2010/11

ANNUAL REPORT

FINANCIAL AND FISCAL COMMISSION

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For an Equitable Sharing of National Revenue

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ANNUAL REPORT 2010/2011

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COMMISSION

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TABLE OF CONTENTS

Back to Index

Chapter 1

LEGISLATIVE MANDATE

The Commission derives its mandate from the **Constitution of the Republic of South Africa Act No. 108 of 1996 as amended.** 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) provide among others that the Commission is an independent and impartial advisory institution that has to be consulted by Government with regard to division of revenue among the three spheres of government and in the enactment of legislation pertaining to provincial taxes, municipal fiscal powers and functions, and provincial and municipal loans.

The mandate of the Commission is enabled through the **Intergovernmental Fiscal Relations Act No. 97 of 1997 as amended,** the **Financial and Fiscal Commission Act No. 99 of 1997 as amended,** the **Money Bills Amendment Procedures and Related Matters Act No. 9 of 2009,** the **Municipal Systems Act No. 32 of 2000 as amended,** the **Provincial Tax Regulation Process Act No. 53 of 2001 as amended,** the **Municipal Finance Management Act No. 56 of 2003 as amended,** the **Intergovernmental Relations Framework Act No. 13 of 2005 as amended,** the **Municipal Fiscal Powers and Functions Act No. 12 of 2007, and the Money Bills Amendment Procedures and Related Matters Act No. 9 of 2009.**

Back to Index

Chapter 2

CHAIRPERSON / CE's REVIEW

2010/11 was a very challenging year for the Commission and also a very challenging one for me personally operating over such a long and difficult period in an acting capacity. I am however pleased that all in all the Commission managed to achieve what it set out to do at the beginning of the year inspite of the challanges.

This report marks yet another milestone in the life of both the Financial and Fiscal Commission and the intergovernmental fiscal relations systems in South Africa.

With regard to research, the work of the Commission has progressed quite rapidly in the areas of local government, budget analysis, and economic modelling. This is attributable in part to the implementation of the Commission's five Year Research Strategy, the Commission's response to the challenges faced by municipalities, and to the obligations imposed on the Commission by legislation such as the Money Bills Amendment Procedure and Related Matters Act. All of this has allowed the Commission's response times to ad hoc requests from stakeholders to be reduced without negatively impacting on the need to comply on the longer term planned research projects. The Commission's research team has also benefited in that there has been a significant increase in the number of researchers whose work is being published in reputable journals and whose work has been accepted for presentation at highly regarded conferences. The Commission is also planning to establish a presence on social networking sites in order to increase the platforms from which it will be able to disseminate its work. In this respect, the Commission hopes to attract critical engagement with its work from peers and also to further enhance the quality of its research output.

On the stakeholder management front, a recent perception survey and impact assessment of the Commission and its work (commissioned) has established that the Commission needs to do more in interacting with and responding to the needs of its various stakeholders. This is a matter that the Commission had already identified as being one of key strategic importance and was already in the process of acting on. The challenge that however continues to remain is that any meaningful response requires Commissioner presence and an adequate budget. One executive Commissioner cannot always respond to the often competing and conflicting requirements of stakeholders. Further, the current budget allocation cannot cater for the travelling and accommodation that is required for this kind of endeavour.

The human resource dimension continues to remain a challenge although staff turnover has been reduced. In the middle of 2010/11 financial year and because of funding constraints, the Commission resolved to review its operating model by focusing on a leaner, more specialised research and support structure that would benefit from outsourced specialist and technical expertise. The Commission further resolved to freeze all new appointments except in areas that are considered core to the business of the Commission. The impact of these decisions has been felt quite substantially in the finance section of the Commission where inexperienced staff have been kept or trained to run with functions including high risk areas such as procurement. These challenges are however being addressed through increased supervision for the staff, an arrangement which has implications for the workload of the Chief Financial Officer. These challenges will continue as long as the budget of the Commission remains unchanged.

On the Information and Communication Technology (ICT) front, The Commission is still struggling to resuscitate an antiquated ITC infrastructure. There have been serious challenges in both the Midrand and Cape Town offices. Unbudgeted expenditure has had to be incurred for the replacement of servers and laptop computers for core personnel. The majority of these were out of date technologies of more than six years old. ICT has been prioritised in the 2011/12 financial year. This is so even if the indicative resources are insufficient to fully address the problem beyond making the system stable.

On the finance side, the Commission's budget continued to be under immense pressure. The key drivers have been the ever increasing audit fees and travel and accommodation costs associated with increased stakeholder focus and demands both on the research side and the Commission. The Commission's decision to reduce office space in both the Midrand and the Cape Town office coupled with more austerity measures is expected to partially ameliorate the budget challenges but will not be the only solution going forward. There is a need for the Commission's baseline to be reviewed or otherwise the Commission will have to restructure and possibly reduce the number of staff that it currently employs in order to deal with the going concern matter that has been raised by the AG in the past and has been raised again in

Back to Index

this past financial year. The impact of such a cut in staff will have negative consequences on the Commission's ability to meet its mandate.

From a governance perspective, the Commission resolved to make a submission to the Minister of Finance in December 2010 requesting intervention with respect to a number of issues. These include among others the conflation of the role of the Chairperson, Accounting Officer and Chief Executive of the Commission; the fact that the Commission has not had a substantive Chairperson since September 2010 which meant that the Acting Chairperson as sole executive Commissioner has had to shoulder an increasingly onerous load; and two vacancies for part time Commissioners which the Commission has been carrying since 2008. These are some of the governance matters whose resolution was viewed by the Commission as being quite urgent.

Despite their magnitude, the Commission has taken these challenges in its stride, and work at both the Commission (through its various Committees) and Secretariat levels has progressed earnestly. The Commission was able to meet all its legal mandates. This has been attributable in part to the significant support that the Commission received from the President of the Republic of South Africa and the Minister of Finance in ensuring the prompt reappointment of two Commissioners whose terms expired in February 2011. The reappointment of the two Commissioners ensured that the Commission remained quorate, guaranteed a degree of continuity in its membership, and enabled it to continue operating under particularly difficult circumstances.

I am grateful for the support given by the Minister of Finance and his team in the National Treasury, to my fellow Commissioners and staff of the Financial and Fiscal Commission and to my predecessor Dr. B. P. Setai who laid the foundation for the work that the Commission has managed to achieve during the period under review.

Bongani Khumalo (Mr.)
Acting Chairperson / Chief Executive

Back to Index

Chapter 3

APPROACH, ACHIEVEMENTS AND CHALLENGES

3.1 Approach

The reality that informed the Commission's strategy and efforts in the year under review was the aftermath of the globally induced recession; government's response to high levels of unemployment by means of the New Growth Path and other job-creation measures, and to persistent poverty and growing inequality through a consolidation of social assistance and other social wage programmes within a highly restrictive fiscal environment; and a set of new and pre-existing governance, institutional, management and resource choices and constraints.

With regard to its core business, the ***first*** issue that the Commission sought to address was the appropriate consolidation of public deficits and debt reduction following increased expenditures as an aftermath of the 2008/2009 global financial and economic recession.

The ***second*** but related issue was the appropriateness of countercyclical stabilisation policy, increased intergovernmental grants and other transfers to generate high employment, and reduced inequality and poverty (all key tenets of fiscal policy goals) in the depressed environment.

The ***third*** issue was the creation of favourable conditions for economic development in the urban environment as this would provide the foundation for long-term national economic and social development and success. This had to happen without compromising contributions to rural development.

The ***final*** issue was the need for government in the face of fiscal consolidation to focus more closely on fiscal responsibility, improving the quality of services, and pay attention to the issue of unfunded mandates. Government would have to assess not only the appropriateness of spending programmes but also planned non-discretionary and discretionary non-priority spending, taking into account distributional and growth considerations in each area and placing due emphasis on spending programmes that are beneficial for vulnerable groups.

With regard to the internal strategic dynamics of the Commission, the ***first*** concern was the Commission's ever shrinking resource envelope and the need to adopt a lean, highly-networked, research-focused delivery model. The model would predicate a utilitarian support function; and the employment of a set of highly-skilled individuals that would have a strong policy analysis, contract management, packaging and dissemination capability and who, given their high levels of mobility, the concomitant need to retain them and the dearth of skills in the sector, would have to be conservatively remunerated.

Second was the Commission's antiquated Information Communication Technology (ICT) infrastructure and systems which were at the brink of total collapse; were undermining among others the Commission's efforts at research; Information Management (IM), Enterprise Content Management (ECM)and and Knowledge Management (KM); and were also threatening the day to day operations of the Commission.

Third were the ever increasing demands on the services of the Commission brought about by among others changes in legislation and the Commission's aggressive stakeholder education, awareness and engagement programme.

Fourth was a legacy R3.4m deficit that the Commission has been seeking to erase for more than four (4) years through the imposition of financial discipline and motivations for an increase of the Commission's baseline. There was of course the further requirement to ensure that despite this and the other pressures that have already been mentioned, the Commission operated and spent within its allocation.

The ***last but no less important*** issue related to the ever increasing costs of compliance which were now consuming more than 8% of the budget of the Commission on audit fees alone.

Back to Index

3.2 Achievements

The Commission met all its constitutionally mandated obligations. The outcome of its work is documented among others in the Commission's Submission for the 2012/21013 Division of Revenue tabled in May 2011 and the supporting Technical Report. These demonstrate that sustainable economic growth and development rest on the three pillars of (i) macroeconomic stability, (ii) progressive realisation and (iii) sustainable development. Taken together, they suggest that government interventions must not only be financed in a sustainable, non-inflationary manner at national, provincial and local government levels, but that attention also needed to be paid to the allocative and technical efficiencies of public expenditures as well as to their potential impact on the environment.

The Commission has responded timeously to all requests from stakeholders in line with the requirements of the Financial and Fiscal Commission Act. The Commission has also strengthened its engagement with Parliament, provincial legislatures, local government, national and provincial executives, Institutions Supporting Democracy, as well as a variety of non-state and non-government organisations. These are more fully listed in paragraph 4.9.8 hereof. Engagements included the briefing of key stakeholders on Commission profferings; IGFR Workshops for at least two provincial legislatures; being available at public hearings to respond to issues raised or questions posed on IGFR and related issues; cementing partnerships and collaborating with other institutions supporting democracy as well as other compatible but non-state and/or non-government institutions; the conduct of research seminars to mention but a few.

The Commission has also published detailed research reports, made supplementary submissions, provided advisories and detailed technical comments on a number of important intergovernmental fiscal relations issues and these are more fully set out in Appendix D hereof.

The Commission is represented on the Department of Education's Heads of Education Committee (HEDCOM), on the Sub-Committees on Finance and Infrastructure, as well as on the Department of Transport's Roads Coordinating Body (RCB). The Commission also sits on expert panels such as those of the Health Department Data Advisory Group and the Water Research Commission.

Commission staff have published articles in local and international accredited journals and contributed book chapters in the field of intergovernmental fiscal relations as by-products of the technical work that the Commission does. Commission staff have also had their papers accepted for presentation at prestigious conferences such as the ERSA Workshop in Public Economics held in Bloemfontein, the University of Pretoria's School of Management and Administration's Fourth International Conference, and the DPRU-EPP-TIPS that was held in Johannesburg.

The Commission through the dissemination of its research continues to contribute to the still emerging body of knowledge on developmentally oriented intergovernmental relations. In this regard the Commission in partnership with the ***Poverty and Economic Policy Analysis Research Network*** provided training in the modeling of the impacts of macroeconomic policies. The objectives of this Commission the training were to further knowledge of the microeconomic impacts of macroeconomic policies and shocks via analysis of their theoretical foundations and empirical formalization; contribute to formulating coherent strategies for economic growth and poverty reduction via improved understanding of the micro and macroeconomic effects of development policies; and to enhance local capacity to develop participants' own tools for the analysis economic policy. This was the first of its kind in Southern Africa.

In the spirit of NEPAD, the Commission has assisted other African countries in thinking around their own intergovernmental fiscal relations systems and efforts at fiscal decentralization. In particular, the Commission hosted the recently established Kenyan Commission for Revenue Allocation on a peer-learning mission.

