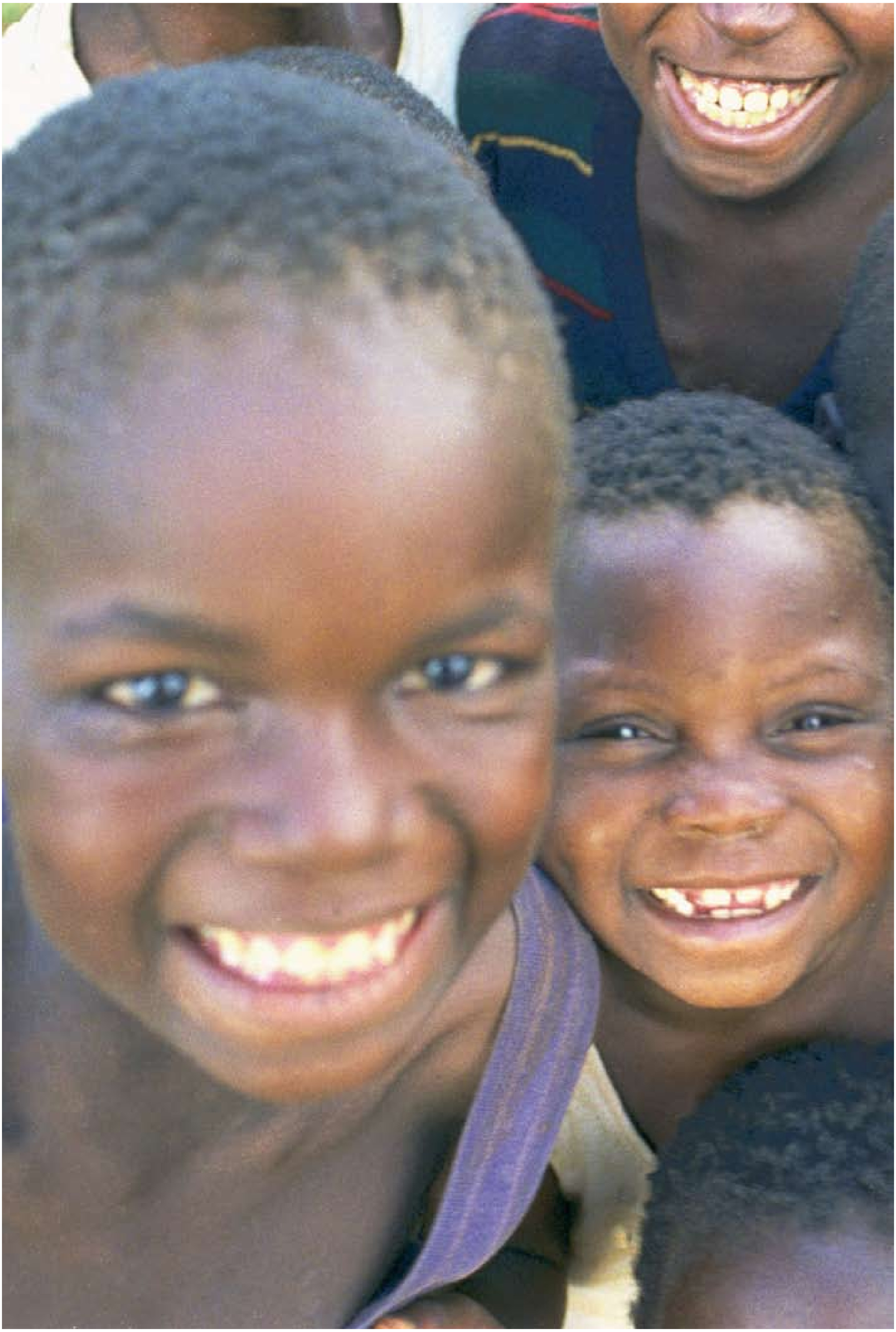
Strategic Objective	Key Performance Indicator	Target 1 April 2006	Actual 31 March 2007	Performance Results
Governance and Accountability	Internal controls are in place and are effective	Yes	No	The FFC reported to the National Assembly, NCOP, all provincial legislatures and SALGA on the discharge of its mandate.
	Training provided on the PFMA	All FFC staff fully conversant with the PFMA and Supply Chain Management regulations	Ongoing	Supply Chain Management policies revised, and training workshops scheduled.
Stakeholder Relations	Establish and implement the relevant communication protocols, procedures and policies, for active engagement with FFC stakeholders.	75%	* See 'Performance Results' and 'Partnerships' section of the RRP Review.	The FFC engaged the NCOP and the National Assembly as well as all other relevant Parliamentary Committees, and commenced the process of establishing protocols for future engagement with FFC stakeholders. Further engagement took place with SALGA at a strategic level, and plans were underway to commence engagement with Provincial Legislatures. Consultation with the Minister of Finance and National Treasury took place during 2006/07 at the Minmec and TCF, Budget Council and Lekgotla levels. In March 2007, the Commission employed a Stakeholder Manager.

Strategic Objective	Key Performance Indicator	Target 1 April 2006	Actual 31 March 2007	Performance Results
Safety	Decrease in the disabling injury rate Decrease in work-related injuries	0% 0%	0% 0%	Achieved; The FFC installed a first aid kit on site and had an official trained in all aspects of first aid support. This resource covered general occupational health and safety issues in the workplace. A further official will be trained during the 2007/08 reporting period. * See HR Review
HIV/Aids	HIV/Aids Policy Review HIV/Aids Awareness Programme	Review FFC HIV/Aids Policy Develop strategy for FFC HIV/Aids Awareness Programme	Review completed. Strategic Objectives and Business Plans formulated	Achieved; HIV/Aids Policy implemented in 2002 and revised during the 2006/07 financial year. Achieved; HIV/Aids Awareness and Employee Assistance Programme scheduled for 2007/08 implementation.
Black Economic Empowerment	Increase procurement expenditure on Black Economic Empowerment	75%	Ongoing; to achieve a substantial increase in the number of Historically Disadvantaged Individuals (HDIs) who have ownership and control of existing and new enterprises in the priority sectors of the economy and also improved access to infrastructure, increased acquisition of skills and increased participation in productive economic activities.	Ongoing; to achieve a substantial increase in the number of Historically Disadvantaged Individuals (HDIs) who have ownership and control of existing and new enterprises in the priority sectors of the economy and also improved access to infrastructure, increased acquisition of skills and increased participation in productive economic activities.

Strategic Objective	Key Performance Indicator	Target 1 April 2006	Actual 31 March 2007	Performance Results
Employment Equity	Senior Management Occupational Category	Male = 60% Female = 40%	Male = 86% Female = 14%	Not achieved, due to difficulty in sourcing suitably qualified female candidates for senior research posts. Targeted selection to be implemented for vacancies in this category, in order to achieve targets in the forthcoming financial year.
	Professional *Occupational Category*	Male = 60% Female = 40%	Male = 45% Female = 55%	Target exceeded; 67% (six incumbents) of the Professional category appointments for the reporting period were female.
FFC's Primary Legal Mandates				
Annual recommendations for the MTEF budget cycle, as per the IGFR Act	*Annual Submission for the Division of Revenue 2007/08* in printed and electronic formats.	Submit the *Annual Submission for the Division of Revenue* to Parliament, the Provincial Legislatures and SALGA, at least 10 months before the start of the annual budget cycle.	Printed document submitted to the Clerk of Papers, Parliament, and distributed to Provincial Legislatures, SALGA, and the Minister of Finance by 1 April of each fiscal year or on a later date, as agreed to with the Minister of Finance.	Achieved; the FFC's Submission document was tabled to Chairperson of the NCOP and Speaker of the National Assembly. Subsequently, the Submission was tabled to the Speakers of Provincial Legislatures and SALGA. The FFC also submitted it annual submission to the Minister of Finance.
Annual submission of formal commentary on the Division of Revenue Bill, as per the Constitution	Comment on the Division of Revenue Bill, at least 14 days before the introduction of the Bill in Parliament, to the Minister of Finance and Parliament.	Develop and submit annually, formal comment on the Annual Division of Revenue Bill, as per the Constitution.	Written submission made to the Minister of Finance and Parliament, in terms of the IGFR Act.	The FFC timeously presented its commentary to Parliament's Portfolio Committee on Finance.

Strategic Objective	Key Performance Indicator	Target 1 April 2006	Actual 31 March 2007	Performance Results
Ad hoc advisory support and research, in response to specific requests from the local, provincial and national spheres of government	Number of stakeholder requests, policy issues, and legislative obligations responded to as per the mandates of the FFC provided for in the relevant legislation.	Respond to specific requests from FFC stakeholders on policy-related issues, and provide recommendations on these fiscal matters.	Number of written submissions made to stakeholders and Parliament.	The FFC responded to three ad hoc requests from stakeholders, viz, comment on: • Assessment of the Fiscal Regime Applicable to Windfall Profits in the Liquid Fuel Sector; • A framework for considering market-based instruments to support environmental fiscal reform in South Africa - Initial comments on National Treasury's Draft Policy Paper; • Submission on the Municipal Fiscal Powers and Functions Bill; • The Fiscal Implications of the Re-demarcation of Provincial Boundaries *– Submission for the Division of Revenue 2007/08.*
Annual Report and Audited Financial Statements	Annual Report and audited financial statements submitted to Parliament within five months of the end of the financial year in terms of the Public Finance Management Act, Treasury Regulations and the FFC Act.	Submit, annually, to Parliament and the relevant legislatures and bodies, as per the relevant legislation, an Annual Report and audited financial statements.	Printed copies of the Annual Report and audited financial statements are submitted to the Clerk of Papers (Parliament), legislatures, SALGA and National Treasury.	The Report for 2005/2006 was submitted to Parliament on the 31 August 2006.

Note: The FFC was in the process of converting to a balanced scorecard / performance budgeting system for the 2007/08 financial year.



Back to contents

section 11

"We should put out fire while it is still small."

Kalenjin, Kenya

FFC Risk Management Process

Risk Management Framework

The FFC is required, in terms of the Public Finance Management Act, 1999 (as amended) to possess and maintain an effective, efficient and transparent system of financial and risk management, and internal controls. In terms of National Treasury regulations, the FFC is obliged to identify material risks to which the Commission may be exposed, as well as evaluate the risk management framework to control such risks, for which a minimum of an annual risk assessment would be imperative. Furthermore, internal audit effort and priority, fraud prevention plan, and skills sets for managers and employees to improve controls and manage risks, should be guided by a comprehensive risk management strategy.

The management of internal controls, encompassed in the risk management framework, implies that suitable measures would be established to provide reasonable assurance that the overall objectives and goals of the FFC would be achieved in an efficient, effective and economical manner. The management of risk would entail the planning, arranging and controlling of activities and resources to minimise the impact of risks to levels that could be tolerated by key stakeholders of the FFC. Enterprise-wide risk management would involve the management of overall business risks in their totality and the understanding of each risk's envisaged impacts on the various processes/ areas of the Commission's work, in order to ensure transparency and effective financial management.

In compliance with the above, the FFC was in the process of finalising and implementing its Risk Management Framework and Fraud Prevention Plan. In terms of the former, the framework is intended to ensure that the necessary controls and systems are developed, implemented and maintained, in order to establish reasonable assurance in respect of the FFC's objectives being met.

The purpose of the FFC's risk management policy is to:

- Communicate the FFC's strategic intent in respect of the role of risk management in achieving business objectives and in aligning with principles of good governance;
- Formalise the enterprise-wide risk management approach to be followed in respect of risk management within the FFC;
- Outline different governance structures and their role in enterprise-wide risks management;
- Outline key stakeholder roles and responsibilities in managing risks; and
- Assist management in determining the FFC's appetite and tolerance for risk and to communicate this throughout the organisation.

The FFC takes further cognisance of the fact that risk management is the inherent responsibility of management at all levels and should be seen as a core managerial key performance indicator, in line with the principles underpinned in good corporate governance. Routine performance reporting against intended deliverables and strategic objectives would facilitate the monitoring of perceived and actual risks within the Commission. Moreover, the Commission's Audit Committee would also provide an overseeing role of the FFC's risk management processes (see the earlier profile of the Audit Committee, under 'Commission Committees').

Fraud Prevention Plan

The aim of the FFC's revised Fraud Prevention Plan is to provide a framework that governs the prevention of fraudulent and corrupt conduct, the detection and investigation of such activity, and the further implementation and maintenance of the fraud policy and response plan. Further to this, the Plan revolves around principles of professional ethics and integrity, and supplements existing FFC systems, policies, procedures, rules and regulations, and other prescripts which limit fraud.

Key to the success of this Plan is the entrenchment of a culture of transparency, responsibility and accountability among FFC employees and other stakeholders. In order to achieve this level of understanding and acceptance, it is imperative to create awareness amongst all parties concerned via the necessary communication channels, about potential acts of fraud, theft, corruption, conflicts of interest, and relevant legislation and policies, such as the PFMA, Public Sector Anti-Corruption Strategy of 2002, and the Minimum Information Security Standards (MISS) Policy.

Via the fraud prevention framework, the FFC's objectives and action plan intend to curtail and eradicate fraudulent and corrupt acts in respect of systems issues (the abuse of processes/ systems by employees or other stakeholders); financial issues (the fraudulent acquisition of money from the FFC); equipment and resource issues (the irregular or personal use of FFC resources, and/or theft of such resources); and other issues involving any unethical activities undertaken by employees of the FFC, such as nepotism, favouritism, private business activities without prior express permission, favouritism, etc.

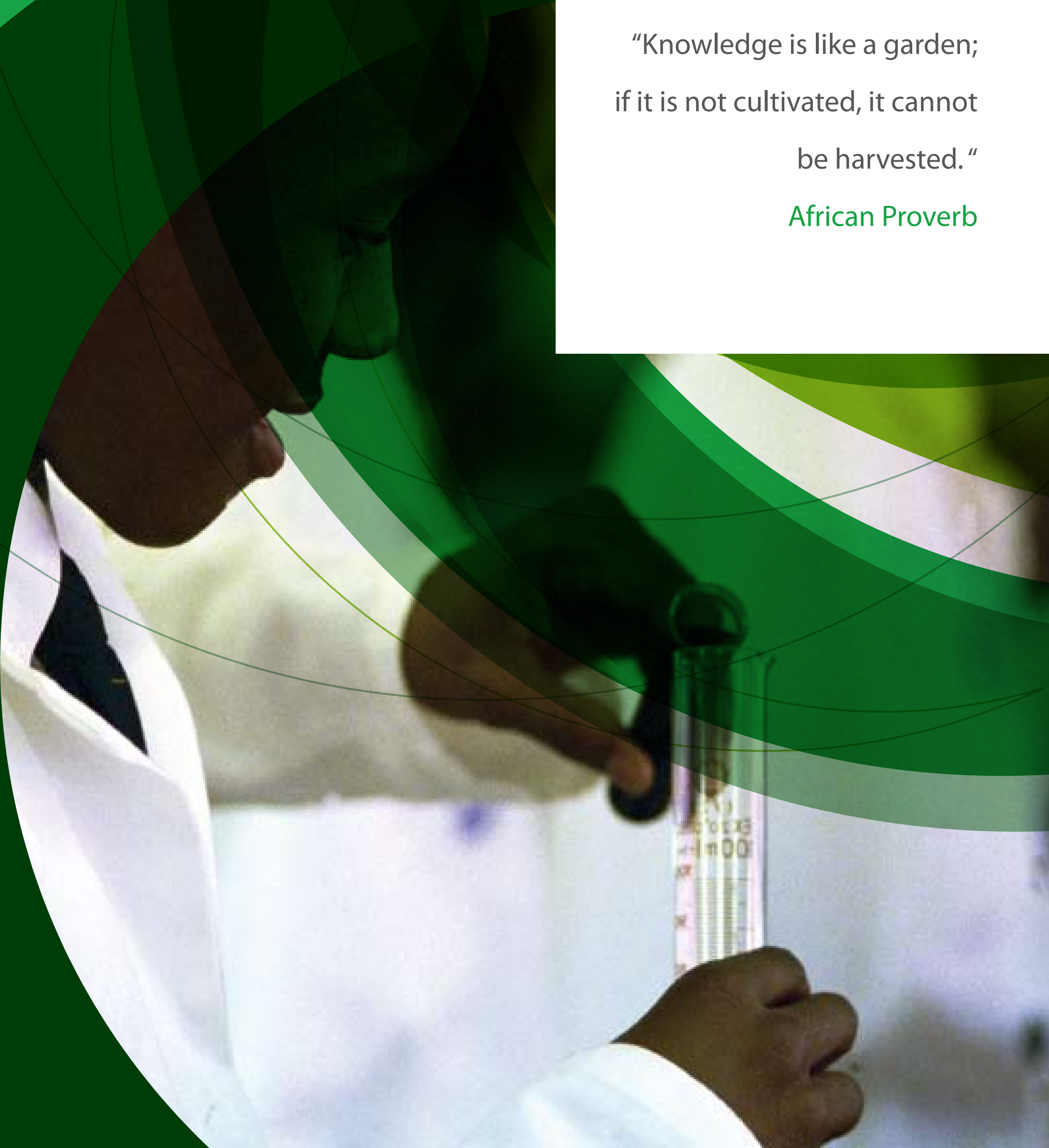
The overall fraud prevention strategy, once finalised, is expected to promote and implement ethical dealings within and on behalf of the FFC, in addition to preventing and detecting fraudulent or corrupt activities that could negatively affect the reputation and work of the Commission.

Back to contents

section 12

"Knowledge is like a garden;
if it is not cultivated, it cannot
be harvested."

African Proverb

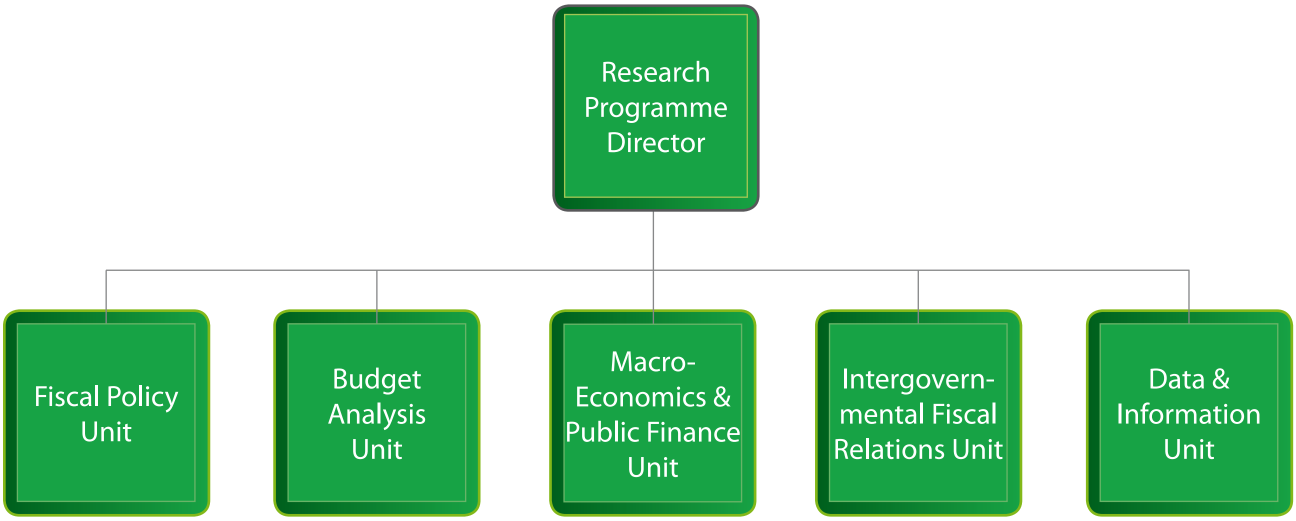


Back to contents

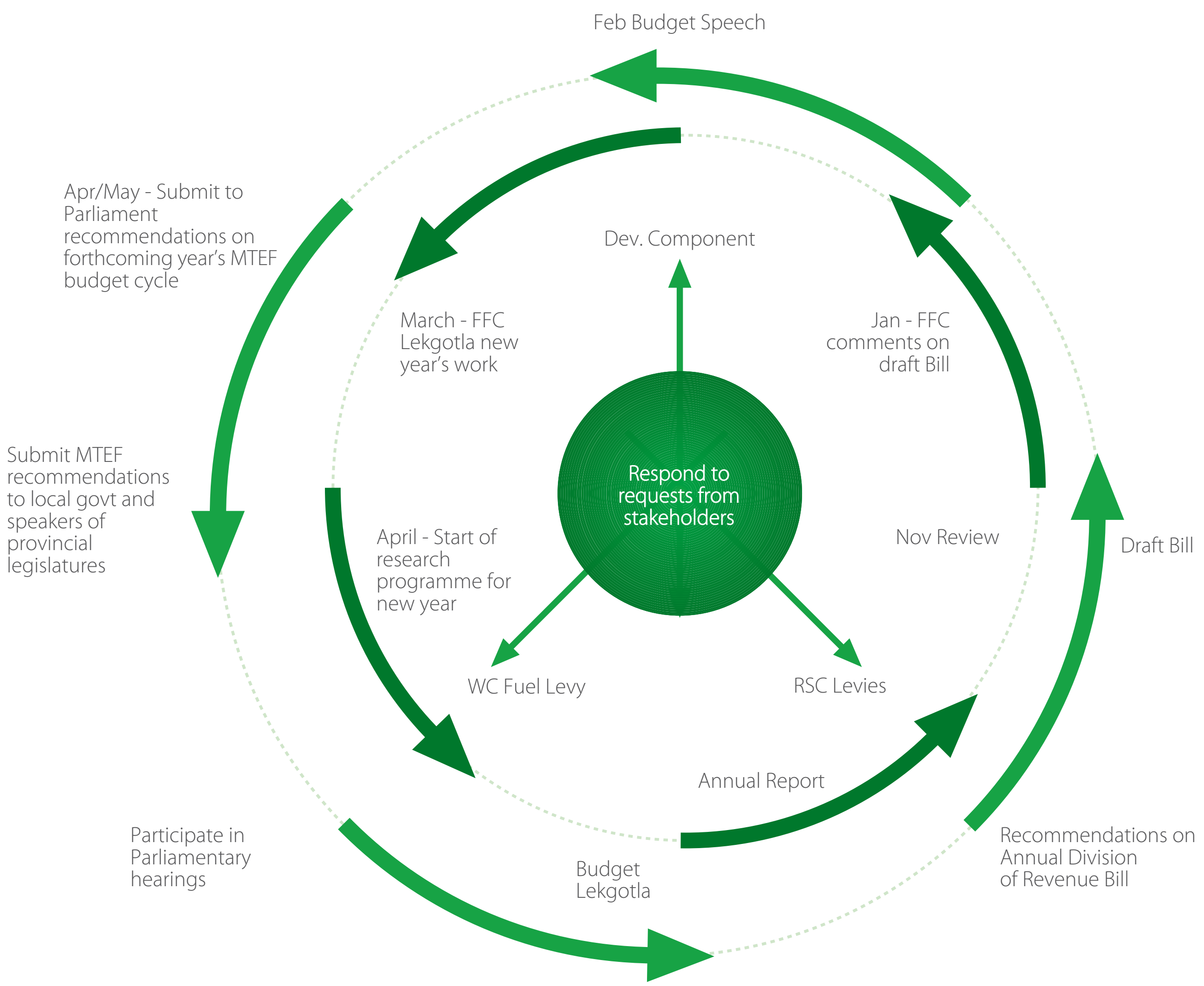
Research & Recommendations Programme Review

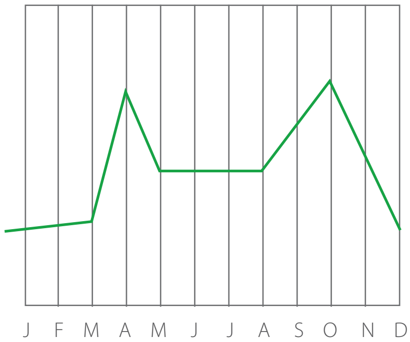
The core business of the FFC centres on in-depth research of the IGFR Act, and the development and submission of recommendations for the MTEF budget cycle, the Annual Division of Revenue Bill, as well as high-level input on fiscal matters. The FFC focus on primary or basic research, which is complemented by received directly from their origins, including the gathering of latest and most accurate figures from provincial and local (municipal) sources during fieldwork missions. The Research and Recommendations Programme (RRP) is structured into five separate research units, each focusing on a particular area of expertise within the context of the South African IGFR system, with the fifth unit providing in-house research support to FFC researcher by sourcing, aggregating, collating and analysing the collective data needs of the Programme.

Research capability is the core strength of the FFC.



FFC's Research Work Cycle





The general aims of the RRP unit are for it to assist the Commission in the creation of a seamless body of knowledge and methodologies for public finance research, develop and maintain research methodologies and capabilities, and engender collaboration with research partners.

During the period under review, the RRP's work cycle was aligned with the activities and requirements of its key stakeholders:

Research Units

Fiscal Policy Unit

The FFC's oldest and most established research division, the Fiscal Policy Unit (FPU), achieved a great deal during the 2006/07 period, both in terms of research output and the consolidation of stakeholder relations.

The FPU submitted its contributions to the FFC's annual *Submission for the Division of Revenue 2007/08*, and prepared commentary on three *ad hoc* requests from the elected entities of government, covering the 'Re-demarcation of Municipal and Provincial Boundaries', ' Municipal Fiscal Powers and Functions Bill', and 'Extending the National School Nutrition Programme from Primary to Secondary Learners'. The supplementary submission on the fiscal implications of the re-demarcation of provincial boundaries was submitted to National Treasury and Parliament in October 2006, while advisories on the Municipal Fiscal Powers and Functions Bill were submitted to National Treasury in August 2006, for its further consideration and comment. The relevant government structures were receptive to these recommendations, of which over 98% were accepted by government.

The Unit hosted twelve seminars throughout the financial year, covering diverse topics within the IGFR system. These events involved the participation and inputs of both internal and external stakeholders:

1. Presentations on Learner Support Materials, Transport, Housing and Regional Services Council (RSC) Levies, held in June 2006;
2. Replacement of RSC levies seminar, held in July 2006;
3. Provincial infrastructure backlogs seminar, held in July 2006;
4. Inter-provincial migration seminar, held in August 2006;
5. Housing-built environment seminar, held in August 2006;
6. Internal seminar held during the same month to brief FFC researchers on the process, contextual and content aspects of the 10x10 meetings conducted in 2006 for the social sector;
7. Financing of learner support materials seminar, held in October 2006;
8. Seminar on the feasibility of extending the National School Nutrition Programme from primary to secondary schools, held in October 2006;

9. Seminar on the Review of the Provincial Equitable Share (PES) formula, held in December 2006;
10. Seminar on the evaluation of the financial framework for integrating the modernisation of tertiary services process into the National Tertiary Services Grant and budget process, held in January 2007;
11. Seminar on the constitutional analysis of legislation and policies pertaining to the provision of welfare services, held in February 2007;
12. Seminar on the training of specialist doctors in South Africa's eight medical schools, held in February 2007.

The Unit contributed a book chapter to be published by the Global Forum of Federations in August of the forthcoming financial year.

Between 29 May and 9 June 2006, the FPU accompanied the International Monetary Fund/East Africa Regional Technical Assistance Center (IMF/Afritac) Mission to Rwanda, to provide expert advisory assistance to the Rwandan government in the configuration of its Intergovernmental Fiscal Relations unit in particular, and the overall Minister of Finance and Economic Development (MinceoFin) in general. The capacity-building visit was intended to provide support to the Rwandan Ministry of Finance and Economic Planning.

Between 29 May and 9 June 2006, the FPU formed part of a capacity-building mission on behalf of the Fiscal Affairs Department (IMF) in the Ministry of Finance and Economic Planning in Rwanda (29 May-09 June, 2006) with Mr Kenneth Brown of the National Treasury.

Between July and September 2006, the Unit assisted the Free State Treasury in establishing a Fiscal Policy Directorate in line with the recommended structure of Treasuries. A detailed report of recommendations to this effect was compiled. The FPU also attended the Budget Council Lekgotla, the Budget Council (x2) and Budget Forum meetings, in addition to public hearings in Mpumalanga, the Free State, Eastern Cape and Gauteng legislatures. The FFC also hosted SALGA's Finance Working Group during this period.

Discussions were held with National Treasury between October and December 2006, resulting in the FFC taking the lead in the 'Comprehensive Review of the Provincial Equitable Share Formula'.

Inputs were requested from Finance MECs and their Heads of Department, for utilisation in the formulation of comprehensive terms of reference for the review of the model.

Subsequent to the resignation of the IGFR Unit manager, the FPU assumed responsibility for a research project originally housed within the former division. The FPU continued its work with the Department of Commerce, University of Cape Town, on the measurement and financing of infrastructure backlogs in South Africa.

The Unit was actively engaged in ongoing consultation with National Treasury, the Department of Provincial and Local Government, as well as Budget Council members. Further meetings were held with National Treasury (Division of Revenue and Budget) in January and February of 2007. Interaction also took place with the Finance Committees during the Hearings on Conditional Grants and on the Division of Revenue Bill. Between January and March 2007, the FPU participated in a workshop with the KZN Treasury; the Eastern Cape municipalities; as well as a joint seminar hosted by the Department of Provincial and Local Government/RTI/USAid.

The challenges encountered by the FPU during the 2006/07 period included difficulties in coordinating work schedules with external technical advisors, due to teaching and academic commitments; recruitment hitches, which resulted in delays in expediting certain research projects; as well as change-management concerns related to the transformation of the Commission's management and structure.

Budget Analysis Unit

During the period under review, the Budget Analysis Unit (BAU) enhanced its human resource capacity via the appointment of two Budget Analysts in late 2006, which increased the level of interaction between the BAU and its key stakeholders. Plans were also underway to further expand the unit's research expertise and potential with the approval of two additional positions for the 2007/08 financial year.

The BAU's contribution to the FFC's Division of Revenue Bill commentary featured in its Spending Performance Project, which provided a comprehensive and rigorous assessment of the 'Performance and Capacity of Provincial Government Departments'. The Unit put forth five recommendations based on analyses of departments within the social, infrastructure and governance sectors and focused on the relationship between policy and budget priorities, the stability of budget growth paths, the relationship between budgets and spending and between spending and delivery. Performance was measured in respect of the relationship between policy and budget priorities, the stability of budget growth paths, the relationship between budgets and spending, and between spending and delivery. This was executed for both unconditional Equitable Share programmes as well as Conditional Grant allocations.

The report was largely informed by supporting data procured from the Annual Financial and Budget Statements, which were compiled into a model comparing recent past and forthcoming medium-term financial and non-financial statistics. The coverage of provincial departments was widened to include six basic services (education, health, welfare, housing, transport and agriculture) and two governance departments (Premiers' offices and Provincial Legislatures). The report was primarily intended to inform the Parliamentary Budget and Finance Committees in their efforts to influence the allocation of funds during the outer years of the then forthcoming MTEF cycle. General presentations of the findings were presented to the Joint Budget Committee and the Select Committees of Finance in November 2006, and between February and March 2007. Further interaction involved the presentation of research findings to the departments concerned, namely Education, Health and Housing. An overview presentation was also delivered to the Gauteng Provincial Legislature.

To keep abreast of ongoing developments within the Municipal sphere of government, as well as to guide future work on municipal budget performance, numerous workshops on budget reforms were attended by the BAU during the course of the financial year. Further interaction took place during a week-long fiscal decentralisation course, hosted by the University of London's School of Oriental and African Studies, as well as a performance budgeting workshop hosted by the Applied Fiscal Research Centre (AFReC).