The work of the Commission, particularly its 2011/2012 Submission for the Division of Revenue, was well received.

The Commission has maintained its profile as one of the best practice institutions as evidenced by the number of institutions of a similar mandate seeking to learn from the Commission in the area of fiscal decentralization and intergovernmental fiscal relations. Its Research Strategy continues to respond to the changing political, institutional and socio-economic environment.

Back to Index

3.3 Challenges

Human Resources

Though the Commission has at a strategic level been able to settle on the criteria that will define a future delivery model, the complex change management strategy intended to change the beliefs, attitudes, values, and structure of the organization so that it can better adapt to new circumstances and to change itself remains work in progress. This work will hopefully be completed by the end of the current financial year.

Research

The productive capacity of the Commission's Research Programme has been challenged by many of the forces that are faced by the majority of public sector institutions namely, limited resources to fulfill very broad mandates. This has resulted in the Programme operating at below optimal capacity and output. An antiquated ICT infrastructure and systems has exacerbated the situation as these are a key component to the research process. Finally, necessary staff training and development had to be to be suspended as financial constraints forced an imposition of a near moratorium on these activities.

Institutional

There have been a number of instances where institutions have failed to consult with the Commission in circumstances where such consultation was legally prescribed and was also a requirement for the validity of legislative or executive action.

The failure by line departments to respond to the Commission's recommendations when these are presented to them is also a matter of concern to the Commission.

New legislative requirements such as those of the Money Bills Amendment Procedures and Related Matters Act and the recently enacted Amendment to Municipal Systems Act of 2000, as well as the ever increasing requests of stakeholders made in terms of Section 3(2)(b)(ii) of the Financial and Fiscal Commission Act have placed new and ever increasing demands on the Commission's diminishing resources.

Serious governance concerns continue to remain unresolved. The conflation of the positions of Chairperson and Chief Executive Officer of the Commission which has long been accepted as antithetical to good governance continues to pose an unacceptable and unmitigated risk. This has further been complicated by a lack of definition of the '*Executive Authority*' of the Commission for purposes other than those of the PFMA.

Three vacancies within the ranks of Commissioners remain unfilled. These include the position of Chairperson/CE in respect whereof the substantive Deputy Chairperson has been acting since September 2010, one local government position which has been vacant since July 2008, and one national position in respect whereof the appointee never participated in the affairs of the Commission finally resigning in February 2011.

Finally, Commissioner allowances have not been reviewed since 2008 and it is thought that this may at a point act as a potential disincentive to the recruitment and active participation of suitably qualified part-time Commissioners.

Discussions with Parliament and Government regarding all these matters continue.

Compliance

The Commission is, irrespective of its small size, obliged to comply with several pieces of legislation. These would include inter alia the Promotion of Access to Information Act and the National Archives Act. Compliance has its own budget implications.

Further, compliance with legislated auditing requirements requires an ever increasing investment in internal and external audit fees currently standing in excess of eight percent (8%) of the Commission's budget.

Compliance with the Constitution of 1996, the Public Finance Management Act of 1999; the Supply Chain Management Regulations of 2003; the Preferential Procurement Policy Framework Act 2000; the Broad Based Black Economic Empowerment Act of 2003, and the National Archives Act and Regulations require an investment in both expertise (permanent and outsourced human resource capacity) and systems. These often come at a prohibitive cost.

CAPEX

Premises

In an effort to reduce costs and ensure that the Commission occupies premises that are commensurate with its requirements, the Commission resolved among others to surrender 50% of the Cape Town Office Space and 42% of the Midrand Office Space. It had been hoped that the Midrand Office Space would have been successfully surrendered by July 2011, but there have been delays in the Department of Public Works finalising the prerequisite contractual arrangements with the Landlord. It is hoped that this matter will be finalised shortly. With regard to the Cape Town Office Space, the Contract of Lease only expires in January 2013 but all efforts are being made to bring about the desired result sooner.

FUNDING

Allocation

The +/- R3m legacy deficit continues to be a feature of the Commission's finances despite the austerity measures that have been put in place. Negotiations with National Treasury regarding an increase in the baseline allocation of the Commission are still to yield the desired outcome. Increasing demands on the services of the Commission without a corresponding increase in the Commission's baseline have also resulted in a +/- R1.8m deficit in the financial year under review. Be that as it may, the Commission has resolved that it will impose even stricter financial discipline, attempt to reduce the legacy deficit by at least 25%, and pursue its engagement with National Treasury for a possible upward review of its baseline allocation.

Travel

As stated in the previous reporting period, budget constraints and the imposition of austerity measures have severely limited interaction with stakeholders with the result that research and adequate consultation with stakeholders remains a challenge. This situation will be exacerbated by the findings and recommendations of a recent *Perception Survey and Impact Assessment* which require the Commission to ensure that its initiatives are more inclusive, its profferings more accessible, and its work and views known to a broader set of stakeholders.

ICT

The resources that were dedicated to the ICT infrastructure and systems in the reporting period were only employed to bring about stability in the Commission's ICT environment and to replace hardware and software that was considered to be critical to the most basic functioning of the ICT infrastructure and systems. As earlier stated, the systems were on the brink of total collapse. The challenge ahead is to find adequate resources not only to maintain the status quo, but to also ensure that the Commission is operating on a platform of the most current technologies.

Back to Index

Chapter 4
THE COMMISSION

4.1 Introduction: Commission Environment

It is sometimes argued that the intergovernmental fiscal system in South Africa is now mature and that therefore there is little need for an institution like the Financial and Fiscal Commission. In practice, this could not be further from the truth. Government has indicated its intention to review the macro-organisation of the state in relation to provincial and local government spheres. This process, led by the Department of Cooperative Government, could have far-reaching implications for the structure of governance and for intergovernmental relations. Any fundamental change in the geographic delineation of jurisdictions or changes in the current assignment of powers and functions across and within the three spheres of government would have significant implications for expenditure assignment, revenue sharing, intergovernmental grant design, borrowing powers etc. The FFC's current and future research agenda would be absolutely critical in shaping the long term development trajectory of the intergovernmental system.

Furthermore, there is wide acknowledgement that certain elements of the local government equitable share formula are significantly less than optimal, and that deep-seated changes may be required rather than merely marginal improvements. The FFC has already been engaging vigorously with this process and will continue to play an important role. There are certain perennial tensions, constraints and trade-offs within the intergovernmental system which require long term attention: e.g. balancing fiscal consolidation with improving equity in developmental outcomes such as the MDGs, balancing the need to sustain vibrant urban economies but at the same time stimulating rural economic development, improving the developmental impact of intergovernmental grants (not just increased equity in the design of allocation formulae or conditional grants) and the need to increase the quality of data relevant to the intergovernmental relations system.

In addition, some Government policies are in a continuous state of flux in order to respond to emerging challenges and opportunities. These would include the New Growth Path, the outcomes approach to government-wide planning, budgeting and monitoring and evaluation and the proposed National Health Insurance, to name but a few. As they evolve, all of these will impact on intergovernmental relations. All of these require the intergovernmental fiscal system to respond flexibly in order to ensure effective funding and implementation. The FFC's research and policy analysis capability will enable it to offer rigorous and timely advice in this regard to policy-makers.

Another important development in the fiscal landscape is the imminent establishment of the proposed Parliamentary Budget Office (PBO). While the Commission will focus in great detail and depth on the intergovernmental fiscal system, the PBO will have to have to fulfil a much larger scope of work, including tax policy and administration analysis, national government borrowing, costing of new legislation, detailed budget analysis of national government votes etc. Given nationwide skills constraints in public finance in general and intergovernmental fiscal relations in particular, there is scope for technical cooperation between the two institutions in this area, especially in the PBOs establishment phase. The Commission looks forward to engaging with Parliament about this collaboration, and has already submitted a discussion document in this regard.

4.2 Composition

The Commission comprises of the following nine (9) persons:

1. A Chairperson and Deputy Chairperson;

2. Three (3) persons, appointed after consultation with the Premiers of Provinces , from a list compiled in accordance with a process prescribed by national legislation;

3. Two (2) persons, appointed after consultation with organised local government, from a list compiled in accordance with a process prescribed by national legislation; and

4. Two other persons.

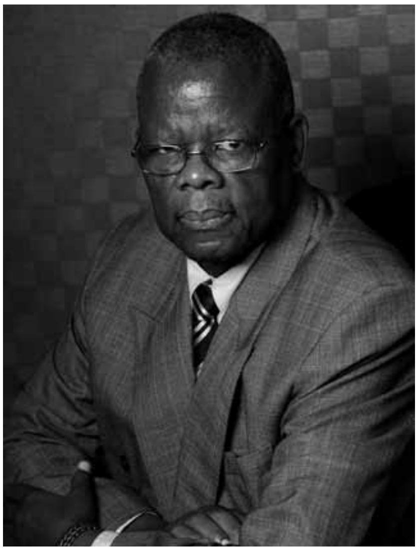
Commissioners are appointed in terms of the Constitution and the Financial and Fiscal Commission Act as amended.

All appointments are made by the President of the Republic of South Africa.

Appointments may not exceed a period of five (5) years but Commissioners are eligible for reappointment. Neither the Constitution nor the Financial and Fiscal Commission Act state whether and to what extent the appointments are full- or part-time. The Chairperson and Deputy Chairperson are in the full-time employment of the Commission.

Commissioners embody the corporate values and principles underlying the identity of the Commission and its role in the intergovernmental fiscal relations system. The Commission’s shared values include among others empowerment, pro-activity, communication, teamwork, creativity, cooperation, integrity, objectivity, innovation and leadership excellence.

4.3 Commissioners



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. He was appointed as 1 September 2005 and his term of office expired on 31 August 2010.

Deputy Chairperson
Acting Chairperson / CE
Bongani Khumalo

Bongani Khumalo was appointed Deputy Chairperson of the Financial and Fiscal Commission as of 1 March 2008. He was previously the Program Manager for Fiscal Policy in the Secretariat of the Commission. He has worked on a variety of areas within the South African intergovernmental fiscal relations system, including the design of revenue sharing formulae, the financing of education, health care and social assistance, and sub national borrowing and taxation issues and on the design of conditional grants. Upon completing a Master of Science (Economics) degree from the University of Zimbabwe, Bongani Khumalo lectured at the same University in the areas of International Trade and Development and Public Finance. He then moved to Rhodes University in Grahamstown in 1994 where he lectured Public Policy, International Trade Policy and Development Economics until 1999 when he joined the Financial and Fiscal Commission as a Researcher. He has published articles and contributed book chapters on Intergovernmental Fiscal Relations and on Public Finance. His term of office expires on 28 February 2013. He has been acting as the Chairperson/CE of the Commission since 1 September 2010.

Back to Index

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. She was reappointed as Commissioner as of 01 July 2009 and her extended term of office ends on 30 June 2014.

Commissioner
David Savage

David Savage is specialist in intergovernmental fiscal relations and local service delivery. He has worked in the NGO sector, for the National Treasury, and for the World Bank in South Asia on issues of local government finance, service delivery and institutional restructuring. He has served as a Director of the Municipal Infrastructure Investment Unit and currently advises on issues of sub-national finance and service delivery both in South Africa and internationally. He holds a Masters in Public Administration and Policy from the London School of Economics, and a Masters in City and Regional Planning from the University of Cape Town. He is a national nominee appointed as of 01 March 2008 and his initial term of office expired on 28 February 2011. He was reappointed on 1 March 2011and his current term of office expires on 28 February 2013.

Commissioner
Nelisiwe Shezi

Neli Shezi holds a Masters in Social Science (Economics) from the University of Natal (Pietermaritzburg). She is currently the Head of Ithala Development Finance Corporation Limited's Micro Finance and Co-operatives Division. She was previously an Economics tutor and Research Assistant at the University of Natal; Research Assistant at the Financial and Fiscal Commission and co-author of the Commission's work on *Public Expenditure on Basic Social Services in South Africa*; Manager of the Budget Office at (KwaZulu-Natal's Provincial Treasury; and Process Manager: Entrepreneurial Development and Black Economic Empowerment at Msunduzi Municipality. She was reappointed as Commissioner as of 1 July 2009 and her term of office expires on 30 June 2014.