A highlight of stakeholder interaction was the hosting of a seminar with National Treasury in November 2006, on 'Spending Performance Modelling', which resulted in the further presentation of the study's findings to the Select Committee on Finance an the Joint Budget Committee in Parliament. This was followed by collaborative visits to provincial treasuries in December of the same year, during which the BAU conducted primary research on the various areas of performance/bottlenecks and other pressures within provincial departments, thus affording the Unit the opportunity to gauge areas of interest for possible inclusion in its future research activities A presentation was also made to the International Monetary Fund, highlighting state spending patterns and performance in the previous financial year.

While the Unit progressed considerably in advancing performance budgeting throughout the three spheres of government, it did however acknowledge the difficulties in collating service delivery and financial data. More specifically, the unavailability of non-financial data in the chosen areas of study was a key impediment during the 2006/07 period, which was further exacerbated by inconsistent programme structures and vague definitions of underlying programmes in sectors which the Unit analysed.

The further development of quality assurance procedures in respect of research activities, as part of the FFC's institutional strategic review exercise, will serve to ensure that the acquisition and processing of future data is accurate and consistent.

Macroeconomics and Public Finance Unit

In late 2005, the Financial and Fiscal Commission noted the need to enhance its quantitative research as well as cater for the demand from its stakeholders for in-depth policy analysis of macroeconomic and related public finance issues. To this end, the Macroeconomics and Public Finance Unit (MPFU) was established towards the end of the first quarter of 2006. The unit initially comprised two members, while two further appointments were made in November 2006, in line with FFC's strategic personnel expansion.

The MPFU's portfolio broadly covered the four major sub-components of the Unit's area of expertise, namely the research (set up research projects); training (enhance development and academic capacity); publication (promote research output in the form of publications); and dissemination and stakeholder analysis (promote stakeholder interaction) components.

During the 2006/07 period, the MPFU, in collaboration with the FPU, produced two supplementary submissions, which formed part of the FFC's *Submission for the Division of Revenue 2007/08*. These submissions focused on the FFC's recommendations in respect of the Western Cape Province's Proposal for a Fuel Levy; and FFC's commentary on National Treasury's Proposals for the Replacement of the Regional Services Council and Joint Services Board Levies. The former submission contributed to the Minister of Finance's decision, in August 2006, to approve the fuel levy proposal made by the provincial government of the Western Cape.

The Unit's inputs towards the forthcoming *Submission for the Division of Revenue 2008/09* comprised the following:

1. Economic Impacts of the 2010 Fifa World Cup;
2. Assessment of the Fiscal Regime Applicable to Windfall Profits in the Liquid Fuel Sector; and
3. A Framework for Considering Market Based Instruments to Support Environmental Fiscal Reform in South Africa: Initial Comments on National Treasury's Draft Policy Paper.

The first project formed part of the *Submission for the Division of Revenue 2008/09*, while the second and third projects comprised supplementary submissions made during 2006/07, but included in the aforementioned publication.

The FFC partnered with AusAid, which generously funded the Commission's project on 'The Vertical and Horizontal Division of Revenue: A Model for Reviewing the Equitable Sharing of National Revenue'.

The Unit was also responsible for constructing a Fiscal Social Accounting Matrix (SAM), which was utilised in the quantitative analysis of the macroeconomic and fiscal impacts of the South African government's expenditure for the 2010 Fifa World Cup. The analysis emanating from the fiscal SAM was set to appear as a forthcoming peer reviewed book chapter to be published by the Human Sciences Research Council during the forthcoming financial year.

The Unit produced a number of diverse publications, over and above the required submissions in terms of the FFC's mandate, namely:

1. 'Textiles Protection and Poverty in South Africa', Working Paper 2007-01, Poverty and Economic Policy Network;
2. 'South Africa: Trade Liberalization and Poverty in a Dynamic Microsimulation CGE Model', Paper Presented at the Tenth Annual Conference on Global Economic Analysis, hosted by Purdue University, in the USA; and
3. 'South Africa's Intergovernmental Fiscal Relations: An Evolving System', *South African Journal of Economics,* Vol. 75, No. 2.

In terms of the development and training of research staff, the MPFU conducted a practical CGE modelling with GAMS, at the EcoMod Modeling School in the United States of America. Further interaction took the form of a training workshop at Curtin University, Australia, on a collaborative project involving the development of a model for reviewing the equitable sharing of national revenue.

Challenges faced by the MPFU included the centralisation of cost-centre functions, which hindered decision-making in respect of planning, budgeting and procuring relevant research resources; limited accessibility to resource materials, such as books, online journals and data, and econometric software packages; limited proactive and coordinated inter-unit research; low levels of stakeholder liaison due to limited staff capacity and owing to the MPFU being a new division within the RRP; and the need for further integration and coordination between the Corporate Affairs and Research divisions of the Commission.

Intergovernmental Fiscal Relations Unit

The work of the Intergovernmental Fiscal Relations Unit (IGFRU) focused on the assessment of function and role shifts between the three spheres of government, namely national, provincial and local government. While the regulation of function and role shifts is executed in the spirit of cooperative government, as stipulated in Section 41 of the Constitution, an additional quality assurance mechanism was deemed beneficial in terms of analysing the likely impact of such shifts. Furthermore, this guideline tool would be useful for the FFC's purposes of formally responding to requests for commentary on the proposed shifting of functions by any sphere of government. The checklist would ensure process compliance, the standardisation of reporting on impacts related to fiscal power, fiscal capacity and efficiency of the respective organs of state, the transfer of employees, assets, and any likely liabilities, and adherence to the relevant legislation. Most importantly, however, it would facilitate the FFC's ability to comment on prospective transfers, contribute towards the recording of information and data across the spheres of government, and provide accurate, consistent and comprehensive information to better inform the government's decision-making process. The project objectives and intended deliverables were presented in January 2007, while the draft framework document and accompanying checklist and researcher manual were to be presented at the FFC's forthcoming Bosberaad at the commencement of the 2007/08 financial year.

Due to a lack of capacity within the Unit, following the resignation of the then IGFRU Programme Manager in July 2006, the intended outputs of the division were unexpectedly delayed. However, plans were underway to acquire the necessary skills and expertise for the efficient and effective functioning of the division during the course of the forthcoming fiscal period.

Data and Information Unit

During the 2006/2007 financial year, the Data and Information Unit (DIU) started the process of developing a data warehouse.

Within the FFC's context, the data warehouse was established to house varying data on a number of different IGFR-related subjects, derived from a multiplicity of sources, time variations, as a consistent, non-volatile whole. While data was continuously added to the warehouse, no statistics were ever removed from this repository, thus enabling management to obtain a consistent view of the business at hand.

During the period under review, the main objectives of the DIU included the following:

1. Sourcing relevant subject-oriented data throughout the financial year and beyond;
2. Assessment and structure of user requirements in collaboration with researchers;
3. Evaluation, structure, reformatting and integration of data prior to it being stored in a single repository, where it could be maintained, integrated, shared and disseminated;
4. Training of researchers in the RRP to employ user-friendly reporting tools;
5. Provision of research support to the RRP by adding value (i.e. calculating indicators, transforming or adjusting data) to existing data; and the
6. Evaluation of the data warehouse throughout the financial year and beyond.

In respect of sourcing relevant subject-oriented data, the DIU sourced the following data sets from surveys conducted at Statistics SA in the ASCII or American Standard Code for Information Interchange-delimited format:

1. Census data for 2001;
2. The 10% Sample of Census 2001;
3. The annual GHS from 2002 to 2004;
4. The biannual LFS from 2000 to 2005; and the
5. The 1995 and 2001 Income and Expenditure Survey (IES).

The following data sets were obtained from various government departments and other institutions:

6. Housing ABC Statistics;
7. Annual Financial Statements;
8. Provincial Government Employees Database; and
9. Social Security Update 2005/06.

User requirements, in conjunction with the research divisions, were regularly obtained via regular meetings to determine the specific data needs. Since the inception of the data warehouse project, three cycles of data requirements were obtained in a structured manner, and where possible, organised using mind-maps, in which the relevant information was linked to the most appropriate variables in existing data, followed by the detailed documentation of these specifications.

The assessment, reformatting, and assimilation of data, were executed via the compilation of design documents and the population of the data warehouse, while the training of researchers was conducted through the development of user manuals, to instruct RRP staff on how to employ the necessary reporting tools in Business Objects (BO), i.e. the data warehouse platform or software used by the FFC.

The DIU contributed towards the completion of the research process by sourcing and calculating indicators for the IGFR relevant to internal migration. The Annual Financial Statements were also assessed and analysed in collaboration with the BAU, and additional data was sourced and analysed to reflect key programmes and sub-programmes. The latter process highlighted a number of strengths and weaknesses in the data retrieval and assessment system, which would be explored during the forthcoming financial year.

During the period under review, the evaluation of data requirements was met through an audit exercise involving technical information that captured the following criteria:

1. user requirements;
2. data transformation diagrams, which explain how the data form had logically changed from its sourced form to the warehouse-level form);
3. table structure diagrams, highlighting the final design structure of the warehouse;
4. list of variable descriptions for each data set;
5. source tables, indicating the location of sources; and
6. data dimensions.

While great strides were made in advancing the data analysis, monitoring and evaluation methods of the FFC's research output, a number of challenges were experienced by the DIU, including the lack of fully integrating data collection and analysis procedures in the research process. The need for further understanding of the budgetary implications and complex processes relating to data collection was also identified as a requirement among data users during the forthcoming financial year. Such information would be vital in ensuring that adequate data requirements, containing relevant concepts and definitions, reach the DIU. Additional challenges included the lack of relevant data; lack of data that reflected the required geographical area of analysis; and lack of meta-data, i.e. data on the data, with information about the six quality dimensions, methodology, etc.

Research Advisory Bodies

Research Committee

As per previous mention, the Research Committee is responsible for overseeing the activities of the Commission associated in respect of research and recommendations on financial and fiscal matters as envisaged in the Constitution, the FFC Act or any other consequent legislation.

Research Committee	Commissioner Members
Chairperson	Dr Bethuel Setai
	Jaya Josie, Kamalasen Chetty, Blake Mosley-Lefatola, Tania Ajam and Antony Melck

Research Task Teams

During the period under review, several task teams continued their advisory role in advancing the various research projects undertaken by the RRP of the FFC.

Research Task Teams	Commissioner Members
FPU Task Team	Kamalasen Chetty, Blake Mosley-Lefatola, Tania Ajam and Antony Melck
IGFRU Team	Jaya Josie and Tania Ajam
BAU Team	Tania Ajam, Prof. Antony Melck and Blake Mosley-Lefatola
DIU Team	Risenga Maluleke
MPFU Team	Prof. Antony Melck

Research Partnerships, 2006/07

In order to consolidate the FFC's strategic positioning as a world-class research and advisory body on IGFR issues, the Commission pursued a number of collaborative projects during the period under review, in order to expand, negotiate and reinforce networks nationally, regionally, continentally and internationally.

During the 2006/07 period, the FFC consulted, advised and collaborated with a number of external stakeholders, exploring options that would serve the dual function of strengthening relationships and embarking on new research to develop human capital and foster innovation in knowledge generation. These partnerships have strengthened the global nature of the FFC's research and supplemented its internal capabilities. The development of partnerships, especially throughout the African continent, is one of the main strategic thrusts of the Commission, and one which features prominently in the vision statement of the organisation.

During the 2006/07 period, the FFC worked hand-in-hand with various global institutions of a similar standing in generating innovative, original and rigorous research on IGFR matters:

Australia, AusAid / Curtin University: CMBS (Constitutionally Mandated Basic Services) Model and the Southern African Development Community (SADC)

In its 2002 submission, the Financial and Fiscal Commission recommended that the South African government consider the possible incorporation of elements and parameters in the intergovernmental transfer formulae that would balance the need to provide constitutionally mandated obligations, taking into account considerations listed in Section 214 (2) (a) – (j) of the Constitution.

It is common cause that high unemployment and the legacy of apartheid socio-economic inequalities and the disparities have resulted in deepening levels of poverty for the majority of South Africans. It has also been acknowledged that if this situation were to continue unabated, a serious risk would be that of increasing budget deficits and recourse to borrowing to maintain the requisite levels of social security payments and the provision of other basic socio-economic services.

In its past submissions, the FFC highlighted this risk and proposed an intergovernmental fiscal relations approach that sought to balance the provision of Constitutionally Mandated Basic Services (CMBS) with developmental imperatives and macro-economic constraints, as generically captured in the considerations listed in Section 214 (2) a-j of the Constitution.

In taking its Section 220 mandate forward, the FFC constructed an economic model, envisaged to address a number of the major issues identified in this regard in the South African IGFR system. The execution of this model was made possible via donor funding received from AusAid, in collaboration with Curtin University, in Australia.

One of the conditions attached to the donor funding of this project was the presentation of the completed CMBS model, to other SADC member-states, for their further consideration and possible adoption.In its past submissions, the FFC highlighted this risk and proposed an intergovernmental fiscal relations approach that sought to balance the provision of Constitutionally Mandated Basic Services (CMBS) with developmental imperatives and macro-economic constraints, as generically captured in the considerations listed in Section 214 (2) a-j of the Constitution.

Rwanda and National Treasury: South African Intergovernmental Fiscal Relations System

At the invitation of National Treasury, the FFC commenced collaborative work with National Treasury in the design and implementation of a system of Intergovernmental Fiscal Relations for the Rwandan Government. Exchanges of personnel have already taken place in this regard.

Sierra Leonean, Ghanaian, and Ethiopian Interchanges

The FFC hosted delegations from Sierra Leone, Ghana, and Ethiopia, all of whom were interested in learning about the South African Intergovernmental Fiscal environment and system, with a view to developing future systems of their own. With this mind, exchanges of expertise and personnel were under consideration for further interaction and skills transfers.

Department of Commerce, University Of Cape Town

The FFC commenced collaborative research with the University of Cape Town on a project examining the state of infrastructure backlogs in South Africa. The envisaged objective of the project was to provide a comprehensive, rigorous and analytical assessment of the state of basic infrastructure in South Africa, the backlogs in infrastructure supplies, as well as relevant recommendations and policy options to inform government's future strategic infrastructure recovery plans.

World Bank

During the 2006/07 fiscal year, the Commission worked in partnership with the World Bank in the successful completion of three joint seminars. Among these interactions, varied subjects, such as the 'Issues in revenue administration, tax compliance and combating corruption', 'Challenges of African Growth' and 'Service delivery', were interrogated in March 2006, November 2006, and February 2007 respectively.

section 13

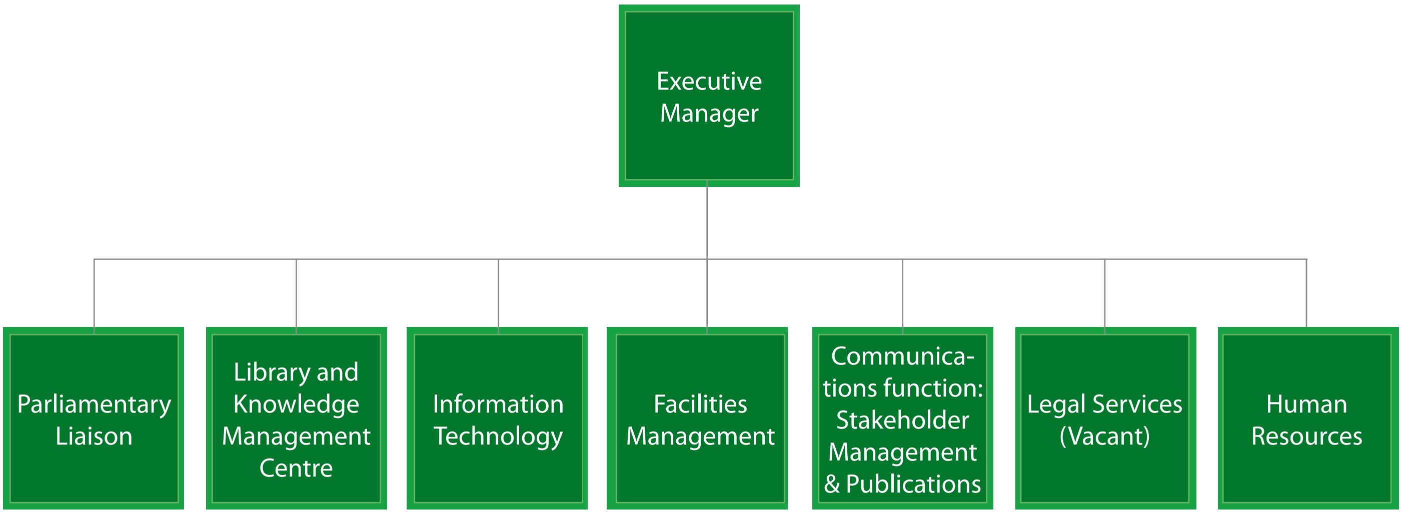
“Lack of knowledge

is darker than night.”

African Proverb

Operational Review

The Corporate Affairs division of the FFC gained momentum during the 2006/07 financial year, with the re-introduction of a more technologically-driven in-house Library and Knowledge Management Centre. In order to improve corporate governance and administration mechanisms within the Commission, the FFC focused on its quality assurance mechanisms, policies and procedures. The introduction of new support mechanisms was aimed at ensuring the effectiveness, relevance and impact of its research output, as well as the individual and collective needs of its stakeholders, in order for the Research component to focus on its strategic research-related role. The organogram of the division was structured thus:



Parliamentary Liaison Office

The Parliamentary Liaison Office is a veritable lifeline between the Commission and its primary stakeholder, the South African Parliament. Shortly after its inception, the FFC acknowledged the importance of being in close proximity to Parliament, in order to strengthen, solidify and reinforce a relationship of trust with Members of Parliament (MPs) and Committee members, on whom the Commission is reliant to fulfil its constitutional and legislative mandate. Over the eight years since the inception of the Cape Town office, the Parliamentary Liaison Office has successfully prepared, coordinated and launched the FFC's annual submissions, presentations, and other related activities; analysed policy and legislation relevant to financial and fiscal matters; monitored the numerous meetings; and liaised with MPs and Committee members to develop the necessary protocols with Parliament. This Office is central to the work of the Commission and invaluable in terms of emphasising the FFC's commitment to Parliament.

Throughout the period under review, the Parliamentary Liaison Office worked towards strengthening the relationship between Parliament, Provincial and Local Government structures. Further to this, it ensured compliance with Parliament and other relevant legislation and enhanced the profile of the FFC by raising awareness around the work of the Commission. Ongoing interaction with Parliamentary Committee Chairpersons and Secretaries permitted the Liaison Office to provide FFC researchers with timeous and updated information on developments within the IGFR sector. The Parliamentary Liaison Office also ensured the efficient and effective functioning of the office through sound administration, asset management, office security, human resources management and industrial relations, and prudent financial management.

In March 2006, the Cape Town office had the privilege of hosting the Portfolio Committee on Finance. The Parliamentary Liaison Office met with Mr Ralane, Chairperson of the Select Committee on Finance. In early May, a meeting was arranged between the FFC, NCOP and the Chair of the Select Committee on Finance. The FFC thereafter launched its recommendations in May, after which hearings in late May were held. A number of meetings were also held during the financial year, with the NCOP Chairperson in June 2006; to discuss the MIG Grants in Parliament; with Mr van der Spy, from the Department of Public Works, in August; with Mr Jeff Doidge, in August; as well as a meeting at the request of Prof. Kader Asmal, Chairperson of the Ad Hoc Committee, regarding the review of state institutions supporting constitutional democracy and the Public Service Commission in October 2006.

Library and Knowledge Management Centre

Throughout the 2006/07 financial year, the Commission reassessed its internal processes governing content and knowledge management systems. The Library and Knowledge Management Centre (LKMC) was established in late 2006, with the intention of developing, managing and retaining the knowledge and information produced and disseminated by the FFC.

The revamped LKMC would, in effect, continue to perform the traditional library-related responsibilities, but would also carry out the technologically-driven processes of modern-day globalised information and data safekeeping, encompassing the activities of the Knowledge Management (KM) and Enterprise Content Management (ECM) systems.

Enterprise Content Management

Enterprise Content Management, or ECM, for the FFC's purposes, involves the management of technology for the purpose of collating, managing, storing, safeguarding and delivering content and documents related to the internal organisational or business processes. The ECM would significantly contribute to the development of an internal data, documents and records management repository for the FFC's 'unstructured' information (internal draft-documentation), which would, in effect, facilitate communication and coordination of activities, as well as preserve, catalogue and store the institutional knowledge and intellectual property of the Commission, generated since its inception.

In practice, the ECM system would manage the internal work cycle of documentation produced by the FFC, from data and raw material; the development of document and records management; collaboration with internal FFC divisions; the safeguarding of portal and web content; enabling of search and retrieval facilities; to the storage of the FFC's intellectual property and mail management. The ECM and Knowledge Management systems are expected to impact on the internal methodology and processes of reporting throughout the organisation.

Knowledge Management

The Knowledge Management (KM) aspect of the LKMC's work was geared towards ensuring that tacit and explicit knowledge were not removed from the institutional memory of the Commission. The KM system would be responsible for the creation, storage, dissemination and sharing of knowledge between the various functions within the FFC. Via a central repository, the KM would extract divisional knowledge and house it for safe-keeping.

In respect to adherence and compliance with legislation, the LKMC will focus on the Promotion of Access to Information Act (PAIA) and the National Archives Act, among other relevant policies, going forward. The significance of adhering to the standards governing these acts, is that the LKMC will ensure that all documents created within the Commission will be recorded and retained as prescribed, that the PAIA Act should be facilitated, and that appropriate policies and procedures should be recorded to enable compliance.

Following the creation of a three-year prospectus, the LKMC planned to re-establish a registry and document management system, and initiate and develop the KM function by 2010. The initial phases of these objectives involve an extensive information audit, records survey and needs assessment, and benchmarking and feasibility studies. Responsibilities would also cover the physical planning of the internal library, as well as the content planning of the virtual electronic libraries. Internal controls would be set out in the acquisition and collection development policies, in addition to storage and retention policies.

Information Technology

During the 2006/07 period, internal IT expertise was introduced into the Corporate Affairs division of the Commission. The benefits associated with managing the information technology infrastructure and processes internally were numerous. In-house IT support would ensure that the required goals of facilitating communication, providing efficient and effective data storage mechanisms for content and knowledge management, and the day-to-day needs of internal and external stakeholders, in addition to those stipulated in the relevant legislation applicable to the responsibilities of the FFC, were efficiently and effectively met.

As an institution mandated and tasked with producing analytical research and data on IGFR issues of national importance, the FFC relies on IT to secure its data and information. The Commission had to keep abreast of technological advancements, increased risk scenarios due to the globalisation of information, and other vulnerabilities associated with IT advancements. The Commission would continue to strengthen its information security and technology platforms and systems, in order to safeguard the FFC's intellectual property and store it for content and knowledge management purposes. The necessity of securing the FFC's corporate operations via privacy, virus, data storage, extended capacity, and other risks, would also be treated with the utmost urgency.

Facilities Management

The Facilities Management division provides a crucial support service to the core business of the FFC, the Research and Recommendations Programme. Housing a fully functional travel desk, the Facilities Management section facilitated travel and accommodation arrangements for FFC Commissioners and researchers, as they carried out their research activities, including fieldwork throughout the provinces and municipalities of South Africa, meetings with the National Council of Provinces, Parliament and other critical role players in the IGFR system, as well as presentations on behalf of the FFC. The division also took stock of IT equipment, video conferencing, telephony and furniture needs; branded the institution via the appropriate signage and branding mechanisms; and installed a state of the art security, fire protection and emergency systems for the FFC's offices. The unit was also responsible for coordinating all aspects of the FFC's annual January Review Session, Bosberaad and March Strategic Session.

Going forward, the Facilities Management division would undertake an increasingly strategic role, particularly in relation to project planning, facilities acquisition/divestiture, and the conceptual design of facilities, development and operations.

Communications Function

During the 2006/07 period, the Commission launched the Communications function, comprising the External Stakeholder Management, and Publications and Internal Communications units, which would collectively assume responsibility for the implementation and monitoring of the Commission's internal communications and publications strategies, policies and initiatives. The FFC's decision to introduce the in-house Communications function revolved around the importance of enhancing the Commission's focused position and corporate branding, which essentially was at the heart of its business strategy.

Due to the FFC's renewed focus and interest in vigorously pursuing a proactive research mandate that was stakeholder-centric in nature, communication would need to become more 'humanised' in order to grow and develop partnerships, improve dialogue, reciprocate needs and gains with stakeholders, encourage inclusivity and attentiveness, and invest in the people of South Africa and the African continent at large.

External Stakeholder Management

The External Stakeholder Management division's role and responsibility would be largely focused on three forms of communication, namely that of one-way communication, between the FFC and its key stakeholders; asymmetrical communication, which would influence the establishment and monitoring of long-standing relationship of trust with external stakeholders; and finally, that of ongoing communication, in the form of discussions, consultations and negotiations with existing and prospective stakeholders.

Publications and Internal Communications

The Publications and Internal Communications division would be specifically tasked with the collection, consolidation, storage, dissemination, monitoring and analysis of FFC's research output/ publications. The Publications aspect of the division would aim to identify and market the FFC's research niche within the South African IGFR framework via a broader interpretation of the Commission's mandate, which would expand the scope and coverage of the Commission's research output. Further to this, the division would be responsible for driving the FFC's vision and mission among internal stakeholders, in order for staff to identify with and believe in the principles of providing world-class research and advisory services aimed at the specific needs of the FFC's stakeholders.

Back to contents

section 14

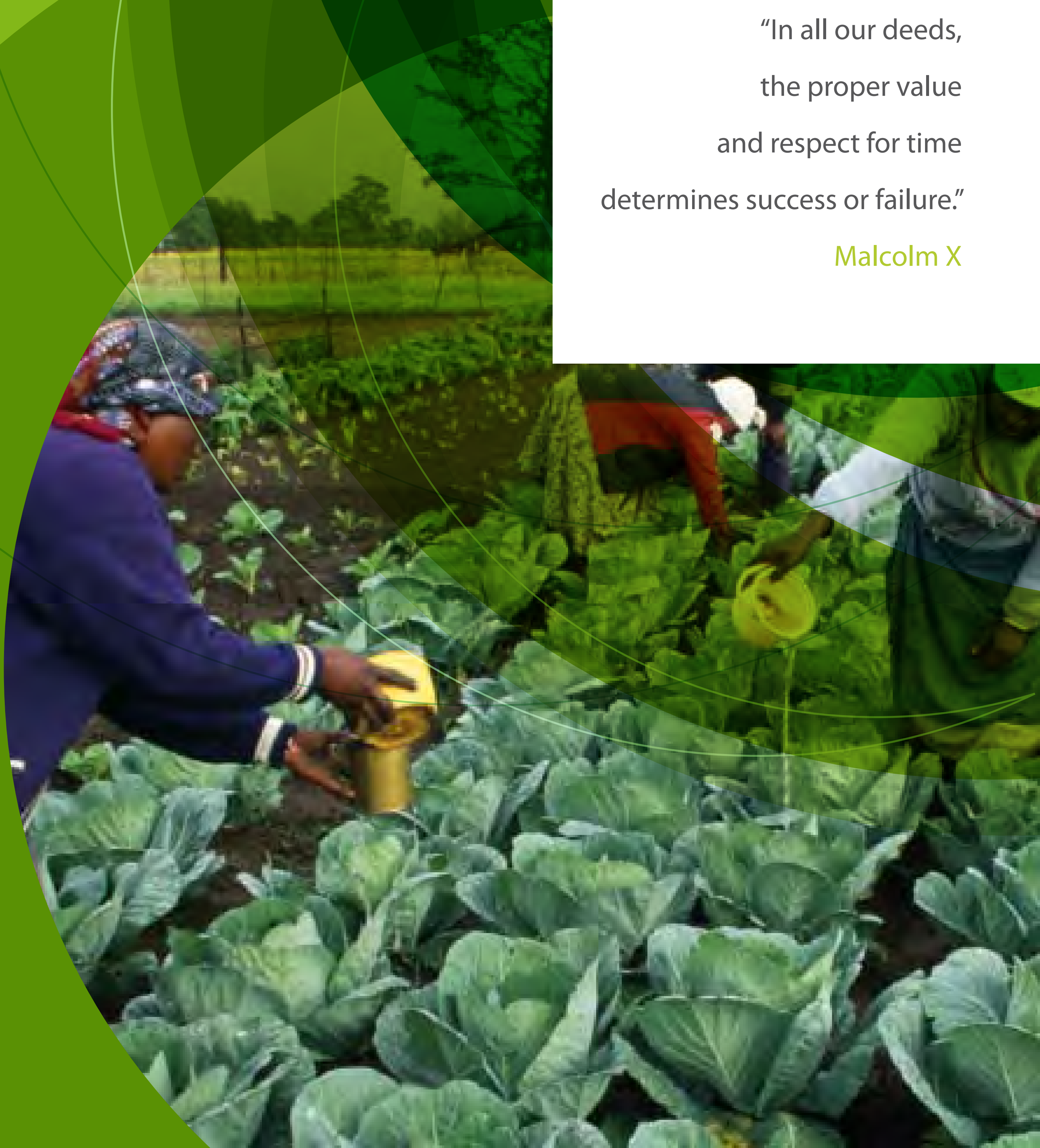
"In all our deeds,

the proper value

and respect for time

determines success or failure."

Malcolm X



Annual Financial Statements

For the Year Ended 31 March 2007

Contents

Approval of the Annual Financial Statements

The annual financial statements, which appear on pages 86 to 111, have been approved and authorised for issue on date of signature by the Executive Committee and is signed on its behalf by:

Dr Bethuel Setai
Chairperson / Chief Executive
31 May 2007

Report of the Accounting Officer
for the year ended 31 March 2007

Report by the Accounting Officer to the Executive Authority and Parliament of the Republic of South Africa.

1. General Review of the State of Financial Affairs

During the 2006/07 year, the financial affairs of the Commission remained an evolving system that strove to respond to (i) the future challenges faced by the Commission, and (ii) the need to be congruent with the ongoing strategic review and repositioning of the Commission's functions, to improve the ongoing delivery of its mandates and ensure that all statutory obligations would be met in terms of the Constitution and within the constraint of its budget.

Over the financial year, the FFC faced a number of key challenges in terms of its then current and future financial obligations. These included: (i) increasing the revenue streams of the Commission, and (ii) the establishment of a financial framework for attracting and retaining skilled personnel in key function areas. These challenges resulted in the Commission requiring additional funding during the 2007/08 financial year and Medium-Term Budget Framework (MTEF) periods, with most of this additional funding earmarked for enhancing and building capacity in the core business function of the Commission.

During the period under review, an extensive strategic planning process aimed at defining future activities and programmes of the Commission, was undertaken. One of the major preliminary findings of the review process was the need for the Commission to capitalise on its programmes in areas of its Research and Recommendations division (namely, Macroeconomic and Public Finance, Fiscal Policy, Budget Analysis, Stakeholder Relationship and Data and Information units). While the Commission gradually enhanced the capacity and expanded the scope of its core functional area, it also recognised the need to provide adequate administrative and other support capacity vital to the functioning of its research and recommendations function. To this end, the expansion of the core function area necessitated the establishment of new areas of support activities, especially in the areas of knowledge and document management.

As a result of its new areas of activities in both the core and support functions, the Commission experienced a 51% increase in personnel costs during 2006/07 financial, a figure relatively higher than the 13% increase recorded during the 2005/06 financial year. This increase had substantial spill-over effects, contributing to a relatively significant increase in operational expenses. From a figure of R 9.2 million recorded in 2005/06, the Commission's operating expenses rose by 24% to R11.3 million in the 2006/07 financial year. These factors have necessitated the reprioritisation of the Commission's fiduciary obligations within the constraint of its budget, and development of a phased approach of aligning its budgeting framework with the MTEF process, to deal with unanticipated financial pressures.