Commissioner
Krish Kumar

Krish Kumar commenced work as a Trainee Accountant with the erstwhile Durban City Council in 1981 and progressed through the ranks to City Treasurer of the North and South Central Local Councils in 1997. In addition thereto, he was appointed as City Treasurer of the Durban Metropolitan Council in 1999 and in 2001appointed as Deputy City Manager: Treasury. A member of South African Local Government Association's (SALGA) Finance Working Group, Fellow of the Institute of Municipal Finance Officers (IMFO), chairman of Metro's CFO Forum, Past President of IMFO, member of the accounting Standards Board, project champion of new ERP billing system that is being built locally by the municipality and which it intends rolling out to other municipalities on a non-profit basis. Also chair of the eThekwini Risk and Managing the Municipality Committee. He was appointed Commissioner commencing on 1 March 2008 and his initial term ended on 28 February 2011. He was reappointed on 1 March 2011and his current term of office expires on 28 February 2013.

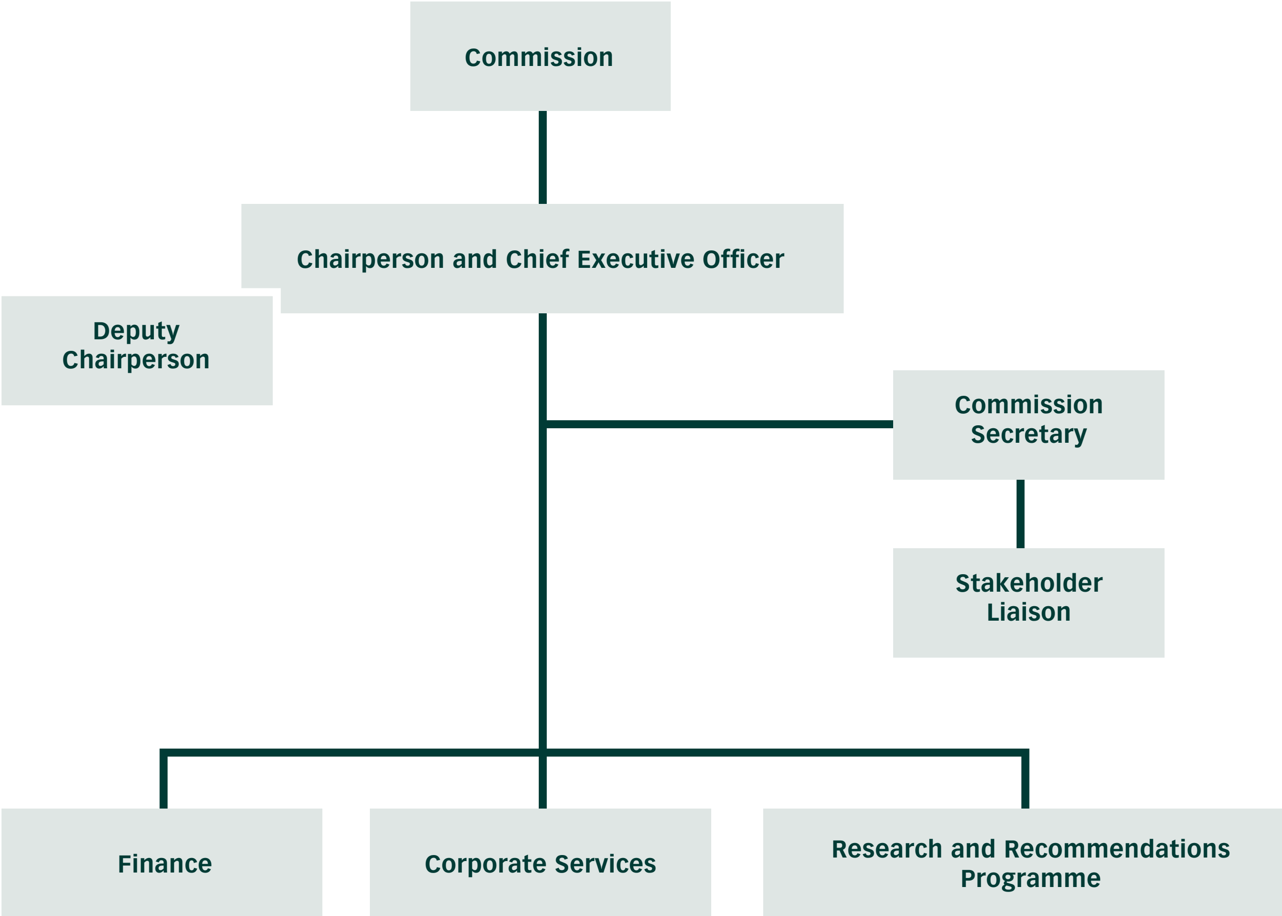
Commissioner
Lucienne Abrahams

Luci Abrahams is Director of the LINK Centre of the University of the Witwatersrand (Johannesburg), a public interest research centre, focusing on themes in social and economic change in an emerging paradigm of 'network knowledge economies'. She teaches public policy, strategy, innovation theory, knowledge management and e-government, all incorporating an ICT focus. She conducts research on 'institutions and economic sectors in the network knowledge economy'. Luci serves on the Council on Higher Education. She has also served in various other capacities. These include Council Member of the National Advisory Council on Innovation; Board Member of the National Research Foundation, the State Information Technology Agency and the Development Bank of Southern Africa; Commissioner in the Gauteng Provincial Government; and Director-General of the Department of Welfare and Population Development (now Social Development). She was appointed as a Commissioner commencing on 1 July 2009 and her term of office expires on 30 June 2014.

Commissioner
Bongiwe Kunene

Bongiwe Kunene was appointed as a Commissioner commencing on 1 July 2009 and her term of office was scheduled to expire on 30 June 2014. She resigned her appointment as Commissioner effective 1 February 2011

4.4 Structure



4.5 Corporate Governance

Sound corporate governance structures and processes have been put in place by the Commission since its inception. They are constantly reviewed and adapted to accommodate internal corporate developments and reflect national and international good practice

The Commission endorses the principles of the South African Code of Corporate Practices and Conduct as recommended by the King Committee on Corporate Governance. The Commission has adopted a Corporate Governance Code which is benchmarked against the recommendations of the 2010 King Report on Governance for South Africa. The Commission also considers corporate governance to be 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.

4.6 Commission Committees

4.6.1 Audit Committee

Membership

Jerry Sithole	(Independent Chairperson of Committee)
Tania Ajam	(Commissioner)
Mkuseli Bashe	(Independent)

Members of the Committee are either independent non-Commissioners or part-time Commissioners.

All Audit Committee members have extensive Audit Committee experience and are financially literate. The Audit Charter adopted by the Commission requires that the Chairperson and Deputy Chairperson of the Commission attend Audit Committee meetings by invitation.

The Audit Committee was established primarily to assist the Commission in overseeing the 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 mandate of the Committee has recently been extended. It now includes oversight over the Commission's performance against predetermined objectives, as well as over the Commission's non-financial risk management and fraud prevention efforts.

4.6.2 Remuneration and Performance Review Committee (REMCO)

Membership

Nelisiwe Shezi	Part-time Commissioner and Chairperson
Krish Kumar	Part-time Commissioner

All the members of the Committee are independent part-time Commissioners.

The role of this Committee is to provide guidance to the Commission with respect to the remuneration of full time Commissioners, non-full time Commissioners and employees of the Commission; facilitate and promote communication regarding the these and any other related matters; expedite matters referred to it by the Commission or requiring decisions on behalf of the Commission; receive, process and interpret inputs/reports/advice, from Commissioners, Committees of the Commission, or the Chairperson/Chief Executive, and undertake any other activity as may be required by the Commission or Chairperson/Chief Executive Officer in the pursuance of its mandate

4.6.3 Research Committee

Membership

Professor Bethuel Setai	Chairperson of Commission until 31 August 2010
Tania Ajam	Commissioner and Committee Chairperson
Nelisiwe Shezi	Commissioner
Bongani Khumalo	Deputy Chairperson of Commission and currently acting as Chairperson of the Commission
Krish Kumar	Commissioner
David Savage	Commissioner
Lucienne Abrahams	Commissioner

The mandate of the Committee is to provide high-level support and oversight for the research work of its Research and Recommendations Programme. Meetings are held on a quarterly basis, or more frequently, if needed. Activities 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.

4.7 Attendance of Meetings

Commissioners	Commission	Research	Audit	REMCO	Strategy	Parliamentary Briefings
Number of Meeting Days	**9**	**2**	**4**	**1**	**1**	**37**
Prof. B Setai	2	1	-	-	1	7
Bongani Khumalo	9	1	4	-	1	28
Tania Ajam	7	2	2	-	1	2
Nelisiwe Shezi	6	1	-	1	-	-
*Krish Kumar	5	2	-	1	1	1
*David Savage	7	1	-	-	1	4
Lucienne Abrahams	6	1	-	-	1	-
Non-Commissioner						
Jerry Sithole	-	-	4	-	-	-
Mkuseli Bashe	-	-	4	-	-	-

4.8 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, 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 made without reference to a framework envisaged in Section 219(5) of the Constitution.

4.9 Sustainability

4.9.1 Funding

The funds of the Financial and Fiscal Commission consist of money appropriated by Parliament for the purpose of the Commission; earned on investments; obtained by the alienation or letting of movable or immovable property; accruing to the Commission from any other source; and otherwise becoming available to the Commission.

4.9.2 Risk Management

The Commission has developed a comprehensive Risk Management Framework. The Commission conducts an annual Enterprise Risk Assessment. The Commission has developed and is implementing a comprehensive Risk Management Plan.

4.9.3 Fraud Prevention

The Commission has a Fraud Prevention Plan. The Plan is reviewed annually. The Commission has developed and is implementing a comprehensive Fraud Prevention Plan.

4.9.4 Performance Budgeting and Management

The Commission has customized and adopted the May 2007 *National Treasury Framework for Managing Programme Performance Information as well as the August 2010 National Treasury Framework for Strategic Plans and Annual Performance Plans*.

4.9.5 Balanced Scorecard Business Planning

The Commission has adopted and implemented the Balanced Scorecard Approach for strategic and business planning purposes.

4.9.6 Code of Ethics

The Commission has developed and adopted a Code of Ethics.

4.9.7 Internal Controls

A comprehensive system of internal controls has been developed and implemented.

4.9.8 Stakeholder Relations

The Commission has developed, adopted and implemented a Communication/Stakeholder Management Strategy which is supported by comprehensive Communication/Stakeholder Management Policies and Procedures as well as a detailed Communication/Stakeholder Management Programme.

During the year under review, the Commission intensified and broadened its stakeholder engagement programme. It briefed among others the Forum of Parliamentary and Provincial Legislature Chairpersons, and the Finance and Appropriations Committees in Parliament and Provincial Legislatures as well as Members Assembly of SALGA on its Submission for the Division of Revenue for 2011/2012 fiscal year, and participated in the public hearings that were held with Government Departments following on such briefings.

The Commission made Submissions to the Finance and Appropriations Committees in Parliament and Provincial Legislatures on the 2011 Division of Revenue Bill, the Fiscal Framework, and Revenue Proposals.

A joint sitting of the Standing and Select Committee on Finance was briefed on the Commission's 2009/2010 Annual Report.

Workshops on the South African Intergovernmental Fiscal Relations System were held with Finance Committees in the Limpopo and Western Cape Provincial Legislatures. The Commission intends to extend this initiative to the remaining Provincial Legislatures.

The Commission briefed a joint sitting of the Standing and Select Committees on Cooperative Governance and Traditional Affairs on its work and recommendations on local government, and has since been invited to workshop these Committees on the South African System of Intergovernmental Fiscal Relations in general and the Commission's past and present recommendations on local government in particular.

The Commission was represented at the 2010 South African Secretaries of Legislatures Association Conference (SALSA) and the outcome of the engagement has been among others the development of protocols of engagement which will help facilitate the Commission's engagement with Parliament and Provincial Legislatures. This remains work in progress. In this regard, the Commission welcomes the launch of the Office of Institutions Supporting Democracy (OISD) in the National Assembly and believes that this will go a long way towards facilitating meaningful and value-adding interaction between the Commission and the Assembly.