Although the Commission made continuous and considerable progress in terms of meeting its statutory obligations and implementing prudent financial management, it still faced the financial challenges of carrying out increased functions and operations against the backdrop of revenue constraints, as reflected in the R3 million deficit in the income statement for 2006/07 financial year.

2. Services Rendered by the Department

Not applicable

3. Trade Activities

Not applicable

4 Trading Entities

Not applicable

5. Public Entities

Not applicable

6. Public/Private Partnerships

Not applicable

7. Risk Management and Fraud Prevention Plan

In compliance with the PFMA Act (1999) and Treasury regulations, the Commission was in possession of a Risk Management Framework, originally developed in 2001, and revised annually in accordance with technological and systems advancements. During the 2006/07 plan, in addition to revisions effected to the Risk Management Plan, the Commission was in the process of finalising its Fraud Prevention Plan, for implementation in the forthcoming financial year.

8. Discontinued Activities

Not applicable

9. New/Proposed Activities

Corporate Governance

- Ensure compliance with applicable legislation;
- Establish and implement optimal internal governance structures and processes;
- Establish internal and external accountability systems; and
- Establish and implement an effective organisational performance system.

Finance

- Align budget with strategic plan and anticipate the budgetary implications within the MTEF;
- Develop a sound approach to capital allocations;
- Ensure effective internal financial and management controls; and
- Ensure compliance with statutory requirements.

Research

- Create a body of knowledge that has a long term positive impact on the effectiveness of the IGFR system;
- Engage in strategic cooperative partnerships with similar national and international institutions;
- Effectively manage external expertise and skills transfer; and
- Establish and effectively manage a data warehouse

Human Resources

- Align organisational structure and operations with strategic plan;
- Create a highly competent staff complement with skills and expertise that are relevant to the FFC;

Back to contents

- Create a balanced staff complement, in terms of the following criteria:
  - Skills;
  - Level of expertise; and
  - Representivity.
- Align job evaluation and performance management systems with the strategic plan; and
- Focus on skills retention and succession planning.

Internal Processes Strategic Objectives

- Develop and implement appropriate business management systems that supports a WC organisation;
- Develop and Implement all policies and procedures;
- Develop and Implement an appropriate HR strategy to support the core business;
- Provide efficient support to the Commissioners; and
- Assist the core business to meet its objectives.

Stakeholder Strategic Objectives

- Provide research excellence on current issues affecting IGFR;
- Develop and implement a comprehensive branding and communication strategy;
- Develop a database of all likely research partners;
- Develop protocols to interface with stakeholders;
- Develop a Prospectus for the FFC; and
- Monitor outcomes of FFC's outputs.

Learning and Innovation Strategic Objectives

- Develop and implement a Data and Information strategy to service FFC's core needs;
- Develop a Library and KM strategy to service FFC's core needs;
- Develop and implement a strategy to attract, retain and develop top research capability; and
- Develop and maintain appropriate research methodologies and capabilities.

Financial Strategic Objectives

- Adopt prudent financial management in line with the PFMA and all other statutory requirements;
- Access other sources of funding to expand FFC's research scope;
- Timeous Monitoring and Reporting on FFC's financial position; and
- Implement performance based budgeting.

10. Events After the Accountable Date

See Sections 7 and 9.

Back to contents

11. Other

Statement of Foreign Aid Assistance Received
for the Year Ended 31 March 2007

Source of Funds	Intended Use	Amount Received	Amount spent	Balance unspent
The AusAid (For fiscal year 2006/07)	Research on Infrastructure issues, procurement of expertise both local and international.	R390,853	R390,853	R0.00
		R390,853	R390,853	R0.00

Value Received in Kind

No foreign donation received in kind for the period 2006/07.

Performance Information on Use of Assistance

No foreign donation received in kind for the period 2006/07

Pending Applications for Assistance

No pending application for the period 2006/07.

Approval

Dr Bethuel Setai
Chairperson / Chief Executive

31 July 2007

Report of the Auditor-General

to Parliament on the Financial Statements of the Financial and Fiscal Commission and Performance Information for the Year Ended 31 March 2007

Report on the Financial Statements

Introduction

1. I have audited the accompanying financial statements of the Financial and Fiscal Commission (FFC) which comprise the statement of financial position as at 31 March 2007, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 95 to 111.

Responsibility of the accounting officer for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Statements of Generally Accepted Accounting Practices (GAAP) including any interpretation of such Statements issued by the Accounting Practices Board, with the effective Statements of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board replacing the equivalent Statements of GAAP and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) and the Financial and Fiscal Commission Act, 1997 (Act No. 99 of 1997). This responsibility includes:

- Designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
- Selecting and applying appropriate accounting policies
- Making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor-General

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with sections 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) and section 25 of the Financial and Fiscal Commission Act, 1997 (Act No. 99 of 1997), my responsibility is to express an opinion on these financial statements based on my audit.

4. I conducted my audit in accordance with the International Standards on Auditing and General Notice 647 of 2007, issued in Government Gazette No. 29919 of 25 May 2007. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

6. An audit also includes evaluating the:
- Appropriateness of accounting policies used
- Reasonableness of accounting estimates made by management
- Overall presentation of the financial statements.

7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis of Accounting

8. The constitutional institution's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in note 1 to the financial statements.

Opinion

9. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Financial and Fiscal Commission as at 31 March 2007 and its financial performance and cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury of South Africa, as set out in note 1 to the financial statements, and in the manner required by the PFMA.

Emphasis of Matters

Without qualifying my audit opinion, I draw attention to the following matter:

10. Going concern
Attention is drawn to the income statement which indicates that the FFC incurred a net loss of R3 039 998 during the year ended 31 March 2007, and as of that date, the FFC's current liabilities exceeded its total assets by R733 549. In this regard the FFC was advanced an amount of R3 million from the 07/08 financial year's allocation.

Other Matters

I draw attention to the following matters that are ancillary to my responsibilities in the audit of the financial statements:

11. Non-compliance with Section 23 of the Financial and Fiscal Commission Act.
According to Section 23(2)(b) of the Financial and Fiscal Commission Act, 1997 (Act No. 99 of 1997) the FFC may at any time during a financial year request additional funding from Parliament, supplementary to its original allocation, based on estimates of its income and expenditure. The fact that sufficient funding was not requested, together with a certain lack in the control environment over the expenditure of its allocated budget, contributed towards the condition as mentioned in paragraph 10 of this report.

12. Internal control
Transactions and other significant events were not properly classified and promptly recorded as indicated in paragraphs 13 and 14 below.

13. Misstatements made to the financial statements
Management did not make the following adjustments to the financial statements, the amount of which could not be exactly determined but reasonability calculations indicated that they would not affect the audit opinion presented above, should they have been adjusted:
- IAS 16 Property, Plant and Equipment, paragraph 50, requires that the residual value and the useful life of all classes of fixed assets be reviewed at least at each financial year end, if expectations differ from previous estimates, the changes be accounted for.

Back to contents

14. Adjustments made to the financial statements submitted for audit:

- IAS 38 requires certain assets such as computer software to be separately classified and disclosed as intangible assets in the financial statements of an entity.
- IAS 24 Related parties, requires that certain information regarding related parties be disclosed in the financial statements annually.
- IAS 16 Property, Plant and Equipment, paragraph 8, requires management to capitalize costs if expected to be used for more than one period and if used only in connection with an item of property, plant and equipment.

Other Reporting Responsibilities

Reporting on Performance Information

15. I have audited the performance information as set out in pages 55 to 59.

Responsibility of the Accounting Officer

16. The accounting officer has additional responsibilities as required by section 40(3) (a) of the PFMA to ensure that the annual report and audited financial statements fairly present the performance against predetermined objectives of the constitutional institution.

Responsibility of the Auditor-General

17. I conducted my engagement in accordance with section 13 of the Public Audit Act, 2004 (Act No. 25 of 2004) read with General Notice 646 of 2007, issued in Government Gazette No. 29919 of 25 May 2007.

18. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate audit evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgment.

19. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings.

Audit Findings

20. No audit findings.

Appreciation

21. The assistance rendered by the staff of the Financial and Fiscal Commission during the audit is sincerely appreciated.

E J Smith for Auditor-General

Pretoria

31 July 2007

AUDITOR-GENERAL

Report of the Audit Committee
for the year ended 31 March 2007

We are pleased to present our report for the financial year ended 31 March 2007.

Audit Committee Members and Attendance

The recently established FFC Audit Committee consists of the members listed hereunder and meets biannually, in terms of its approved terms of reference. During the year under review, two (2) ordinary meetings were held.

Name of member	Number of meetings attended
Martin Kuscus (Chairperson)	Two (2)
Prof. Antony Melck	Two (2)
Tania Ajam	Two (2)
Jerry Sithole (non-Commissioner)	Two (2)

Audit Committee Responsibility

The Audit Committee's responsibilities are in compliance with Section 38 (1)(a) of the Public Finance Management Act (PFMA) and Treasury Regulation 3.1.13. During the reporting period, the Audit Committee adopted appropriate formal terms of reference, and regulated its affairs in compliance with these guidelines, discharging its responsibilities as contained therein. The Committee was responsible for the financial oversight of the external and internal audits, the internal audit three-year plan, fraud prevention plan, supply chain management policies, risk management processes and approved financial statements, ending 31 March 2007.

The Effectiveness of Internal Control

The FFC's internal system of controls aims to safeguard assets and effectively manage working capital, in a cost-effective manner. In compliance with PFMA regulations (Act 1 of 1999), and the King II Report on Corporate Governance requirements, the internal audit conducted during the 2006/7 financial year, proved that the appropriate and effective internal controls were in place. The risk management process initiated by the FFC, as well as the identification, analysis, suggested corrective methods and monitoring of areas of concern, as per the Auditor-General's report, were recorded and would be appropriately addressed during the forthcoming financial year.

As per PFMA Regulations and the Division of Revenue Act 2 of 2006, quarterly reports were prepared and issued by the Accounting Officer and the Commission, during the period under review.

The Audit Committee will undertake to monitor the Executive Management's processes, procedures and measures, to rectify these shortcomings. However, on the whole, the Audit Committee is satisfied that the systems of internal control over major financial risks are efficient and effective in safeguarding the Commission's work.

The Quality of In-Year Management and Monthly Reports Submitted in Terms of the Act

The Audit Committee has noted the content and quality of quarterly internal audit reports prepared and issued by the Accounting Officer and the Commission during the 2006/7 financial year.

Evaluation of Financial Statements

The Audit Committee has:

- Reviewed the audited annual financial statements to be included in the annual report;
- Reviewed the Auditor-General's Management Report and Management Response;
- Reviewed the Report of the Auditor-General; and
- The Audit Committee concurs and accepts the conclusions of the Auditor-General on the Annual Financial Statements and is of the opinion that the Audited Annual Financial Statements be accepted and read together with the report of the Auditor-General.

Mr Martin Kuscus

Chairperson of the Audit Committee

31 July 2007

Statement of Financial Performance

for the year ended 31 March 2007

	Notes	2007	2006
		R	R
Operating income	10	22,095,853	19,899,000
Transfers from National Treasury		21,705,000	19,660,000
Foreign donations received		390,853	239,000
Other income			
Interest received	11	106,995	198,840
Gain on sale of plant and equipment		11,500	7,676
Sundry income		270,260	1,200
Total income		22,484,608	20,106,716
Operating expenses			
Staff costs		(12,759,367)	(8,463,052)
Depreciation		(1,035,023))	(909,427)
Professional services		(342,728)	(508,422)
Other operating expenses		(11,343,575)	(9,138,639)
Total operating expenses		(25,480,693)	(19,019,540)
(Deficit)/surplus before interest and finance charges	12	(2,996,085)	1,087,176
Interest paid		(43,913)	(26,744)
Net (deficit)/surplus for the year		(3,039,998)	1,060,432

Statement of Financial Position

as at 31 March 2007

	Notes	2007	2006
Assets		R	R
Non-current assets		3,132,210	2,019,977
Plant and equipment	2	2,850,862	1,835,773
Intangible assets	3	281,348	184,204
Current assets		22,356	1,730,333
Trade and other receivables	4	2,838	141,673
Cash and cash equivalents	5	19,518	1,588,660
Total assets		3,154,566	3,750,310
Capital, Reserves And Liabilities			
Capital and reserves		(733,549)	(2,306,449)
Capital contribution	6	918,752	918,752
Accumulated (deficit)/surplus		(1,652,301)	1,387,697
Current liabilities		3,888,115	1,443,861
Trade and other payables	8	1,468,386	1,121,468
Interest bearing borrowings	7	-	22,270
Provisions	9	397,167	300,123
Bank overdraft	5	2,022,562	-
Total capital reserves and liabilities		3,154,566	3,750,310

Statement of Change in Net Assets
for the year ended 31 March 2007

	Capital contribution	Accumulated surplus/(deficit)	Total
	R	R	R
At 1 April 2005	918,752	327,265	1,246,017
Surplus for the year		1,060,432	1,060,432
At 1 April 2006	918,752	1,387,697	2,306,449
Deficit for the year		(3,039,998)	(3,039,998)
Balance at 31 March 2007	**918,752**	**(1,652,301)**	**(733,549)**

Cash Flow Statement
for the year ended 31 March 2007

	Notes	2007	2006
		R	R
Cash received from Government and donors		22,234,741	19,899,000
Cash paid to suppliers and employees		(23,723,831)	(16,675,631)
Cash (used in)/generated from operations	13	(1,488,090)	3,223,369
Other income		-	1,200
Interest received		106,995	198,840
Interest paid		(43,913)	(26,744)
Cash (used in)/generated from flows from operating activities		(1,425,008)	3,396,665
Cash flows from investing activities		(2,144,426)	(1,884,991)
Purchase of property, plant and equipment	2		
- Additions		(1,877,286)	(1,716,312)
- Additions - Intangible Assets	3	(278,640)	(219,529)
Proceeds on disposal of plant and equipment	13	11,500	50,850
Cash flows from financing activities		(22,270)	(552,399)
Repayment of interest bearing borrowings		(22,270)	(552,399)
Net increase/(decrease) in cash and cash equivalents for the year		(3,591,704)	959,275
Cash and cash equivalents at beginning of year	5	1,588,660	629,385
Cash and cash equivalents at end of year		(2,003,044)	1,588,660

Statement of Accounting Policies
for the year ended 31 March 2007

Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the year presented, unless otherwise stated.

1. Basis of Preparation

The financial statements have been prepared in accordance with South African statements of Generally Accepted Accounting Practice (GAAP) including any interpretations of such statements issued by the Accounting Practices Board, with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board replacing the equivalent GAAP statement as follows:

These financial statements have been prepared under the historical cost convention and on a basis of a going concern.

Standard of GRAP	Replacement Statement of GAAP
GRAP 1: Presentation of financial statements	AC101: Presentation of financial statements
GRAP 2: Cash flow statements	AC118: Cash flow statements
GRAP 3: Accounting policies. Changes in accounting estimates and errors	AC103: Accounting policies. Changes in accounting estimates and errors

The recognition and measurement principles in the above GRAP and GAAP Statements do not differ or result in material differences in items presented and disclosed in the financial statements. The implementation of GRAP 1,2, and 3 has resulted in the following significant changes in the presentation of the financial statements.

1. Terminology differences

Standard of GRAP	Replacement Statement of GAAP
Statement of financial performance	Income statement
Statement of financial position	Balance sheet
Statement of changes in net assets	Statement of changes in equity
Net assets	Equity
Surplus/ deficit for the period	Profit/loss for the period
Accumulated surplus/deficit	Retained earnings
Contributions from owners	Share capital
Distributions to owners	Dividends
Reporting dates	Balance sheet date

2. The cash flow statement can only be prepared in accordance with the direct method.

3. Specific information has been presented separately on the statements of financial position, such as:

a. receivables from non-exchange transactions, including taxes and transfers;
b. taxes and transfers payable;
c. trade and other payables from non-exchange transactions must be presented separately on the statement of financial position.