The Acting Chairperson/CE of the Commission met in person with among others the Speaker of the Limpopo Provincial Legislature, the Premier of the Western Cape Provincial Government, the Director General in the Presidency, the Head of the National Planning Commission, and these engagements have helped revive some otherwise dormant relationships, establish new ones and further entrench otherwise productive ones.

The Commission accompanied Parliamentary Committees on oversight visits to municipalities and participated in benchmark exercises that were conducted by national Treasury. Both of these were insightful in that the Commission was able to obtain information at source.

The Commission hosted colleagues from Kenya and Uganda who were in the country on peer-learning initiatives. The exercises were eye-opening and productive, and there is a hope that agreements on future knowledge and capacity exchanges will be formalised.

For the first time Commission made a formal Submission on the Medium Term Budget Policy Statement (MTBPS). This was a requirement in terms of the recently promulgated Money Bills Amendment Procedures and Related Matters Act of 2010.

4.9.9 Research Programme

The responsibility of the Research function of the Commission is to translate and implement the strategic direction of the Commission for research.

4.9.10 Corporate Services

The responsibility of the Corporate Services function is the translation and implementation of the strategic direction of the Commission for Human Resource Management, ICT and Facilities Management

4.9.11 Finance

The responsibility of the Finance function of the Commission is to assist the Chairperson/CE of the Commission in the effective financial management of the Commission including the exercise of sound budgeting and budgetary control practices, the operation of internal controls and the timely production of financial reports.

4.9.12 Performance Against Predetermined Objectives

The Commission has adopted and customized the *National Treasury Framework for Managing Programme Performance Information* and is more fully dealt with in Chapter 5 hereof.

Back to Index

Chapter 5

PERFORMANCE

5.1 Introduction

The Money Bills Amendment Procedure and Related Matters Act has created important avenues for disseminating Commission research, not only on the division of revenue, but also on broader analysis relating to the economic outlook and the fiscal framework, as well as – increasingly –the developmental impact of public funds channeled through the intergovernmental system. The more credible, quality analysis Parliament has at its disposal, the more effectively it will be able to discharge its appropriation role as well as its budget oversight role over the executive.

In the wake of the global recession, recent events such as the United States debt crisis and subsequent credit rating downgrade as well as continuing fiscal sustainability issues mean that the economic environment within which the South African fiscus operates will remain volatile over the medium term. Under these circumstances, it becomes important to be able to assess the possible implications of intergovernmental fiscal decisions under a number of scenarios and over the long term. As can be seen in the listing of the portfolio of Commission projects below, the Commission has developed a number of sophisticated economic modeling tools, to ensure that its recommendations are evidenced based. This project portfolio further demonstrates that there has been an increased emphasis on local government. The study and models commissioned by the Commission to evaluate the economic and fiscal costs of inefficient land use in cities was a path breaking contribution to the local government finance debate.

Besides responding to stakeholders in relation to the current issues facing the intergovernmental fiscal relations system, it is also the Commission's responsibility to think beyond the MTEF and to bring to the attention of policymakers new, emerging challenges to which the IGFR system will have to respond. These include the intergovernmental system's responses to climate change and environmental sustainability, as well as in stimulating innovation, research and development in ways that foster a shift towards the "knowledge economy" and ensures inclusive growth.

Back to Index

5.2 Performance Information 2010 - 2011

Strategic Objective	Project/ Activities (Input)	Output (Deliverable)	Key Performance Measure/ Indicator	Target	Actual	Variance	Outcome
Generate quality, innovative, pioneering research that informs key IGFR strategic debates and choices	Public Expenditure-Economic Growth Nexus: The South African Experience Research Project	Reports	Contribution to Submission on the Division of Revenue 2012 - 2013	March 2011	Achieved	Consolidated into Recommendations on the Fiscal Framework and Macroeconomic Outlook in the Annual Submission	Policy advice that seeks to achieve positive public expenditure outcomes and discharge of Constitutional and Legislative Mandate
	Impact of Government Revenue on Economic Growth in South Africa Research Project						
	Public Investment and Budgetary Con-solidation in South Africa Report						
	Short Term Forecasting Model for South Africa Development: Phase 1 - Theoretical Model	Phase 1 Report	Contribution to future forecasting and projection work	March 2011	Achieved	Work in Progress for Phase 2	
	Interregional CGE Modelling For South Africa Model Development	Report	Contribution to Submission on the Division of Revenue 2012 - 2013	March 2011	Achieved	Project placed on hold because of changed environment in previous research cycle and subse-quently reinstated	

Strategic Objective	Project/ Activities (Input)	Output (Deliverable)	Key Performance Measure/ Indicator	Target	Actual	Variance	Outcome
Generate quality, innovative, pioneering research that informs key IGFR strategic debates and choices cont ...	Realising the Millennium Development Goals through the Intergovernmental Financial Transfers Research Project	Reports	Contribution to Submission on the Division of Revenue 2012 - 2013	March 2011	Achieved	None	Policy advice that seeks to achieve positive public expenditure outcomes and discharge of Constitutional and Legislative Mandate
	Intertemporal CGE Modelling for South Africa Research Project						
	The Economic and Fiscal Costs of Inappropriate Land Use Research Project						
	Environmental Sustainability and climate change in Cities Research Project						
	Local Government Spending and Budget Analysis Research Project						
	Unpacking Municipality Debt Research Project				Achieved	Project Title Changed to “Municipal Consumer Debt in South Africa”	

Strategic Objective	Project/ Activities (Input)	Output (Deliverable)	Key Performance Measure/ Indicator	Target	Actual	Variance	Outcome
Generate quality, innovative, pioneering research that informs key IGFR strategic debates and choices cont ...	Estimating the Factors that Influence Municipal Costs and Expenditure Research Project	Report	Contribution to Submission on the Division of Revenue 2012 - 2013	March 2011	Achieved	None	Policy advice that seeks to achieve positive public expenditure outcomes and discharge of Constitutional and Legislative Mandate
	Proposal for revisions to the Division of Revenue Bill Research Project: Phase I	Report Phase I				Submission of the Commission on the 2010 Division of Revenue Bill (February 2010)	
	Assessment of spending, budgeting capacity and performance of South African National Government Research Project	Report Phase 1			Initial Phases of Projects Achieved	Subsequent Phases of Projects Scheduled for following Research Cycles	
	The impact of unfunded mandates in South African Intergovernmental relations Research Project	Report Phase 1					
	Rural Development and Intergovern-mental Fiscal Reforms in South Africa Report	Report Phase 1					

Back to Index

Strategic Objective	Project/ Activities (Input)	Output (Deliverable)	Key Performance Measure/ Indicator	Target	Actual	Variance	Outcome
Generate quality, innovative, pioneering research that informs key IGFR strategic debates and choices cont ...	Financing of Natural Disasters in South Africa Research Project	Report	Contribution to future Recom-mendations on the Submission on the Division of Revenue	March 2011	Not achieved	Research not completed and extended to 2011/2012 Research Cycle	Policy advice that seeks to achieve positive public expenditure outcomes and discharge of Constitutional and Legislative Mandate
	Challenges and Gaps in the Current Human Settlements Delivery System in South Africa Research Project	Report	Contribution to Submission on the Division of Revenue 2012 - 2013	March 2011	Achieved	None	
	Evaluation of the Land Use Patterns and Implications on Transport and the role of the Intergovernmental Fiscal Relation System Research Project	Report					
	Burden of Diseases, Health Financing and Fiscal Impacts Research Project	Report					
	Spending, budgeting and revenue performance of provincial governments 2007/08 to 2012/13 Research Project	Report					

Back to Index

Strategic Objective	Project/ Activities (Input)	Output (Deliverable)	Key Performance Measure/ Indicator	Target	Actual	Variance	Outcome
Generate quality, innovative, pioneering research that informs key IGFR strategic debates and choices cont …	Building Accountable Provincial Government Institutions Research Project	Budget Analysis Reports	In-year stakeholder advisories	March 2011	Partially Achieved	Data constraints	Policy advice that seeks to achieve positive public expenditure outcomes and discharge of Constitutional and Legislative Mandate
	The Role of Intergovernmental Fiscal Relations in Promoting Innovation in South Africa Research Project	Concept Document	Commission approved Concept		Not achieved	Work in progress	
	Basic Education Report	Report	Contribution to Submission on the Division of Revenue 2012 - 2013		Achieved	None	
	Higher Education Report	Report	Contribution to future Recommendations on the Submission on the Division of Revenue				
	Issues of Accountability, Institutions and Performance In South Africa	Report	Contribution to future Recommendations on the Submission on the Division of Revenue		Achieved	Title changed to “Assessment of spending, budgeting capacity and performance of South African National Government Research” Project	

Strategic Objective	Project/ Activities (Input)	Output (Deliverable)	Key Performance Measure/ Indicator	Target	Actual	Variance	Outcome
Generate quality, innovative, pioneering research that informs key IGFR strategic debates and choices cont …	National Planning in a Decentralised Environment: South Africa- A Case Study	Report	Contribution to future Recom-mendations on the Submission on the Division of Revenue	March 2011	Not Achieved	Project never took off due to staff and resource constraints	Policy advice that seeks to achieve positive public expenditure outcomes and discharge of Constitutional and Legislative Mandate
	Comprehensive Analysis of the Social Wage in South Africa: Size Sustainability and Financing	Report	Contribution to future Recom-mendations on the Submission on the Division of Revenue				
	Financing of Public Infrastructure Backlog in South Africa	Report	Contribution to future Recom-mendations on the Submission on the Division of Revenue		Achieved	Title changed to "The Economic and Fiscal Costs of Inappropriate Land Use Research Project" Project	
	Assessing the Impact of Local Government Expenditure Patterns, Composition and Incidence on Urban Development						
	Review of Research Strategy	Revised Research Strategy document	Strategy Review		on- going	Updated annually with changes in environmental demands.	Improved research capacity and output
	Review of Research Policy	Revised Research Policy	Policy Review				
	Research Workplan Development and	2010/2011 Research Workplan	Research Committee approval	April 2010	Achieved	None	Enhanced delivery
	Implementation		Implementation	March 2011			

Strategic Objective	Project/ Activities (Input)	Output (Deliverable)	Key Performance Measure/ Indicator	Target	Actual	Variance	Outcome
Compliance with legislation and adherence to relevant corporate governance best practise	Stakeholder Advisories Projects	Report and Briefing	Submission on 2010 Appropriations Bill finalised and tabled before Parliament	February 2011	Achieved	None	Policy advice that seeks to achieve positive public expenditure outcomes and discharge of Constitutional and Legislative Mandate
		Report and Briefing	Submission on Department of Basic Education request on Challenges/ Problems Encountered with Funding Norms Applicable to Independent Schools finalised and submitted to Department of Basic Education	July 2010			
		Report	Submission on Municipal Property Rates Amendment Bill finalised and submitted to Minister of Finance	March 2011			
	Commission Response to 2010 MTBPS Project	Report and Briefing	Tabling of Submission on 2010 Medium Term Budget Policy Statement	October 2010			
	Commission Response to 2011 DoR Bill Project		Tabling of Submission on 2011 Division of Revenue Bill	February 2011			

Back to Index

Strategic Objective	Project/ Activities (Input)	Output (Deliverable)	Key Performance Measure/ Indicator	Target	Actual	Variance	Outcome
Compliance with legislation and adherence to relevant corporate governance best practise	Commission Submission on 2011 Fiscal Framework and Revenue Proposals Project	Report	Tabling of Submission on 2011 Fiscal Framework and Revenue Proposals	February 2011	Achieved	None	Policy advice that seeks to achieve positive public expenditure outcomes and discharge of Constitutional and Legislative Mandate
	2011/2012 Submission on the DoR Project	Report	Tabling of 2011/2012 Submission on the DoR	May 2010			
	2011/2012 Technical Report Project	Report	Publication of 2011/2012 Technical Report	June 2010			
	2009/2010 Annual Report Project	Report	Tabling of 2009/2010 Annual Report	August 2010			Good Governance
	2012/2013 Submission on the DoR Project	Submission	In principle approval of 2012/2013 Submission for the Division of Revenue by Commission	March 2011			Policy advice that seeks to achieve positive public expenditure outcomes and discharge of Constitutional and Legislative Mandate
	2011/2012 Research Proposals Project	Research Proposals	Commission approval of 2011/2012 Research Proposals	March 2011			
	Submission on MTEF Project	Submission on 2011/ 2012 – 2013/2014 MTEF	Approved Submission on 2011/2012 – 2013/2014 MTEF and submission to NT	July 2010			Sustainable resource planning