4. The amount and nature of any restriction on cash balances is required to be disclosed.

Paragraph 11 - 15 of GRAP 1 has not been implemented due to the fact that the budget reporting standard has not been developed by the local standard setter and the international standard is not effective for this financial year. Although the inclusion of the budget information would enhance the usefulness of the financial statement, non-disclosure will not affect the objective of the financial statements.

1.1 Revenue recognition

- Income from government grants and donations are recognised when the Commission receives it.
- Interest is recognised on a time proportion basis, taking account the principal outstanding or invested and the effective rate over the period to maturity.

1.2 Property, plant and equipment

- All property, plant and equipment are initially recorded at cost and adjusted for any impairment value.
- Impairment losses and reversals of impairment losses are recognised in the income statement.
- Depreciation is calculated on the straight-line method to write off the cost of each asset to their residual values over their estimated useful lives. The depreciation rates applicable to each category of plant and equipment are as follows:

Computer equipment	3 years
Computer software	2 years
Furniture and fittings	5 years
Motor vehicles	5 years
Office equipment	5 years
Leasehold improvements	3 years

No depreciation is provided on paintings, which are considered investment assets.

1.3 Intangible Assets

Acquired computer software is capitalised on the basis of cost incurred to acquire and bring to use the specific software and is amortised on a straight-line basis over their estimated useful lives. Intangible assets with an indefinite useful life are not amortised. The useful life of intangible assets that are not being amortised is reviewed annually to determine whether events and circumstances continue to support an indefinite useful life assessment for those assets.

1.4 Leased Assets

Leases of property, plant and equipment where the Commission assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are capitalised at the estimated present value of the underlying lease payments. Each lease payment is allocated between the liability and finance charges to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance charge is charged to the income statement over the lease period. The property, plant and equipment acquired under finance leasing contracts are depreciated over the useful life of the assets.

Leases under which the risks and benefits of ownership are effectively retained by the lessor, are classified as operating leases. Obligations incurred under operating leases are charged to the income statement on a straight line basis over the period of the lease, except when an alternative method is more representative of the time pattern from which benefits are derived.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

1.5 Provisions

Provisions are recognised when Commission has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

1.6 Employee Benefits

The Commission operates a defined contribution plan, the assets of which are generally held in separate trustee-administered funds. This plan is funded by payments from employees and the Commission.

Defined contribution plans

Contributions to a defined contribution plan in respect of services in a particular period are recognised as an expense in that period.

1.7 Foreign currencies

Transactions

Foreign currency transactions are recorded, on initial recognition in Rand, by applying to the foreign currency amount the exchange rate between the Rand and foreign currency at the date of the transaction.

At each balance sheet date:

a. foreign currency monetary items are reported using the closing rate;
b. non-monetary items, which are carried in terms of historical cost denominated in a foreign currency, are reported using the exchange rate at the date of transaction; and
c. non-monetary items which are carried at fair value denominated in a foreign currency are reported using the exchange rates that existed when the values were determined.

Exchange differences arising on the settlement of monetary items or monetary items or on reporting an enterprise's monetary items at the rates different from those at which they initially recorded during the period, or reported in previous financial statements, are recognised as income or expenses in the period in which they arise.

1.8 Financial Instruments

Financial instruments carried on the balance sheet include cash and bank balances, investments, receivables, trade creditors, leases and borrowings. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Recognition

Financial instruments are initially recognised at cost when the Commission becomes party to the contractual arrangements of the instrument.

Measurement

Subsequent to initial recognition these instruments are measured as set out below:

Trade and other receivables

Trade and other receivables are stated at cost less provision for doubtful debts.

Cash and cash equivalents

Cash and cash equivalents are measured at fair value.

1.9 Cash and Cash Equivalents

For the purpose of the cash flow statement, cash and cash equivalents include cash on hand and where relevant, deposits held on call with banks, investments in money market instruments and bank overdrafts.

Notes to the Annual Financial Statements
for the year ended 31 March 2007

2 Property, plant and equipment

	2007			2006		
	Cost	Accumulated Depreciation	Carrying Value	Cost	Accumulated Depreciation	Carrying Value
Owned Assets						
Paintings	38,806	-	38,806	38,806	-	38,806
Computer Equipment	2,689,033	(1,911,543)	777,490	4,792,878	(3,873,615)	919,263
Vehicles	255,491	(220,662)	34,829	255,491	(182,663)	72,828
Furniture, Fixtures and office equipment	2,709,761	(1,002,900)	1,706,861	1,870,289	(1,065,413)	804,876
Leasehold Improvement	351,444	(58,568)	292,876	-	-	-
	6,044,535	(3,193,673)	2,850,862	6,957,464	(5,121,691)	1,835,773

Reconciliation of the carrying amount - 2007

	Carrying Amount	Additions	Disposals	Depreciation	Carrying Amount
Owned Assets					
Paintings	38,806	-	-	-	38,806
Computer Equipment	919,263	286,261	(8,101)	(419,933)	777,490
Vehicles	72,828	-	-	(37,999)	34,829
Furniture, Fixture and office equipment	804,876	1,239,581	(395)	(337,201)	1,706,861
Leasehold Improvement	-	351,444	-	(58,568)	292,876
	1,835,773	1,877,286	(8,496)	(853,702)	2,850,861

Reconciliation of the carrying amount - 2006

	Carrying Amount	Additions	Disposals	Depreciation	Carrying Amount
Owned Assets					
Paintings	38,806	-	-	-	38,806
Computer Equipment	668,085	940,374	-	(689,196)	919,263
Vehicles	110,828	-	-	(38,000)	72,828
Furniture, Fixture and office equipment	205,657	775,938	(43,174)	(133,545)	804,876
	1,023,376	1,716,321	(43,174)	(860,741)	1,835,773

Notes to the Annual Financial Statements

for the year ended 31 March 2007

3. Intangible Assets

	2007			2006		
	Cost	Accumulated Depreciation	Carrying Value	Cost	Accumulated Depreciation	Carrying Value
Computer Software	747,041	(465,693)	281,348	1,089,681	(905,477)	184,204
	747,041	(465,693)	281,348	1,089,681	(905,477)	184,204

Reconciliation of the carrying amount - 2007

	Carrying Amount	Additions	Disposals	Depreciation	Carrying Amount
Computer Software	184,204	278,640	(174)	(181,322)	281,348
	184,204	278,640	(174)	(181,322)	281,348

Reconciliation of the carrying amount - 2006

Computer Software	13,362	219,529	-	(48,687)	184,204
	13,362	219,529	-	(48,687)	184,204

Notes to the Annual Financial Statements
for the year ended 31 March 2007 cont.

	2007	2006
	R	R
4. Trade and other receivables		
Other receivables	2,838	104,330
Staff loans		14,065
Prepayments	-	23,278
	2,838	**141,673**
5. Cash and cash equivalents		
Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:		
Cash on hand	12,762	11,881
Bank balance	6,755	1,576,779
Bank overdraft	(2,022,562)	-
	(2,003,044)	**1,588,660**
6. Capital contribution		
Value of assets acquired from National Treasury	918,752	918,752
7. Interest bearing borrowings		
Secured liabilities	-	22,270
Liabilities under a finance lease were payable over 3 years, with effective interest rate of 17% to 18 % per annum.		
Liabilities were secured by equipment with a book value of Nil in 2006		
	-	**22,270**
8. Accounts payable		
Trade creditors	976,672	601,562
Accruals	491,714	519,906
	1,468,368	**1,121,468**

9. Provisions

	Opening balance	Utilised during the year	Additions	Closing balance
Reconciliation of the provisions - 2007				
Leave pay benefits	300,123	(49,508)	146,552	397,167
Reconciliation of the provisions - 2006				
Leave pay benefits	232,184	-	67,939	300,123

10. Income

Income comprises grants received from Government and occasional donations.	22,095,853	19,899,000

11. Interest received

This is interest on available funds held in current accounts with financial institutions.	106,995	198,840

Notes to the Annual Financial Statements
for the year ended 31 March 2007 cont.

	2007	2006
	R	R
12. Deficit		
Net (deficit)/surplus for the year has been arrived at after debiting:		
Auditors remuneration	534,695	307,655
Current year fee	120,683	-
Prior year fee	414,012	307,655
Professional services	342,728	508,422
Commissioners' expenses	79,530	72,965
Rentals in respect of operating leases:		
Office equipment	103,071	340,894
Depreciation:	1,035,023	909,428
Computer hardware	419,933	689,196
Computer software	181,322	48,687
Furniture, fittings and equipment	337,201	133,545
Leasehold Improvements	58,568	-
Motor Vehicles	37,999	38,000
Staff costs	11,126,303	8,463,730
Included in staff costs are:		
Defined contribution plan expense	1,633,064	1,099,730
See note 16		
And after crediting:		
Interest received:		
Current Account	106,763	197,677
Staff loans	232	1,163
	106,995	**198,840**
Number of employees at year end	39	29

	2007	2006
	R	R
13. Cash (used in) / generated from operations		
Reconciliation of (deficit)/surplus to cash (used in) generated by operations:		
Net (deficit)/surplus for the year	(3039,998)	1,060,432
Adjusted for:	1,066,155	796,393
Depreciation	1,035,023	909,427
Gain on sale of plant and equipment	(11,500)	(7,676)
Interest received	(106,995)	(198,840)
Loss on sale of asset	8,670	-
Other income	-	(1,200)
Movement in provisions	97,044	67,938
Finance charges	43,913	26,744
(Deficit)/surplus before working capital changes	(1,973,843)	1,856,825
Working capital changes:	485,753	1,366,544
Increase in accounts payable	346,918	772,056
Decrease in accounts receivable	138,835	594,488
Cash (used in)/generated from operations	**(1,488,090)**	**3,223,369**

Proceeds on sale of plant and equipment		
Profit on sale of plant and equipment	11,500	7,676
Carrying value of plant and equipment	-	43,174
	11,500	**50,850**

Notes to the Annual Financial Statements

for the year ended 31 March 2007 cont.

14. Related parties transactions

All National Departments of Government and State-controlled entities are regarded as related parties in accordance with Circular 4 of 2005.The Financial and Fiscal Commission is a public entity reporting to Parliament and National Treasury from whom it received grants in the current and prior years. The following transactions and balances were recorded relating to transactions with related parties as defined.

	2007	2006
	R	R
Grants Received		
National Treasury	21,705,000	19,660,000
Service provided by related parties		
South African Broadcasting Corporation	1,035	495
South African Revenue Services	2,840,209	1,917,854
Telkom	216,591	309,286
	3,057,836	2,227,635

15. Financial instruments

Credit risk

Financial assets which potentially subject the Commission to concentrations of credit risk principally of cash and receivables. The Commission's cash equivalents are placed with high credit quality financial institutions. Receivables are of a sundry nature and the credit risk is therefore limited. Accordingly the Commission has no significant concentration of credit risk.

The carrying amounts of financial assets included in the balance sheet represent the Commission's exposure to credit risk in relation to these assets.

Interest rate risk

The Commission has cash and cash equivalents and is therefore exposed to interest rate fluctuations. Similarly interest payable on long and short term borrowings are at variable rates.

Fair values

At 31 March 2007 the carrying amounts of cash and cash equivalents, accounts payable and accounts receivable approximated their fair value due to the short term maturities of these assets and liabilities.

16. Foreign donations

Foreign donations comprised amounts received during 2006/2007 from AusAid.

17. Deficit

The deficit has been partly financed by the accumulated surplus arising from the previous year. The deficit is mainly due to an increase in research activities and other support services and non cash items such as depreciation and provisions.

Back to contents

18. Retirement benefits information

During the year, the FFC contributed to the Sage Provident Fund for all its employees. This constituted a defined contribution fund governed by the Pension Fund Act (Act 24, 1956, as amended). In terms of the rules of the fund, the Commission is committed to contribute 12.5% of pensionable emoluments towards the retirement fund and 3.5% of pensionable emoluments towards an accident compensation fund. An amount of R 1,633,064 (2006: R1,099,730) was recognised as an expense during the year for contributions to the retirement fund.

19. Operating lease commitments

The future minimum lease payments under non-cancellable operating leases are as follows:

	2007	2006
	R	R
Not later than 1 year	735,176	-
Later than 1 year but not later than 5 years	3,407,647	-
	4,142,823	-

Operating lease payments represents rental payable by the Commission for its office properties. Leases are negotiated for an average term of five years and have an 8% escalation clause. No contingent rent is payable.

20. Going Concern

Attention is drawn to the income statement which indicates that the Commission incurred a net loss of R3.1 million, in the year ended 31 March 2007, and furthermore, the Commission's liabilities exceeded its assets at that date by R 733,549. The Commission's ability to continue as a going concern depends largely on the continued support of government by means of annual grant.

Back to contents

FINANCIAL AND FISCAL COMMISSION

Expenditure Schedule
for the year ended 31 March 2007

	2007 R	2006 R
Accounting fees	34,807	111,524
Advertising	-	76,657
Auditor's remuneration	534,695	307,655
Internal Auditor's fees	342,549	250,273
Bank charges	20,384	12,075
Commissioners' expenses	79,530	72,965
Computer maintenance	428,891	365,165
Courier expenses	110,954	69,935
Depreciation	1,035,023	909,427
Diginet lines rental	193,375	257,187
Provident fund	1,633,064	1,099,730
General repairs and office maintenance	705,936	230,074
Interest paid	43,913	26,744
Insurance	192,829	-
Bosberaad/IGFR Conference	3,370	300,910
Meetings and conferences	196,057	212,604
Motor vehicle expenses	40,925	42,901
Postage, printing and stationery	560,266	405,975
Professional services	342,728	508,422
Commission research	2,749,683	1,920,748
RSC levies	7,520	27,375
Refurbishment costs	605,454	1,835,785
Rental of office equipment	103,071	340,894
Staff costs	11,126,303	7,363,322
Training	969,025	260,373
Sundry Expenses	21,669	6,337
Telephone and fax	840,255	583,407
Travel and accommodation	2,602,331	1,447,820
	25,524,606	19,046,284

Statement of Application of Foreign Donations Received

for the year ended 31 March 2007

Donations received	2007	2006
	R	R
Donation from AusAid	390,853	239,000
	390,853	239,000
Utilised in:		
Consultancy costs: Jeff Petchey	(390,853)	(239,000)
	(390,853)	(239,000)
Utilisation of donations received	-	-

Back to contents

section 15

"People know each other better on a journey."

Sol Plaatje

Human Resources Review

Contents

1. Overview of HR Activities for the Reporting Period

Implementation of the FFC's Capacity Expansion Programme and Realignment Structure continued through the 2006/07 reporting period and have been integrated in the institutional Strategic Repositioning exercise.

A key development in terms of human resources has been the implementation of a reconstituted corporate affairs / support services division in the organisation. For the 2006/07 reporting period the FFC implemented structures and resources to cater for functional requirements in the areas of Library and Knowledge Management, Document and Records Management, Publications and Internal Communications, External Stakeholder Communications, HR Administration and an internal IT Support function. Strategies for upgrading services relating to Facilities Management have also been introduced.

Capacity expansion was also evidenced in the Research Programme, with an increase in research capability for the key Research divisions, and the streamlining of resources and services within the Data and Information Unit.

These developments have resulted in an increase of the secretariat staff complement over the reporting period, by ten posts. The Capacity Expansion Programme and Realignment Structure has continued into the 2007/08 reporting period.

Projects were implemented to address HR Strategic Objectives in the areas of enhancing the Performance Management System, revising the FFC Remuneration and Reward Framework, establishing and implementing an FFC Internship Programme and the alignment of performance/remuneration systems with the work cycle of the organisation.

All FFC HR Policies and Procedures and employment / consultant contracts were reviewed to ensure that organisational practice was aligned to legislative / regulatory requirements and to address the strategic objectives identified for the FFC. This process has also resulted in the development of new policy areas including Information Security, Communications, Internships, Remuneration / Retention, Management Development and Change Management.

Employee Job Profiles and Performance Contracts for the 2006/07 period were reviewed and updated in accordance with the transformation of job roles and deliverables contained in the Capacity Expansion Programme.