Strategic Objective	Project/ Activities (Input)	Output (Deliverable)	Key Performance Measure/ Indicator	Target	Actual	Variance	Outcome
Compliance with legislation and adherence to relevant corporate governance best practise	Submission on Adjustment Estimates Project	Submission on 2010/2011Budget Adjustment Estimates	Approved Submission on 2010/2011Bud-getAdjustment Estimates and submission to NT	September 2010	Achieved	None	Budget reprioritisation and cost effective employment of resources
	Submission on Estimates of National Expenditure	Submission on 2011/2012 Estimates National Expenditure	Approved Submission on 2011/2012 Estimates National Expenditure and submission to NT	November 2010			
	Internal audit	Assessment and advice on risk management strategy and practices management (including IT) control frameworks governance processes	Compliance with National Treasury Regulation 3.2 Internal Audit Reports	March 2011			Assurance and Discharge by the Commission of its governance responsibilities
	External audit	Per 2009/2010 Audit Strategy	Full disclosure	May – July 2010			Accountability in the employ of public resources
	Protected Disclosures Mechanisms	Fraud Hotline	Operational Fraud Hotline	March 2011	Not achieved	Pending written authorisation from Public Service Commission (PSC) for use of ITS Fraud Hotline	Prevention of fraud and corruption

Back to Index

Back to Index

Strategic Objective	Project/ Activities (Input)	Output (Deliverable)	Key Performance Measure/ Indicator	Target	Actual	Variance	Outcome
Compliance with legislation and adherence to relevant corporate governance best practise	Code of Conduct on Supply Chain Management Adoption	Adoption of NT Code of Conduct on SCM	Operational SCM Code of Conduct	March 2011	Achieved	None	Promotion of integrity in the procurement of goods and services
	Financial Policy and Procedures Implementation and Review	Revised Policies and Procedures	Approved and operational revisions	March 2011			Sound financial management
	Financial Risk Management Framework and Plan Implementation and Review	Revised Risk Management Framework and Plan	Approved and operational revisions	October 2010			Mitigation of risk
	Fraud Prevention Strategy and Plan Implementation and Review	Revised Fraud Prevention Strategy and Plan	Approved and operational revisions	October 2010			Mitigation of fraud and corruption
	Commission Governance Code Implementation	Communication	Adherence	March 2011			Superior governance
	Reporting	Submission of reports and returns	Timely Submission of compliant reports and returns	As prescribed by Legislation and Regulation			Accountability Compliance

Strategic Objective	Project/ Activities (Input)	Output (Deliverable)	Key Performance Measure/ Indicator	Target	Actual	Variance	Outcome
Compliance with legislation and adherence to relevant corporate governance best practise	Strategy and Business Planning	2010/2011 Corporate and Divisional Strategies and Business Plans	Commission approved Strategies and Business Plans	April 2010	Achieved	None	Optimal employment of resources
	Budget Performance	Expenditure as per approved Business Plans and Budgets	Audit Opinion	Unqualified Audit Opinion No matter of emphasis	Partially achieved	Opinion unqualified but with Matters of Emphasis	Delivery within allocated resources
	Review and consistent application of financial management and accounting procedures and controls	Updated financial management and accounting procedures and controls	Approved and operational revisions	March 2011	Achieved	None	Good Governance
	Commission and Committee Meetings	Scheduled and quorate Commission and Committee Meetings	Part 3 of Financial and Fiscal Commission Act	Commission Meetings: 5	Partially	Achieved One meeting not quorate due to vacancies	Mutual and consultative decision making
				Audit Committee: 4	Achieved: 4	None	Good Governance
				Research Committee: 4	Partially Achieved: 2	One meeting converted into a Research Lekgotla One meeting not quorate due to vacancies	

Back to Index

Back to Index

Strategic Objective	Project/ Activities (Input)	Output (Deliverable)	Key Performance Measure/ Indicator	Target	Actual	Variance	Outcome
Compliance with legislation and adherence to relevant corporate governance best practise cont ...	Commission and Committee Meetings	Scheduled and quorate Commission and Committee Meetings	Part 3 of Financial and Fiscal Commission Act	REMCO[1]: 3	Partially achieved: 2	One meeting not quorate due to vacancies	Good Governance
Progressive and innovative management of human resources that attracts, develops and retains key talent, and leverages external expertise	Review of Delivery Model	Revised Delivery Model	Commission approval of New Delivery Model Concept	March 2011	Partially achieved	Concept approved Organisational Development and Risk Assessment in progress	Delivery excellence with fewer resources
	Human Resource Policies and Procedures Implementation and Review	Revised Policies and Procedures	Approved and operational revisions	March 2011	Achieved	Policy reviews are continuous and not dictated by the ambit of the financial year	Sound talent management
	Filling of Budgeted posts	Minimum level of unoccupied but budgeted posts	Ratio of vacancies to budgeted posts	2 posts	5 posts Not Achieved	Reorganisation, resignations and moratorium on filling of vacancies	Adverse impact on productivity
	Remuneration of Staff	Competitive Remuneration	Rates not below levels prescribed by DPSA	March 2011	Achieved	None	Attraction and retention of key talent
	Reward and recognition of staff	Implementation of Performance Management and Bonus System	As per Commission Policy	Normal Distribution	Achieved	None	Attraction and retention of key talent

1 Remuneration and Performance Review Committee

Strategic Objective	Project/ Activities (Input)	Output (Deliverable)	Key Performance Measure/ Indicator	Target	Actual	Variance	Outcome
Progressive and innovative management of human resources that attracts, develops and retains key talent, and leverages external expertise	Recruitment of Talent	Qualified personnel	Talent as per standards set in terms of Commission Policy	On hold	On hold	Moratorium on recruitment pending reorganisation	
	Attendance[2]	Minimum level of absenteeism	<3%	<3%	2.88%	Improved leave management	Enhanced productivity
	Misconduct and Discipline[3]	Maintenance of acceptable levels	<2%	<2%	0.75	Consistent policy implementation	Improved work ethic
	Training and Development	Targeted training and development	Number of days in training and development per employee	3 days per employee	3.9 days per employee	Additional, extended and once-off training for Finance personnel	Enhanced productivity
	Gender Balance[4]	Maximization of gender balance	Ratio of male and female employees	SMS 60/40 Professional 60/40 Organisation: 60/40	SMS: 87.5/12.5 Professional: 31.25/68.75 Organisation 42.4/57.6	Pending reorganisation and moratorium In filling of vacancies	Deferred realisation of Constitutional ideals of equality and non-discrimination
	Results-based Management Framework Development	Framework	Commission approved Framework	March 2011	Achieved	Part of Outcomes-based Approach to Performance Management	

2 Total Days Absent/Total Working Days%
3 Incidents/Total Staff Compliment%
4 Numerator: Male and Denominator: Female

Back to Index

Strategic Objective	Project/ Activities (Input)	Output (Deliverable)	Key Performance Measure/ Indicator	Target	Actual	Variance	Outcome
Coordinated, coherent, high-quality, innovative and cost-effective approach to ICT that meets the needs of the Commission, the Commission Secretariat and stakeholders	ICT Governance	Development of ICT Strategy	Best practise approved ICT Strategy (COBIT; ITIL)	March 2011	Not Achieved	Stabilisation of System prioritised	Non-optimal value delivery of ICT
		Implementation of ICT Strategy	Best practise implementation of ICT Strategy (COBIT; ITIL)				
		Development of ICT Policies and Procedures	Best practise approved ICT Policies and Procedures (COBIT; ITIL)				
	ICT Governance	Implementation of ICT Policies and Procedures	Best practise implementation of ICT Policies and Procedures (COBIT; ITIL)	March 2011	Not Achieved	Stabilisation of System prioritised	Non-optimal value delivery of ICT
	Upgrade of ICT Infrastructure	As per user specification requirements	Retirement of pre-2007 Server and Acquisition of Additional Server	2 replacements units	Partially Achieved	1 replaced Budget constraints	
				1 new unit	Not achieved	Budget Constraints	
	Streamlining of ICT Network and Connectivity	Reconfigured Network	User satisfaction	Replace 128k Diginet Line with 2 x 4MB ADSL	Not achieved	Budget Constraints	
	Maintenance of ICT Network and Connectivity	Proactive maintenance of ICT Network and Connectivity	Downtime	<3hrs per month	<3hrs per month	None	

Back to Index

Strategic Objective	Project/ Activities (Input)	Output (Deliverable)	Key Performance Measure/ Indicator	Target	Actual	Variance	Outcome
Coordinated, coherent, high-quality, innovative and cost-effective approach to ICT that meets the needs of the Commission, the Commission Secretariat and stakeholders	Upgrade of ICT Hardware	As per user specification requirements	Retirement of pre-2007 ICT Hardware	30 units	Partially achieved	12 units replaced 12 reformatted Budget constraints	Increased productivity
	Proactive and efficient maintenance of ICT Hardware	Proactive maintenance of ICT Hardware	Downtime	<1 hour per week	<1 hour per week	None	
	Management of outsourced services	Best practice management of outsourced services	Turnaround time	24 hours	24 hours		
Coordinated, cost-effective and innovative management of Commission assets in support of delivery on the Commission's mandate	Facilities Management Policies and Procedures Review and Implementation	Revised Policies and Procedures	Approved and operational revisions	March 2011	Achieved	None	Increased productivity
	Development of an Asset Management Plan (Fixed and Movable Asset Registers)	Draft 0	Management Workshop	March 2011	Partially achieved	Draft 0 finalised Work in Progress	Deferred optimal value delivery by Facilities
	Development of a Asset Utilization Profile	Draft 0	Management Workshop	March 2011			
	Determination and implementation of minimum maintenance requirements for the assets of the Commission	Draft 0	Management Workshop	March 2011		Draft 0 finalised work in Progress	

Strategic Objective	Project/ Activities (Input)	Output (Deliverable)	Key Performance Measure/ Indicator	Target	Actual	Variance	Outcome
Coordinated, cost-effective and innovative management of Commission assets in support of delivery on the Commission's mandate	Development and implementation of a year-round maintenance programme for Commission assets	Draft 0	Management Workshop	March 2011	Partially achieved	Draft 0 finalised Work in Progress	Deferred optimal value delivery by Facilities
	Management of Travel and Accommodation Arrangements	Proactive, cost effective and efficient management of travel and accommodation arrangements	Operational In-house Travel Desk	March 2011	Achieved	None	Value for money
			Corporate Accounts	March 2011	Achieved		
			Discounted travel and accommodation	2 week advance booking	Partially achieved	Not always possible due to the non predictable nature of travel	
	Review of Accom-modation Require-ments	Office Space commensurate with current Commission requirements	Reduction in office space	Midrand: Surrender of first floor office space	Partially achieved	Midrand: Lease expires June 2011 and surrender scheduled for June 2011	Optimal use of resources
				Cape Town: Surrender boardroom	Not achieved	Cape Town: Negotiations ongoing Lease expires January 2013	Optimal use of resources deferred
	Creation of a safe, healthy and compliant working environment	Health and Safety Policies and Plan	Approved and best practise Health and Safety Policies and Procedures	March 2011	Approved of Health and Safety Policies and Plan	None	Employee wellness