Gender representation, as targeted in the FFC's Employment Equity Plan, remains a key focus for the organisation. The capacity expansion for the 2006/07 period has provided an opportunity for targeted selection processes to be employed in addressing defined equity goals. The FFC has identified the appointment of female staff at the Professional (09–12) and Senior Management Services (13–16) Levels as a key target in the Employment Equity Plan. The Plan targets a Male/Female employee ration of 60%/40% for both these occupational categories. During the 2006/07 reporting period, this target was exceeded for the Professional Occupational Category, at 45% Male and 55% Female.

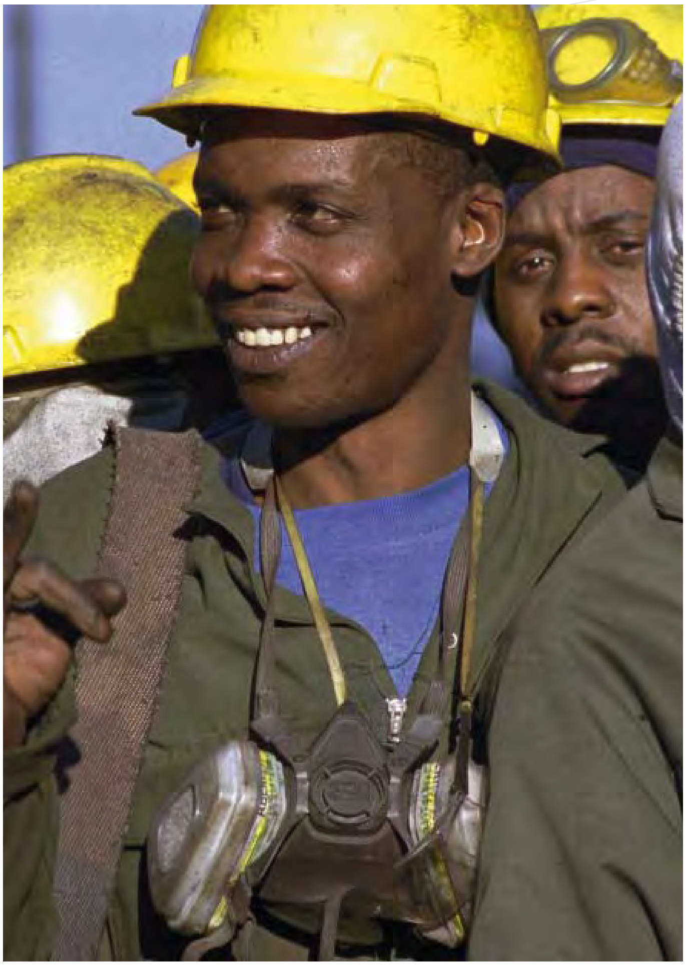
In the Senior Management Occupational Category, the ratio is currently 86% Male and 14% Female. Forthcoming recruitment activities for this occupational category will focus on gender representation as a core objective.

Staff turnover for the 2006/07 reporting period was seven employees (including the expiry of two Internship Agreements). The Remuneration Framework and Retention Policy Programme currently being formulated has been motivated by the need to develop strategies for attracting and retaining key skills, particularly within the core business area of the FFC.

For the 2006/07 reporting period, the FFC continued to invest funds in employee skills development. A total of R486 542 was invested for a total of 269 training days for the period. This translates to average training days per FFC employee of 7, at an average cost of R12 475 per employee for the reporting period. In addition, the FFC invested R75 734 in educational assistance for its staff over the reporting period.

The FFC's Strategic Planning process for 2007/08 commenced in October 2006 and included a culture and climate survey as part of the process. The information obtained from this survey will be utilised as part of the strategic planning process and will form the basis for follow-up surveys in the future. The Performance Management process of the FFC also includes a report that outlines organisational issues raised in the performance review process and provides a bi-annual indicator on issues of culture and climate.

The statistical tables and information that follow provide further data applicable to FFC Human Resources Management. All HR information published can be verified through the office of the Executive Manager.



2. Expenditure

Table 2.1 Personnel Costs by Salary Bands, 2006/07

Salary Bands	Personnel Expenditure	% of Total Personnel Cost	Average Personnel Cost per Employee
Salary levels 1 - 2	126 728	1.03	126 728
Salary levels 3 - 5	797 627	6.40	199 407
Salary levels 6 - 8	649 822	5.21	216 607
Salary levels 9 - 12	6 115 483	49.05	277 977
Salary levels 13 - 16	4 777 974	38.32	530 886
Total	12 467 634	100.00	319 683

Table 2.2 Salaries, Overtime and Medical Assistance by Salary Bands, 2006/07

Salary Bands	Salaries		Overtime		Medical Assistance	
	Amount (R'000)	% of personnel cost	Amount (R'000)	% of personnel cost	Amount (R'000)	% of personnel cost
Salary levels 1 - 2	70 942	55.98	-	-	26 951	21.27
Salary levels 3 - 5	527 162	66.09	961.00	0.12	193 192	24.22
Salary levels 6 - 8	540 252	83.14	-	-	87 127	13.41
Salary levels 9 - 12	5 473 574	89.50	-	-	473 794	7.75
Salary levels 13 - 16	4 351 053	91.06	-	-	216 139	4.52
Total	10 962 986	87.93	961.00	0.01	997 203	8.00

Note: The FFC does not provide a Home Owners Allowance benefit.

3. Employment and Vacancies

Table 3.1 Employment and Vacancies by Salary Bands, as at 31 March 2007

Salary Band	Number of Posts	Number of Posts Filled	Vacancy Rate %	Additional to the Establishment
Salary levels 1 - 2	1	1	-	-
Salary levels 3 - 5	6	4	33.33	-
Salary levels 9 - 12	4	3	25.00	-
Salary levels 6 -8	26	22	15.38	-
Senior Management 13 – 16	11	9	18.18	-
Programme Total	48	39	18.75	0

4. Job Evaluation

No job evaluations were conducted for the reporting period 2006/07.

Table 4.1 Employees Whose Salary Levels Exceeded the Grade Determined by Job Evaluation, 01 April 2006 to 31 March 2007

Occupation	Number of Employees	Job Evaluation Level	Remuneration Level	Reason for deviation
Facilities Manager	1	11	12	Post previously benchmarked against Private Sector rates
PA	1	9	10	Post previously benchmarked against Private Sector rates
Accounts Officer	1	9	10	Post previously benchmarked against Private Sector rates
Receptionist	1	4	7	Post previously benchmarked against Private Sector rates
General Office Assistant	2	3	4	Post previously benchmarked against Private Sector rates

Table 4.2 Profile of Employees Whose Salary Levels Exceeded the Grade Determined by Job Evaluation, 01 April 2006 to 31 March 2007

Beneficiaries	African	Indian	Coloured	White	Total
Female	3	-	2	1	6
Male	-	-	-	-	-
Total	3	-	2	1	6

5. Employment Changes

Table 5.1 Annual Turnover Rates by Salary Bands, 01 April 2006 to 31 March 2007

Salary Levels	Number of employees per Level as at 01 April 2006	Appointments and Transfers In	Terminations and Transfers Out	Turnover rate
Salary levels 1 - 2	1	-	-	-
Salary levels 3 - 5	4	1	1	-
Salary levels 6 -8	4	1	2	-1
Salary levels 9 - 12	13	11	2	9
Senior Management 13 - 16	7	4	2	2
Total	29	17	7	10

Table 5.2 Reasons Why Staff are Leaving the FFC

Termination Type	Number	% of total turnover
Death	-	-
Resignation	5	71
Expiry of Contract	2	29
Dismissal - organisational changes	-	-
Dismissal - misconduct	-	-
Dismissal - inefficiency	-	-
Discharge due to ill-health	-	-
Retirement	-	-
Other	-	-
Total	7	100

Table 5.3 Promotions by Salary Bands, 01 April 2006 to 31 March 2007

Salary Band	Employees 01 April 2006	Promotions to another salary level	Salary Band promotions as a % of employees by salary level
Salary levels 1 - 2	1	-	-
Salary levels 3 - 5	4	1	25.00
Salary levels 6 - 8	4	-	-
Salary levels 9 - 12	13	1	7.69
Senior Management 13 – 16	7	-	-
Total	29	2	6.90

Note: Notch progressions do not form part of the FFC remuneration practice.

6. Employment Equity

Table 6.1 Total Number of Employees (FFC Secretariat Staff) in Each of the Following Occupational Categories, as at 31 March 2007

Occupational Categories	Male				Female				Total
	African	Coloured	Indian	White	African	Coloured	Indian	White	
Legislators, senior officials and managers	3	-	-	1	-	-	-	1	5
Professionals	7	2	1	-	6	2	-	3	21
Technicians and associate professionals	-	-	-	-	-	-	-	-	-
Clerks	2	-	-	-	3	2	-	-	7
Service and sales workers	-	-	-	-	-	-	-	-	-
Skilled agricultural and fishery workers	-	-	-	-	-	-	-	-	-
Craft and related trades workers	-	-	-	-	-	-	-	-	-
Plant and machine operators and assemblers	-	-	-	-	-	-	-	-	-
Elementary occupations	-	-	-	-	1	-	-	-	1
Total Permanent	12	2	1	1	10	4	-	4	34
Non-permanent Employees	1	1	-	-	1	-	-	-	3
Total	13	3	1	1	11	4	-	4	37
Persons with disabilities	-	-	-	-	-	-	-	-	-

Table 6.2 Total number of Employees (FFC Secretariat Staff) in Each of the Following Occupational Levels, as at 31 March 2007

Occupational Bands	Male				Female				Total
	African	Coloured	Indian	White	African	Coloured	Indian	White	
Top Management	-	-	-	-	-	-	-	-	-
Senior Management	3	-	-	1	-	-	-	1	5
Professionally qualified and experienced specialists and mid-management	5	2	-	-	-	1	-	2	10
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	2	-	1	-	6	1	-	1	11
Semi-skilled and discretionary decision making	2	-	-	-	3	2	-	-	7
Unskilled and defined decision making	-	-	-	-	1	-	-	-	1
Total Permanent	12	2	1	1	10	4	-	4	34
Non-permanent employees	1	1	-	-	1	-	-	-	3
Total	13	3	1	1	11	4	-	4	37
Persons with disabilities	-	-	-	-	-	-	-	-	-

Table 6.3 Recruitment, 01 April 2006 to 31 March 2007

Occupational Bands	Male				Female				Total
	African	Coloured	Indian	White	African	Coloured	Indian	White	
Top Management	-	-	-	-	-	-	-	-	-
Senior Management	1	-	-	-	-	-	-	1	2
Professionally qualified and experienced specialists and mid-management	2	-	-	-	-	-	-	2	4
Skilled Technical and Academically qualified workers, junior management, supervisors, foremen and superindents	1	-	-	-	3	1	-	-	5

Table 6.3 Recruitment, 01 April 2006 to 31 March 2007 cont.

Occupational Bands	Male				Female				Total
	African	Col-oured	Indian	White	African	Col-oured	Indian	White	
Semi-skilled and discretionary decision making	2	-	-	-	-	-	-	-	2
Unskilled and defined decision making	-	-	-	-	-	-	-	-	-
Total Permanent	6	-	-	-	3	1	-	3	13
Non-permanent employees	2	1	-	-	1	-	-	-	4
Total	8	1	-	-	4	1	-	3	17

Note: Non-permanent employees include interns and fixed-term contracts.

Table 6.4 Promotions, 01 April 2006 to 31 March 2007

Occupational Bands	Male				Female				Total
	African	Col-oured	Indian	White	African	Col-oured	Indian	White	
Top Management	-	-	-	-	-	-	-	-	-
Senior Management	-	-	-	-	-	-	-	-	-
Professionally qualified and experienced specialists and mid-management	-	-	-	-	-	-	-	-	-
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	-	-	-	-	1	-	-	-	1
Semi-skilled and discretionary decision making	1	-	-	-	-	-	-	-	1
Unskilled and defined decision making	-	-	-	-	-	-	-	-	-
Total Permanent	1	-	-	-	1	-	-	-	2
Non-permanent employees	-	-	-	-	-	-	-	-	-
Total	1	-	-	-	1	-	-	-	2

Table 6.5 Terminations, 01 April 2006 to 31 March 2007

Occupational Bands	Male				Female				Total
	African	Col-oured	Indian	White	African	Col-oured	Indian	White	
Top Management	-	-	-	-	-	-	-	-	-
Senior Management	1	-	1	-	-	-	-	-	2
Professionally qualified and experienced specialists and mid-management	-	-	-	-	-	-	-	-	-
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	-	-	-	-	-	-	-	-	-
Semi-skilled and discretionary decision making	-	-	-	-	3	-	-	-	3
Unskilled and defined decision making	-	-	-	-	-	-	-	-	-
Total Permanent	1	-	1	-	3	-	-	-	5
Non-permanent employees	1	-	-	-	1	-	-	-	2
Total	2	-	1	-	4	-	-	-	7

Table 6.6 Disciplinary Action, 01 April 2006 to 31 March 2007

	Male				Female				Total
	African	Col-oured	Indian	White	African	Col-oured	Indian	White	
Disciplinary Action	-	-	-	-	-	-	-	-	-

Table 6.7 Skills Development, 01 April 2006 to 31 March 2007

Occupational Categories	Male				Female				Total
	African	Col-oured	Indian	White	African	Col-oured	Indian	White	
Legislators, senior officials and managers	4	-	1	1	-	-	-	-	6
Professionals	5	2	1	-	5	1	-	1	15
Technicians and associate professionals	-	-	-	-	-	-	-	-	-
Clerks	-	-	-	-	4	2	-	-	6
Service and sales workers	-	-	-	-	-	-	-	-	-
Skilled agricultural and fishery workers	-	-	-	-	-	-	-	-	-
Craft and related trades work-ers	-	-	-	-	-	-	-	-	-
Plant and machine operators and assemblers	-	-	-	-	-	-	-	-	-
Elementary occupations	-	-	-	-	-	-	-	-	-
Total Permanent	9	2	2	1	9	3	-	1	27
Non-permanent employees	1	-	-	-	-	-	-	-	1
Total	10	2	2	1	9	3	-	1	28
Persons with disabilities	-	-	-	-	-	-	-	-	0

7. Performance Rewards

Table 7.1 Performance Rewards, by Race, Gender and Disability, 01 April 2006 to 31 March 2007

Race, Gender and Disability	Number of beneficiaries	Total Number of employees in group	% of total within group	Cost (R'000)	Average cost per employee
African					
Male	9	14	64.29	305 774.40	33 974.93
Female	8	11	72.73	117 856.91	14 732.11
Indian					
Male	1	2	50.00	19 624.00	9 812.00
Female	-	-	-	-	-
Coloured					
Male	2	3	66.67	43 906.80	21 953.40
Female	3	4	75.00	49 119.42	16 373.14
White					
Male	1	1	100.00	16 302.48	16 302.48
Female	1	4	25.00	18 880.72	18 880.72
Total	**25**	**39**	**64.10**	**571 464.73**	**22 858.59**
Employees with disability	-	-	-	-	-

Table 7.2 Performance Rewards, by Salary Band, for Personnel Below Senior Management Service, 01 April 2006 to 31 March 2007

Salary Band	Number of beneficiaries	Number of employees	% of total within group	Cost	Average cost per employee	Total cost as % of total personnel cost
Salary levels 1 - 2	1	1	100.00	5 811.57	5 811.57	4.59
Salary levels 3 - 5	3	4	75.00	30 470.43	10 156.81	3.82
Salary levels 6 - 8	2	3	66.67	19 618.11	9 809.06	3.02
Salary levels 9 - 12	14	22	63.64	325 481.87	23 248.71	5.32
Total	20	30	66.67	381 381.98	19 069.10	4.96

Table 7.3 Performance-Related Rewards, by Salary Band, for Senior Management Service, 01 April 2006 to 31 March 2007

Salary Band	Number of beneficiaries	Number of employees	% of total within group	Cost	Average cost per employee	Total cost as % of total personnel cost
Salary levels 13 - 16	5	9	55.56	190 082.75	38 016.55	3.98
Total	5	9	55.56	190 082.75	38 016.55	3.98