Strategic Objective	Project/ Activities (Input)	Output (Deliverable)	Key Performance Measure/ Indicator	Target	Actual	Variance	Outcome
Coordinated, cost-effective and innovative management of Commission assets in support of delivery on the Commission's mandate	Management of outsourced services	Best practice management of outsourced services	Turnaround time	<4hrs	Achieved	None	Value for money
Effective and responsible leadership with specific focus on integrity, transparency and accountability, as well as on the development a positive organisational culture	Employee strategy formulation participation	Clarity of organisational direction and performance	Employee feedback	27 employees	Partially Achieved	19 employees Absence of congruence of organisational and some individual purpose, direction and performance	Employee buy-in
		Clarity of purpose for individual employee					
	Employee Engagement	Consultation and information sharing	Staff Meetings	6	Achieved	None	
	Adherence to the values of the Commission	Compliance with Commission Policies and Codes of Ethics/Conduct	Grievance Rate[5]	<3%	Achieved: 0%	Adherence to Commission values	Ethical organisation

5 Total Number of Grievances/Total Number of Employees%

Back to Index

Strategic Objective	Project/ Activities (Input)	Output (Deliverable)	Key Performance Measure/ Indicator	Target	Actual	Variance	Outcome
Coordinated, cost-effective and innovative acquisition and management of Commission data, information and knowledge resources in support of delivery on the Commission's mandate	Knowledge holdings development Project	Selected books, articles, metadata and virtual links to library collection	Access to references	1750 units	Partially achieved	900 units Resource constraints	Talent empowerment
	Information Management, Enterprise Content Management and Records Management Project	File Plan and digitization of paper versions and electronic formats of 1994 – 2010 corporate memory	National Archives approved File Plan Phase 1: Records Survey	1 200 000 units	1 200 000 units	None	Deferred preservation of institutional memory
			Digitisation of Records Phase 1: Categorisation of Records	1 200 000 records	Partially achieved	1 300 records Resource constraints	
	Access to non-library holdings reference sources project	Book exchanges	Turnaround time	Same day	Same day	None	Informed research
		Digital resources	Turnaround time	Same day	Same day	None	
Profiling Commission with a focus on the its Mandate, Vision, Mission and Role; the Commission's Short- and Long-Term Strategy; the Commission's position on specific issues; and The Commission's Challenges and Achievements	Development of Educational Materials, Stakeholder IGFR Workshops, and Dissemination of Commission Profferings	Stakeholder Education Manual	Stakeholder Manual	Final Draft	Partially achieved	Second Draft Resource constraints	Informed IGFR discourse and debate, and informed policy choices
		Stakeholder IGFR Education	Workshops	20 Parliamentary Committees	Partially achieved	2 Parliamentary Committees Committee scheduling	
				9 Provincial Legislatures	Partially achieved	2 Provincial Legislatures Legislature scheduling	

Strategic Objective	Project/ Activities (Input)	Output (Deliverable)	Key Performance Measure/ Indicator	Target	Actual	Variance	Outcome
Profiling Commission with a focus on the its Mandate, Vision, Mission and Role; the Commission's Short- and Long-Term Strategy; the Commission's position on specific issues; and The Commission's Challenges and Achievements	Development of Educational Materials, Stakeholder IGFR Workshops, and Dissemination of Commission Profferings	Dissemination of Information	Briefings on Division of Revenue Bill, Fiscal Framework and Revenue Proposals	20 Parliamentary Committees	Partially achieved	7 Parliamentary Committees Scheduling constraints	Informed IGFR discourse and debate, and informed policy choices
				9 Provincial Legislatures	Partially Achieved	8 Provincial Legislatures Scheduling constraints	
			Briefings on Appropriations Bill	2 Parliamentary Committees	Achieved 2 Parliamentary Committees	None	
			Briefings on Commission Submission for the Division of Revenue	20 Parliamentary Committees	Partially achieved	5 Parliamentary Committees Scheduling constraints	
				9 Provincial Legislatures	9 Provincial Legislatures	None	
				SALGA National Conference and Executive	Partially achieved	Executive briefed Unable to access Conference	
				Government (NT)	Achieved	None	
				Media	Achieved		
			Briefings on Annual Report	2 Parliamentary Committees	Achieved		

Back to Index

Strategic Objective	Project/ Activities (Input)	Output (Deliverable)	Key Performance Measure/ Indicator	Target	Actual	Variance	Outcome
Profiling Commission with a focus on the its Mandate, Vision, Mission and Role; the Commission's Short- and Long-Term Strategy; the Commission's position on specific issues; and The Commission's Challenges and Achievements	Development of Educational Materials, Stakeholder IGFR Workshops, and Dissemination of Commission Profferings	Dissemination of Information	Briefings on Annual Report	9 Provincial Legislatures	2 Legislatures Partially achieved	7 Legislatures Legislature availability	Informed IGFR discourse and debate, and informed policy choices
			Briefings on Medium Term Budget Policy Statement (MTBPS)	2 Parliamentary Committees	2 Parliamentary Committees	None	
	Advocacy in shaping the external reputation of the Commission		Conference Papers	3	Achieved	None	
Promote, inform and influence grassroots, intergovernmental, legislative and intel-lectual discourse and thought on Commission-relevant IGFR issues			Seminars	1	Not achieved	Funding constraints	
			Conferences	3	3	None	
			Input into Technical Committees on Finance	10	10	None	
			Input into MinMecs	4	0	Not invited	
Facilitate engagement between stakehold-ers on key IGFR issues	Development of stakeholder-inclu-sive engagement programme	Debate and discourse on IGFR issues	Commission initiated stakeholder-wide IGFR discourse	1 Public Hearing	Not achieved	Funding constraints	

Strategic Objective	Project/ Activities (Input)	Output (Deliverable)	Key Performance Measure/ Indicator	Target	Actual	Variance	Outcome
Create new knowledge, institutionalise such knowledge and transfer it to other role players within the intergovernmental fiscal relations system	Conduct Research	Technical Report	Publication of research	July 2010	Achieved	None	Contribution to development of IGFR Systems
	PEP School	IGFR Modelling Training	Course Subscription	20 Course Participants	Achieved 21 Course Participants	Oversubscription	
Adopt a Prudent and Transparent Approach to the Management of Finances	Budget Management	Strategy and budget allocation congruence	% Deviation from Auditor-General Norm	+/-5%	Achieved Less than 1.5%	None	Research and advice scope and depth constraints
	Budgeting under Austerity	Cost efficiency	Savings	+5%	Not achieved	Budget inadequacy	
	Alternative Revenue Sources	Collaborations Partnerships	Joint projects	2 Projects	Not achieved	Absence of convergence	Research and advice scope and depth constraints
		Donations	Externally funded projects	1 Project	Not achieved	Absence of convergence and dearth of funding	
	Review and consistent application of financial management and accounting policies and procedures and controls	Revised Policies and Procedures	Approved and operational revisions	March 2011	Achieved	None	Good governance

Back to Index

Back to Index

5.3 2010 Commission Recommendations for the 2011/2012 Division of Revenue

The Commission made this submission in terms of Section 9 of the Intergovernmental Fiscal Relations Act of 1999. The background to the submission was that South Africa was recovering from the deepest and most serious economic crisis to affect the world since the Great Depression. Strong links to the world economy meant a sharp fall in demand for South African exports and falling prices of key export commodities.

The South African economy contracted by almost 2% during 2009. About a million jobs were lost in 2009 alone. There were also adverse implications for investment, incomes, and poverty.

The government reacted to the crisis in several ways. The broad principles governing government's reaction included:

1. Avoiding placing the burden of the downturn on the poor and vulnerable unfairly;

2. Ensuring that all activities are aimed at increasing the capacity of the economy to grow and create decent jobs during and after the crisis;

3. Maintaining the planned high levels of investment in public sector infrastructure; and

4. Encouraging the private sector to maintain and improve their levels of fixed direct investment wherever possible.

On the cushioning of the vulnerable front, government maintained and continued to maintain high levels of spending in the social services sector (health, education and social assistance). With particular reference to the most vulnerable group (children) it was particularly important to ascertain the effectiveness with which the government was reducing the impact of the crisis through the Child Support Grant. The Child Support Grant is a uniquely South African feature. The government has expanded access to the grant in recent years and aims it particularly at children in poor families.

Research carried out by the Commission indicated that the institutionalisation of social protection programmes in South Africa, especially the Child Support Grant, has paid off in terms of assisting poor families to mitigate the impact of poverty in both ordinary and extraordinary times. It was the Commission's view that the decision by government to continue with these programmes during the crisis, especially expanding the coverage of the child support grant was to be supported.

It was the Commission's view that the poor, especially children, the elderly and disabled do not suffered disproportionately because of the economic meltdown and the necessary fiscal realignment that would follow. The Submission explored further possibilities and options open to government to address the negative effects of the crisis. These were to lay the foundations for future growth and development on the one hand and cushioning the poor and vulnerable through the division of revenue process on the other.

The proposals contained in the Commission's 2010 Submission for the 2011/2012 Division of Revenue focused on the process of adjusting to the 2008 recession and global economic crisis from which the South African economy was emerging.

The recommendations of the Commission for the 2011/12 Division of Revenue were:

With regard to the global economic crisis, fiscal frameworks and coping with vulnerabilities, the Commission recommends that:

1. In the short-term, government should continue to strive for fiscal consolidation through limiting the growth in entitlement spending to those programmes that have demonstrably worked while refocusing expenditure to ensure better coordination and to deepen access by focusing on improved service quality. In particular, the Commission recommends that the government should:

    a. Continue to expand the child support and old age pension grants (the best targeted of social spending programmes that also complement anti-poverty interventions while building human capital and meeting other basic needs).

    b. Maintain high access levels to education and health services that it achieved even during the period of fiscal adjustment.

    c. Reprioritise expenditure towards repair and maintenance by emphasising existing projects and initiating new ones.

2. In the medium- to long-term, the government should:

   a. Introduce a block grant for education, health and social development to fund clearly defined and costed outcomes in these areas.

   b. Undertake independent cost effectiveness and quality reviews (in both the public and private sectors) of education, health and the social wage.

With regard to the options for social assistance reform during a period of fiscal stress, the Commission recommends that the government should:

3. Protect the overall amount of social-assistance expenditure as far as possible during the fiscal consolidation. These are the targeted social spending programmes and the main cash-transfer component of poverty-focused public spending that complements anti-poverty interventions (which build human capital and meet other basic needs).

4. Not compromise the relative simplicity of the social assistance system especially when contemplating reform options.

5. Pilot conditional cash transfer and workfare programmes on a smaller scale and continue to evaluate them in order to expand successful pilots.

6. Strengthen non-cash complementary social developmental services through emphasising quality improvements within a defined resource envelope.

7. Avoid universal income grants, as these are currently unaffordable and would need to be accompanied by a broader restructuring of the entitlement system.

With regard to the design and administration of conditional grants, the Commission recommends that:

8. When introducing and terminating conditional, national departments must:

   a. Introduce a mandatory, systematic process for designing and planning individual conditional grants that covers incentive effects, administrative accountability arrangements and stipulates regular review periods and exit strategies of the grant

   b. Ensure that there is an independent evaluation of the grant performance at entry, midterm and end of the grant

9. Government should make the criteria for dividing grant allocations transparent. At the moment, they are only explicitly reflected for the whole programme and not for each individual grant.

10. Government must continue to emphasise the importance of non-financial data reporting. In this regard it should link outer year allocations to independently evaluated performance information and gazette expected deliverables (like schools and kilometers of roads).

11. To ensure results-based accountability through incentive grants, national departments must make accounting for delivery a prerequisite for most conditional grants. They should encourage designing grants that consider explicitly promoting innovation in sub-national governments and strengthen incentives for optimal service delivery.

12. The Commission emphasises that the budget allocation process must follow the grant frameworks specifically and that this should be monitored periodically through section 32 of the Public Finance Management Act (PFMA) and section 72 of the Municipal Finance Management Act (MFMA).

To improve the general performance of municipalities in revenue improvement and collection, the Commission recommends that:

13. Government should adopt standard indicators or early warning systems to measure and detect fiscal stress in municipalities and reach consensus about them. In addition to the criteria prescribed in section 138 of the Municipal Finance Management Act of 2003 for identifying serious financial problems in municipalities:

a. These indicators should be pre-conditions for instigating mandatory provincial intervention in terms of Section 139 of the MFMA and Municipal Financial Recovery Plans in terms of Section 140 of the MFMA.

b. Section 71 of the MFMA, on monthly budget statements, should be amended to require that accounting officers report on actual revenue per source and on the percentage of collected revenue to the total value of billed revenue.

14. Government legislates, through Section 43 of the Local Government Municipal Systems Act of 2000, revenue collection as one of the key performance areas against which to assess overall municipal performance.

a. Municipalities must use at least the following standard indicators to harmonise revenue collection performance assessment across municipalities:

- The collection ratio, which is the extent to which services are billed, collected and enforced.
- The coverage ratio, which is the extent to which all service users are captured on the tax or rates roll.

15. Excessive levels of municipal debt from residential customers, businesses and government, which undermine the long-term financial viability of the sphere, must be reduced through constant taxpayer education and incentives to improve the provision of good quality services generally.

a. Government must provide for, or enable, local government through the Municipal Systems Act of 2000 to issue garnishee orders on defaulting customers.

b. The judicial system should have dedicated courts to deal with outstanding municipal accounts until the debt is reduced to acceptable levels.

16. The Revenue Raising Component of the Local Government Equitable Share should be reformed so that it rewards good performance in revenue collection as opposed to the current 'Robin Hood system', or stepped tax bands, which allocates more funds based on low revenue collection.

17. The government should support concerted efforts to estimate the fiscal capacity and fiscal effort of municipalities to dispel the perception that certain municipalities will never be financially viable.

18. Municipalities should have broad revenue improvement programmes. They should not focus only on administrative streamlining but also on revenue-side interventions, expenditure-side interventions and efficiency-based interventions.

a. The nature of the interventions must be specific to local economic circumstances so that small rural municipalities, which mainly face structural fiscal stress, develop efficiency-based and expenditure-side revenue improvement interventions. Urban municipalities, which encounter cyclical fiscal stress, can pursue revenue-side interventions.

b. Small rural municipalities must develop institutional arrangements or reforms that emphasise revenue assignment that is geared especially to sharing powers and functions between category B and C municipalities.

19. Effective revenue management processes, good financial management and the provision of good quality services should underpin revenue improvement programmes. Municipalities should only conduct them when they have maximised the collection of locally available and outstanding revenue sources.

a. Where feasible, bigger municipalities, which already have financial systems, should be encouraged to share their systems and expertise with smaller ones.

20. The performance of revenue improvement programmes should be subjected to empirical tests that cover changes in the effective tax rates, tax burdens for all service users, the total revenue yield, economic efficiency and overall fairness.

With regard to the reform of the Local Government Equitable Share formula, the Commission recommends that:

21. Government should update the data of the Local Government Equitable Share more frequently.

22. The institutional component of the Local Government Equitable Share should be used to assist poor municipalities.

23. Related to the above, the Commission believes that the Revenue Raising Component is supposed to correct for those municipalities that are able to raise their own revenues better. The Commission makes the following short-term recommendations for the Revenue Raising Component:

    a. Government should remove the step structure of the differentiated tax mechanism of the Revenue Raising Component, as this is inefficient. Government should develop a flat gradient structure so that municipalities on the outer ends of bands are not treated unfairly.

    b. Using actual property rates revenue collected and reported by municipalities raises several inefficiencies in the system. Firstly, the poor fiscal effort of municipalities is used as a measure for additional funding. This also applies to poor reporting by municipalities. Secondly, it can create an incentive for municipalities to under report on collection rates, as this would result in a lower Revenue Raising Component calculation and more revenue from the Local Government Equitable Share. Lastly, the current methodology of using actual property rates and own revenues collected can be seen as a contradiction of section 227(2) of the Constitution. The Commission recommends that this practise is replaced with alternative methods of revenue prediction.

Based on the work on regionalising municipal services, the Commission divides its recommendations into two groups:

24. General recommendations.

    a. In the absence of an assessment of the specific performance challenges that the different municipalities face in implementing the functions listed in part B of schedules 4 and 5, the Commission recommends that approving a blanket regionalisation approach, as proposed in the 17th amendment to the Constitution, is not supported. Current legislative provisions allow for alternative and creative service delivery arrangements that do not call for a dilution of local government autonomy.

    b. Not all electricity distributors suffer from the challenges that the restructuring intends to overcome. As a result, the Electricity Distribution Industry (EDI) restructuring process should consider a differentiated approach that allows for differences in performance.

25. If the EDI restructuring and establishment of Regional Electricity Distributors (REDs) proceeds, the Commission recommends that:

    a. The government revisits the Blue Print assumptions initially made to restructure the EDI. The EDI component was informed by restructuring the electricity industry as a whole, including the electricity supply industry. The government needs to clarify the policy issue of whether it is necessary to change ownership and structure in order to ensure efficiency, economies of scale, robust regulations and to deal with management challenges in the sector.

    b. The government conducts an up-to-date re-evaluation and analysis of the benefits of restructuring the EDI. In addition to the political, economic and social changes that have happened in the last eight years and which raise questions about the current assumptions underpinning the restructuring process, delaying the implementation of the REDs has generated new costs that require a total re-evaluation against the benefits that were perceived at the conception of the idea.

    c. The government finalises the EDI Restructuring Bill and the practical guidelines related to the shifting of municipal/Eskom distribution assets (the Asset Transfer Guide) first before moving towards more advanced stages of restructuring.

d. The government implements measures to ensure that municipalities are adequately compensated for their loss of assets, particularly in the early stages of implementing REDs, where dividends are expected to be zero or minimal.

e. The government should ensure the compatibility of operating systems that will underpin the activities of the REDs before establishing them as this can affect smooth service delivery negatively and reduce any savings that could derive from the restructuring significantly.

f. It is important that the social objective of making access to electricity universal is not lost in the process of restructuring the EDI. The government must make it clear which sphere of government will be responsible for planning, budgeting for and implementing the electrification programme.

Finally, with regard to the intergovernmental fiscal issues in urban public transport, the Commission recommends that:

1. Passenger Rail Agency of South Africa and cities should ensure that investment projects on rail and roads infrastructure are aligned and coordinated. This will ensure that limited resources are used optimally to a targeted area or group of passengers instead of each mode investing independently on its own infrastructure to service the same target group of passengers

2. The government should make a decision without further delays on the funding streams that will contribute to the Municipal Land Transport Fund as delays could negatively affect the financial position of affected municipalities.

3. Passenger Rail Agency of South Africa should ensure that funding that has been made available for investment on the commuter rail sector should prioritize corridors already identified as A and B in the National Rail Plan.

4. A comprehensive review should be conducted by relevant stakeholders including national departments, cities and the Financial and Fiscal Commission into the costs associated with current urban form in a selection of major South African cities in order to improve the efficiency of land use patterns.

5. The current mechanisms and basis for distributing transport subsidies should be reviewed by the Department of Transport, National Treasury and other key stakeholders in order to promote the efficiency of urban transport and land use systems, taking into account equity and distributional effects on households.

6. The potential financial implications resulting from the promulgation of the National Land Transport Act on municipalities should be examined by the Department of Transport and the National Treasury and dedicated funding streams for public transport identified.

7. The Department of Transport should regularly update the South African National Household Travel Survey.

5.4 2010 Government Response to the Commission's 2010 Recommendations for the 2011/2012 Division of Revenue

Section 214 of the Constitution and section 9 of the Intergovernmental Fiscal Relations Act (1997) require the FFC to make recommendations in April every year, or soon thereafter, on the division of revenue for the coming budget. The FFC complied with this obligation by tabling its *Submission for the Division of Revenue 2011/12* to Parliament in May 2010. 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 the FFC's recommendations into account when determining the division of revenue for the 2011 MTEF.

The 2011/12 recommendations cover four interrelated areas. The first chapter deals with the global economic crisis, fiscal frameworks and coping with vulnerabilities; the second chapter discusses options for social assistance reform during a period of fiscal stress; the third chapter focuses on an effective, efficient and transparent intergovernmental fiscal system and the fourth chapter discusses the intergovernmental fiscal issues in urban public transport.

Back to Index

Chapter 1: The global economic crisis, fiscal frameworks and coping with vulnerabilities

The FFC recommends that in the short term, government should continue to strive for fiscal consolidation by limiting the growth in entitlement spending to successful programmes, and refocus expenditure on improved service quality. In particular, child support and old-age pension grants should be expanded, and the high access levels to education and health services achieved despite the global economic crisis must be maintained. Government should also reprioritise expenditure towards repair and maintenance by emphasising existing projects and initiating new ones.

Government response

Government agrees that the implications of the global economic crisis and reduced fiscal space necessitate fiscal consolidation. Government has refocused existing budgets towards government priorities and more efficient spending. The number of social grant beneficiaries has more than tripled between 2002/03 and 2010/11 and a committee of inquiry is in place to investigate more cost-effective beneficiary payment options for the South African Social Security Agency.

The majority of additions to baseline over the 2011 MTEF target health, education, roads and the eradication of informal settlements. These additions are on top of substantial increases in previous budgets and will enable provinces to increase the quality of health and education services through improved infrastructure, conditions of employment, and provision of medicines. Government is finalising asset registers as it implements the Government Immovable Asset Management Act (2007) to ensure that infrastructure assets are properly maintained.

Block grant for health, education and social development

The FFC recommends that government should introduce a block grant for education, health and social development over the medium to long term, to fund clearly defined and costed outcomes.

Government response

As part of the review of the provincial equitable share formula, government considered proposals made by the FFC in 2009, which were included in their recommendations on the 2010/11 division of revenue.

These proposals dealt with challenges created by the design of the intergovernmental fiscal system and a number of issues related to the provincial equitable share formula. Government has not fully considered decentralising further fiscal powers to provinces. Thus, government agreed to separate the review of the provincial equitable share formula from the devolution of fiscal powers.

Government considered the proposal on block grants as part of the provincial equitable share review, and it has concluded that block grants are potentially unconstitutional.

Independent cost effectiveness and quality reviews

Undertake independent cost effectiveness and quality reviews of education, health and the social wage in both the public and private sectors.

Government response

Government agrees that independent cost effectiveness and quality reviews should be undertaken. The Ministry of Performance Monitoring and Evaluation would perform such reviews in the period ahead.

Chapter 2: Options for social assistance reform during a period of fiscal stress

The FFC recommends that during a period of fiscal stress, government should protect social assistance expenditure as far as possible during fiscal consolidation. Government should protect the relative simplicity of the social assistance system, especially when contemplating reform options. The FFC also recommends that government pilot conditional cash transfer and workfare programmes on a small scale and evaluate them to expand successful pilots, strengthen non-cash complementary social developmental services by emphasising quality improvements within defined resource limits, and avoid universal income grants.

Back to Index

Government response

Government supports these recommendations with the exception of the piloting of a workfare programme. Although exploring potential policy initiatives through pilot programmes has many benefits, giving cash benefits to individuals can be problematic. It will be extremely difficult for government to exclude people from the pilot and if it fails it will be complicated to withdraw support.

Chapter 3: Towards an effective, efficient and transparent intergovernmental fiscal system

The FFC recommends that when introducing and terminating conditional grants, national departments must introduce a mandatory, systematic process for designing and planning individual conditional grants that covers incentive effects, administrative accountability arrangements and stipulates regular review periods and exit strategies of the grant. Government should also ensure there is an independent evaluation of the grant performance at entry, midterm and end of the grant.

Government response

Guidelines on how to introduce and terminate conditional grants are available and the recommendation that criteria for disbanding the grant should be identified upon introduction is welcomed. It will be beneficial in the long term to develop capacity within national and provincial departments, provincial treasuries and municipalities to perform independent evaluations of grant performance. However, the fiscal system should continue to be responsive to the needs of government. Government should have the flexibility of introducing and terminating conditional grants where there is a clear rationale to do so.

Allocation criteria of conditional grants

The FFC recommends that government should make the criteria for dividing grant allocations transparent.

Government response

The allocation criteria for grants are explained in the relevant conditional grant frameworks.