Back to contents

8. Foreign Workers

Table 8.1 Foreign Workers by Salary Band, 01 April 2006 to 31 March 2007

Salary Bands	01 April 2006		31 March 2007		Change	
	Number	% of total	Number	% of total	Number	% of total
Salary levels 1 - 2	-	-	-	-	-	-
Salary levels 3 - 5	-	-	-	-	-	-
Salary levels 6 - 8	-	-	-	-	-	-
Salary levels 9 - 12	1	100	3	75	2	67
Senior Management 13 – 16	-	-	1	25	1	33
Total	1	100	4	100	3	100

Table 8.2 Foreign Workers, by Major Occupation, 01 April 2006 to 31 March 2007

Major Occupation	01 April 2006		31 March 2007		Change	
	Number	% of total	Number	% of total	Number	% of total
Senior Management	0	0	1	25	1	33
Research Specialists	1	100	2	50	1	33
Senior Researcher	0	0	1	25	1	33
Total	1	100	4	100	3	100

9. Leave Utilisation

Table 9.1 Sick Leave, 01 April 2006 to 31 March 2007

Salary Band	Total days	% certification	No. of employees using sick leave	% of total employees using sick leave	Average per employee	Estimated cost	Total days with medical certification
Salary levels 1 - 2	-	-	-	-	-	-	-
Salary levels 3 - 5	23	91.3	3	75.0	7.7	6 269	21
Salary levels 6 - 8	11	27.3	2	66.67	5.5	9 667	3
Salary levels 9 - 12	56	85.7	13	59.09	4.3	72 386	48
Salary levels 13 - 16	14	50.0	4	44.44	3.5	21 143	7
Total	104	76.0	22	56.41	4.7	109 465	79

Table 9.2 Disability Leave (Temporary and Permanent), 01 April 2006 to 31 March 2007

Disability Leave - 2006/07	None

Table 9.3 Annual Leave, 01 April 2006 to 31 March 2007

Salary Bands	Total days taken	Number of employees in grade	Average per employee
Salary levels 1 - 2	19	1	19
Salary levels 3 - 5	50	4	13
Salary levels 6 - 8	46.5	3	16
Salary levels 9 - 12	263	22	12
Salary levels 13 - 16	129.5	9	14
Total	508	39	13

Table 9.4 Leave Payouts, 01 April 2006 to 31 March 2007

Reason	Total Amount (R'000)	Number of employees	Average payment per employee
Leave payout for 2006/07 due to non-utilisation	-	-	-
Current leave payout on termination of service	45 953	5	9 191
Total	**45 953**	5	9 191

10. HIV/Aids and Health Promotion Programmes

The Financial and Fiscal Commission's HIV/Aids Policy was introduced in 2002, and reviewed during the reporting period as part of the updating process for all 'HR Policies and Procedures'. The HIV/Aids Policy delivers a clear message on the issue of discrimination and protection of employees who are HIV-positive or perceived to be HIV-positive.

As regards the risk of occupational exposure, no specific units or categories of employees were identified to be at high risk of contracting HIV and related diseases.

During the 2006/07 financial year, the FFC installed a first aid kit on site and had an official trained in all aspects of first aid support available and accessible to all staff. This resource covered general occupational health and safety issues as well as HIV/Aids-related support in the workplace. A further official will be trained during the 2007/08 reporting period.

Further plans, in terms of the HR strategy for the forthcoming financial year, include the implementation of staff HIV/Aids Awareness and Health Promotion Programmes, as well as that of an Employee Assistance Programme, the latter being aimed at addressing broader issues related to employee well-being and health.

11. Labour Relations

Table 11.1 Collective Agreements, 01 April 2006 to 31 March 2007

Total collective agreements	None

Table 11.2 Disciplinary Hearings, 01 April 2006 to 31 March 2007

Disciplinary hearings – 2006/07	None

Table 11.3 Grievances Lodged, 01 April 2006 to 31 March 2007

Number of grievances lodged	None

Table 11.4 Disputes Lodged with Councils, 01 April 2006 to 31 March 2007

Number of disputes lodged	None

Table 11.5 Strike Action, 01 April 2006 to 31 March 2007

Strike actions for the period	None

Table 11.6 Precautionary Suspensions, 01 April 2006 to 31 March 2007

Precautionary suspensions for the period	None

12. Skills Development

Table 12.1 Training Provided, 01 April 2006 to 31 March 2007

Occupational Categories	Gender	No. of employees as at 01 April 2006	Learnerships	Skills programmes and other short courses	Other forms of training	Totals
Legislators, senior officials and managers	Female Male	1 6	-	- 7	- -	7
Professionals	Female Male	6 7	1 1	7 8	3 2	11 11
Clerks	Female Male	8 -	- -	6 -	- -	6
Elementary occupations	Female Male	1 -	- -	- -	- -	
Total		29	2	28	5	35

13. Injury on Duty

Table 13.1 Injury on Duty, 01 April 2006 to 31 March 2007

Nature of Injury	Number	% of total
Required basic medical attention only	-	-
Temporary total disablement	-	-
Permanent disablement	-	-
Fatal	-	-
Total	-	-

14. Utilisation of Consultants

Table 14.1 Analysis of Consultancy Appointments, 01 April 2006 to 31 March 2007

Name/Project	Commission Research – Total Value	Professional Services – Total Value	Historically Disadvantaged Individual (HDI) Status
Oludele Akinboade, Department of Economics, Unisa – National School Nutrition Programme	68,250.00	-	Yes
Benguela Health Pty (Ltd), Nicholas Crisp – Function Shifts Checklist and Manual	68,636.00	-	No
Ismael Fofana, Poverty and Economic Policy Research Network, Laval University	45,150.00	-	Yes
Prof. Catherine Havenga, Unisa – Corporate Governance presentation for the Commission	16,015.00	-	No
Alex van der Heever, University of Stellenbosch – Evaluation of the Financial Framework for Integrating the Modernisation of Tertiary Services Process into the National Tertiary Service Grant and the Budget Process	94,080.00	-	No
André Michaux – HR	29,117.00	-	No
Riaan Muller – Development of data warehouse	108,713.00	-	No
Ngubane & Co. – Development of Cost Centres	32,319.00	-	Yes
Lynette Rens – Accounts and Pastel training	-	247,725.00	No
Andrew Reschovsky, Public Affairs and Applied Economics, University of Wisconsin – Financing of Learner Support Materials, re-ranking of schools and adequacy of no-fee schools policy	34,533.00	-	Non-South African

Name/Project	Commission Research – Total Value	Professional Services – Total Value	Historically Disadvantaged Individual (HDI) Status
Servaas van den Berg and Olivia Engelbrecht, Department of Economics, University of Stellenbosch – Infrastructure and School Outcomes	120,117.00	-	No
Servaas van den Berg, Department of Economics, University of Stellenbosch	80,864.00	-	No
Benoit Verhaeghe, CSIR Built Environment – Roads Funding Framework	40,000.00	-	Non-South African
Jeff Petchey and Garry MacDonald, Curtin University of Technology – Pilot Model on Progressive Realisation of Access to Basic Services and Poverty Reduction in South Africa	449,173.00	-	Non-South African
Waymark – Development of Terms of Reference for Request for Proposals Template	-	18,240.00	Yes
Edward Nathan Sonnenbergs inc – Review of HR Policies	-	111,162.00	Yes
Public transport policy presentation	19,140.00	-	Unknown
Sizanang Centre for Research and Development, David Solomon – RSC/JSB Levies	82,045.00	-	Yes
Elizabeth J. Willis – Company Secretarial Consultant	-	29,575.00	No

Table 14.2 Analysis of Service Provider/External Supplier Appointments, 01 April 2006 to 31 March 2007

Name/Project	Total Value	Historically Disadvantaged Individual (HDI) Status
21st Century	149,568.00	Yes
Action Appointments	41,553.00	Yes
ADCORP Talent Resourcing	99,325.00	Yes
Ambijo Office Supplies	84,835.00	Yes
American Express	2,703.00	Yes
Aquazania Premium Water	8,797.00	Yes
ASYST Intelligence	16,487.00	Yes
Auditor-General	534,695.00	Government
Banathi Catering	77,665.00	Yes
Beth Horner & Associates	3,000.00	No
Blue Sky Electrical Contractors cc	68,725.00	No
Broll House	184,472.00	Unknown
Bytes Technology	75,861.00	Yes
CapeBridge Trust	28,933.00	No
Corporate Business and Management	14,665.00	No
Click IT	491,009.00	No
Conningarth Economics	102,599.00	Non-South African
DataDeal Technologies	183,716.00	Yes
DataDeal Technologies	176,800.00	Yes
Dex Security Solutions (PTY)	55,249.00	No
Digital Voice Processing	29,560.00	No
Dijalo Property Management (PTY) Ltd	37,750.00	Yes
Direct Management Solutions	11,377.00	Yes
Discovery Health	988,854.00	Yes
Diverso Technology	20,581.00	Yes
Dot Office Stationery	66,076.00	Yes
FaxFix Office Automation	28,722.00	Yes
FTR Services – Contracts	73,359.00	No
Gauteng Printing Company	9,087.00	Yes
Gordon Institute of Business Science	133,900.00	University

Name/Project	Total Value	Historically Disadvantaged Individual (HDI) Status
Hybrid Systems	198,296.00	Yes
Imperial Chauffeur Drive	1,680.00	Yes
Independent Newspapers	3,344.00	Yes
Internet Solutions	243,416.00	Yes
Intelligent Africa Marketing	77,320.00	No
IS Fax	28,632.00	Yes
Isisango Convention Centre	1,953.00	No
IT Intellect Computer Training	24,999.00	Yes
JC Contracts	62,016.00	Yes
JK Sithole	11,230.00	Yes
Kelly Girl	135,782.00	Yes
La Chaumière Guest House	16,632.00	No
Landelahni Assessment Services	88,350.00	Yes
Lebe Office Supplies	1,451.00	Yes
Le Farm Conference & Function Centre	12,996.00	No
Mainline Office Furniture	689,060.00	Yes
Moloko Asset Management	18,657.00	Yes
MPL Capital	410,400.00	Yes
Medihelp	72,570.00	Yes
Micropal Africa	19,367.00	Yes
Minolta	119,940.00	Yes
Minit Print /Wenceslas No.1 cc	37,208.00	Yes
Nashua Kopano	9,599.00	No
Ndandatho Business	39,557.00	Yes
Ninos – Catering	10,452.00	No
Optiplan	23,903.00	Yes
Softline Pastel	4,830.00	Yes
Pelican Systems	81,316.00	Unknown
Prestige Office Supplies	26,904.00	Yes
Pro-Touch Seating cc	15,903.00	Yes
Price Water House Coopers	306,650.00	Yes
Quantec Research(Pty) Ltd	63,062.00	No

Name/Project	Total Value	Historically Disadvantaged Individual (HDI) Status
Rain Registered Accountants and Auditors	34,806.00	Yes
Rentokil Initial	103,718.00	Yes
Sage	383,084.00	Yes
SARS	2,558,618.00	Government
UIF Contribution	86,224.00	Government
Sasfin	69,835.00	Bank
Sign Creation	23,654.00	No
Sizanang Centre	70,000.00	Yes
Snags cc	273,195.00	No
Solution Technologies	15,656.00	Unknown
Speed Services	72,639.00	Yes
Star Interiors	37,920.00	Yes
Steiner	25,366.00	Yes
Telkom	216,591.00	Yes
Trisha Delisha Catering	6,402.00	Yes
Typing and Transcription Services	7,233.00	Yes
Unibind Systems (Pty) Ltd	4,505.00	Yes
Unisa	68,235.00	University
Unwembi Communications	63,700.00	Yes
Vukani Technologies	51,769.00	Yes
C.H.M. Vuwani Computer Solutions	31,153.00	Yes
Waltons Stationery	60,860.00	Yes
University of Cape Town	116,850.00	University
University of the Western Cape	35,730.00	University
University of Witwatersrand	21,738.00	University
Zenprop Property Holdings (Pty) Ltd Acc	92,694.00	No

Back to contents

"Where the rooster crows

there is a village."

Schambala Proverb

Glossary

Budget Council
A government institution set up to coordinate intergovernmental fiscal relations and other financial issues between national and provincial government. The Budget Council comprises the Minister and Deputy Minster of Finance and the nine provincial MECs for Finance.

Conditional Grants
Allocations of funds from one sphere of government to another, conditional on certain services being delivered or in compliance with specified requirements. Conditional grants appear as expenditure in the budget of the department making the grant and as revenue of the province or municipality receiving the grant.

Equitable Share
The Constitutional requirement for the fair allocation of nationally collected revenues to the national, provincial and local spheres of government.

Equity
Fairness or justice in the manner in which the economy's output is distributed between individuals (distributional equity) and fairness or justice in the allocation of funds/benefits to individuals with similar incomes or needs (horizontal equity).

Fiscal Policy
The uses of taxation, expenditure and borrowing by government to regulate the aggregate level of economic activity.

Fuel Levy
An excise tax on petrol.

Horizontal Division
The division of an equitable share of national revenue among the different units of government at the same level; for example, among the nine provinces.

Macroeconomic
The behaviour of the economy as a whole; the study of the economy on a large scale.

Minmec
The Committee comprising the Minister of a particular government department plus the MECs of the nine provinces (if that department has a provincial function).

National Revenue
The income of the state from taxes, levies and other charges.

Spheres of Government
In South Africa, local government, provincial government and national government, are referred to as the three spheres of government.

Top Slicing
The allocation by national government of a certain portion of national revenues for priority national programmes before the rest is divided between and among provinces and local governments.

Vertical Division
The division of national revenue between national, provincial and local governments.

Abbreviations and Acronyms

AFReC	Applied Fiscal Research Centre
Afritac	East Africa Regional Technical Assistance Centre
ASCII	American Standard Code for Information Interchange
BAU	Budget Analysis Unit
BO	Business Objects
DIU	Data and Information Unit
Exco	Executive Committee
GAAP	Generally Accepted Accounting Practice
GRAP	Generally Recognised Account Practice
FPU	Fiscal Policy Unit
IES	Income and Expenditure Survey
IGFR	Intergovernmental Fiscal Relations
IGFRU	Intergovernmental Fiscal Relations Unit
IMF	International Monetary Fund
Mancom	Management Committee
MinecoFin	Ministry of Finance and Economic Development
MPFU	Macroeconomics and Public Finance Unit
MTEF	Medium-Term Expenditure Framework
NCOP	National Council of Provinces
PFMA	Public Finance Management Act
RRP	Research and Recommendations Programme
RSC/JSB	Regional Services Council /Joint Services Board

Back to contents

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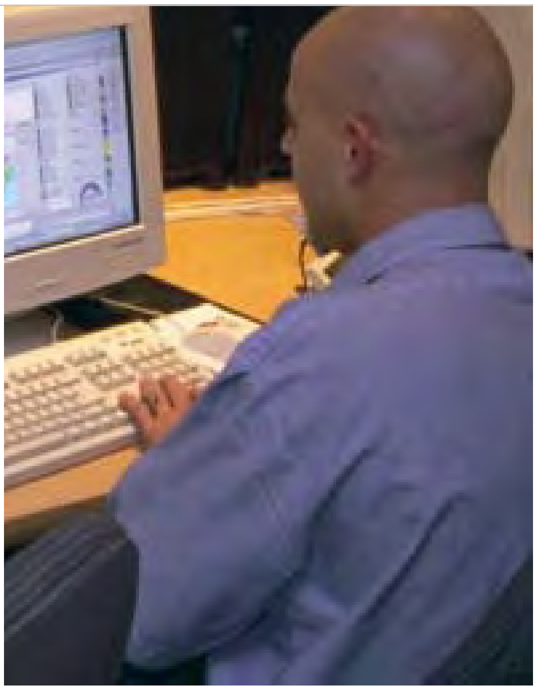

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Notes

Back to contents

Notes

Back to contents

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