Emphasise non-financial data reporting

The FFC recommends that government continue to emphasise the importance of non-financial data reporting, linking outer-year allocations to independently evaluated performance information and gazette expected deliverables.

Government response

Government agrees and will continue to emphasise the importance of non-financial performance reporting. Performance audits at provincial level should bring about substantial improvements to the quality of performance information. Reforms are in place to develop proper reporting systems for financial reporting in municipalities, and once these are in place the focus will shift to non-financial reporting. Government seeks to improve alignment of budgets and measurable objectives through its budget reforms.

Results-based accountability

The FFC recommends that through incentive grants, national departments must make accounting for delivery a prerequisite for most conditional grants. They should encourage designing grants that explicitly promote innovation in sub-national governments and strengthen incentives for optimal service delivery.

Government response

Government supports this recommendation. However, the administrative ability in provincial and local government must be strengthened before incentives for innovation are likely to have the desired effect.

Back to Index

Budget allocation process

The budget allocation process must specifically follow the conditional grant frameworks and this should be monitored periodically through section 32 of the PFMA and section 71 of the MFMA.

Government response

Government agrees with the proposal and monitoring is taking place through section 32 of the PFMA and section 71 of the MFMA.

Improve general performance of municipalities in revenue improvement and collection

The FFC recommends that government adopt standard indicators or early warning systems to measure and detect fiscal stress in municipalities. In addition to those already prescribed, these indicators should be pre-conditions for instigating mandatory provincial interventions. Monthly budget statements should report on actual revenue per source and on the percentage of collected revenue to the total value of billed revenue.

Government should legislate ratios for revenue collection as one of the key performance areas against which to assess overall municipal performance. Collection and coverage ratios must be used as standard indicators to revenue collection performance assessment across municipalities.

Excessive levels of municipal debt must be reduced through constant taxpayer education and incentives to improve the quality of services in general. Local government should be able to issue garnishee orders and the judicial system should have dedicated courts to deal with outstanding municipal accounts until the debt is reduced to acceptable levels.

The FFC recommends that government should make a concerted effort to estimate the fiscal capacity and fiscal effort of municipalities to dispel the perception that certain municipalities will never be financially viable.

Municipalities should have broad revenue improvement programmes that focus on administrative streamlining as well as revenue and expenditure interventions, and efficiency-based interventions. These interventions should be specific to local economic circumstances so that the emphasis is appropriate.

Effective revenue management processes, good financial management and the provision of good quality services should underpin revenue improvement programmes. These should only be conducted when municipalities have maximised the collection of local and outstanding revenue sources and should be subject to empirical tests.

Government response

National government agrees that improving municipalities' management of their own revenue sources is an essential part of placing local government finances on a more sustainable base, while strengthening local accountability and service delivery. National government's estimates indicate that improving municipalities' management of their revenues has the potential to yield substantially greater returns than the additional funds local government is budgeted to receive through the local government equitable share and conditional grants over the 2011 MTEF.

National government supports the recommendation that each municipality should have a broad revenue improvement programme in place. It is for this reason that national government has emphasised the importance of fostering a culture of payment for local government services through various initiatives, and why National Treasury and the Department of Cooperative Governance and Traditional Affairs are working together to provide practical support to municipalities on initiatives to strengthen their own revenue policies, procedures and processes.

Regarding the FFC's specific proposals for revenue improvement and collection:

National government has an early warning system that monitors municipal finances. This system is anchored by the budget formats prescribed in terms of the municipal budget and reporting regulations, the associated funding compliance assessment (see MFMA Circular 42) and monthly financial reports required in terms of section 71 of the MFMA. This system has proved to be very effective at identifying fiscal stress in municipalities. The real challenge is finding people with the necessary skills and integrity to tackle the identified problems.

The new budget and reporting formats emphasise cash-flow budgeting and reporting, which lays the foundation for closely monitoring actual revenue collections against billed revenues. However, it is not practical to insist on one-to-one reporting of revenue collected against revenue billed – because of the way systems are set up, the manner in which payments are allocated to settle bills, and the impact that debt repayments have on current revenue numbers.

The relevant acts that govern revenue collection by municipalities place positive obligations on municipal councils and municipal managers to put policies, processes and systems in place to ensure sound management of the various own revenue sources. National government is progressively strengthening its ability to monitor compliance with this legislation. The primary challenge is to get municipalities to make it a priority and manage it effectively.

Legally, municipalities may apply to a court for a garnishee order to recover outstanding debts from a customer. However, this is a costly approach and is therefore not widely used. National government believes that at this stage there is far more to be gained from improving the accuracy and completeness of municipal billing systems, and putting in place proper customer relations capacity. Experience has shown that these yield far better results for debt collection, but the idea of creating municipal debt courts can be considered in the medium term.

The notion that certain municipalities will never be financially viable is a misrepresentation of both the design of the local government fiscal framework and the practical reality of local economies. The fiscal framework is intended to ensure an equitable distribution of resources between the rich and poor areas of the country – but it does not absolve municipalities of the responsibility to raise property rates and services charges for the non-poor living within their municipal boundaries. Information on municipal own revenues indicates that many smaller municipalities are failing to do so. National government is investigating the issue of developing measures of fiscal capacity – it is by no means a straightforward task given the impact that traditional land and different modes of service delivery have on many municipalities' rates bases and service revenues.

Local government equitable share

The FFC recommends that the institutional component and revenue-raising correction component are reformed, so that the institutional component assists poor municipalities and the step structure of the differentiated tax mechanism of the revenue-raising correction component is removed. The current method of using actual property rates and own revenues collected to calculate the correction is problematic as poor fiscal effort and reporting is used as a measure for additional funding, which could be seen as a contradiction of section 227(2) of the Constitution. The FFC recommends that this practice is replaced with alternative methods of revenue prediction.

Government response

Government agrees that changes are required to improve the way the local government equitable share is allocated between municipalities. To assess whether the local government equitable share formula results in an equitable division among individual municipalities (horizontal division) as stipulated in sections 214 and 227 of the Constitution, the formula should be analysed as a whole – rather than subcomponents in isolation. Several adjustments are made to the local government equitable share formula this year and further changes will be made after a full review of the formula in 2011 (discussed in part six of this annexure).

The institutional component has been changed in 2011, adjusting the amount allocated to municipalities in terms of their poverty rate. This means that poorer municipalities will receive increased allocations. Details of this change are set out in part five of this annexure.

The revenue-raising correction component was introduced in 2005 following the FFC's recommendation that equitable share allocations should be adjusted to take account of the ability of municipalities to raise their own revenues. The original model used to predict municipal revenue-raising capacity became distorted over time and was replaced in 2008 with a simple model that uses reported revenue raised in previous years to predict future revenue-raising capacity. Although the Municipal Property Rates Act (2004) has been amended to take effect by not later than 1 July 2011, stipulating that municipalities must implement valuation rolls, the system is not yet at a stage where property rates revenue estimates can inform municipal equitable share allocations. In the absence of accurate property valuation rolls for all municipalities and with no official data on economic activity at municipal level, it is very difficult to construct a model that would provide fair estimates of municipalities' capacity to raise their own revenues.

During 2010, National Treasury has worked together with officials from the FFC, SALGA and the Department of Cooperative Governance and Traditional Affairs to try to develop an alternative model.

Due to the lack of adequate data, these attempts did not succeed in producing a model that could provide plausible predictions of the revenue-raising capacity of all municipalities. Using these models in the formula would have produced large distortions in allocations to municipalities and would risk contravening section 214(2)(i) of the Constitution that requires that allocations "take into account the desirability of stable and predictable allocations of revenue shares." The current method used for predicting municipalities' capacity to raise own revenues is therefore the fairest and most accurate method available at present and cannot be changed this year.

Government agrees to the recommendation to remove the stepped structure from the revenue-raising correction and a smooth curve has been used instead to calculate the differentiated "revenue correction" rate applied to each municipality. As outlined in part five of this annexure, the value of the revenueraising correction has also been reduced in this MTEF to compensate for demographic changes not reflected in the formula, due to the use of 2001 Census data. The total value of the revenue-raising correction component of the formula will be reduced, giving it less of an impact on the allocations to individual municipalities.

Regionalising municipal services: the electricity distribution industry in South Africa

The FFC does not support the blanket regionalisation approach proposed in the 17th amendment to the Constitution. The electricity distribution industry (EDI) restructuring process should consider an approach that allows for differences in performance.

The FFC made a number of recommendations with respect to the EDI restructuring and establishment of regional electricity distributors.

Government response

The FFC recommendations were proposed before government resolved not to continue with the restructuring and establishment of the regional electricity distributors. The FFC's recommendations are therefore moot.

Chapter 4: Intergovernmental fiscal issues in urban public transport

Urban public transport

The FFC recommends that the Passenger Rail Agency of South Africa (PRASA) and cities should ensure that investment projects on rail and roads infrastructure are aligned and coordinated for optimal use of resources.

Government response

The regulation function for public transport is being developed in municipalities to support the alignment and coordination of investment and planning for public transport services. Changes to funding flows to improve coordination include the transfer of the *public transport operations grant* in the 2011 Division of Revenue Act. Talks are also under way with the national Department of Transport to discuss the transfer of rail operational subsidies to cities, rather than directly to PRASA, to ensure integrated network design and management.

Municipal Land Transport Fund

The FFC recommends that government make an immediate decision on the funding for the Municipal Land Transport Fund, as delays could negatively affect the financial position of affected municipalities.

Government response

The National Land Transport Act (NLTA) (2009) requires the creation of a municipal land transport fund in each municipality. Municipalities can deposit grants from national and provincial governments into the Municipal Land Transport Fund, as well as user charges from transport services and revenue from local taxes. If municipalities need to raise additional local taxes for the fund, they can apply to the Minister of Finance to authorise such a tax. To date no such request has been received.

Funding for commuter rail sector

The FFC recommends that PRASA should ensure that funding for investment on the commuter rail sector prioritises corridors already identified as A and B in the National Rail Plan.

Government response

Government supports the proposal.

Comprehensive review of the urban form

The FFC recommends a comprehensive review conducted by relevant stakeholders into the costs associated with current urban form in a selection of major South African cities. This review will improve the efficiency of land-use patterns. The current mechanisms and basis for distributing transport subsidies should be reviewed by the Department of Transport, National Treasury and other key stakeholders to promote the efficiency of urban transport and land-use systems, taking equity and distributional effects on households into account.

Government response

Government recognises the need to review fiscal and financing arrangements for large cities, particularly in light of recent policy development resulting in the transfer of public transport, human settlements and land management functions to cities. This requires the development of new fiscal instruments, monitoring and capacity-support arrangements. The introduction of the new *urban settlements development grant* to address informal settlements and accelerate urban land release should help to improve the efficiency of land-use patterns. The current system of transport subsidies is not linked to ridership levels in cities, nor does it cover the full cost of ridership, thus placing ridership risks with the cities. Government will consider possible further changes to the financing of urban housing and public transport. A key challenge is to improve service delivery while breaking down the apartheid settlement patterns that continue to marginalise the poor in cities.

Cities will require capacity support to take on these new roles. Government looks forward to FFC analysis and recommendations on key fiscal issues, options and risks regarding this issue.

National Land Transport Act

The FFC recommends that government examines the potential financial implications of the NLTA on municipalities, and identifies dedicated funding streams for public transport.

Government response

Funding has been allocated to the Department of Transport for the implementation of the NLTA over the MTEF. National Treasury will review funding options to support the creation of regulatory capacity at local level. Funding also needs to be shifted from provinces to local government, as the act transfers the function from provinces to municipalities.

National Household Travel Survey

The FFC recommends that the Department of Transport should regularly update the South African National Household Travel Survey.

Government response

Government supports the recommendation. Funding has been allocated to the Department of Transport to begin updating the National Household Travel Survey in 2011/12.

5.5 Commission Submission on 2011/2012 Division of Revenue Bill

1. Background

The submission on the 2011 Division of Revenue Bill was made in terms Section 214 (1) of the Constitution of the Republic of South Africa (1996) and Section 9 of the Intergovernmental Fiscal Relations (IGFR) Act (1998).

2. Strategic Principles for the Division of Revenue Bill

The Commission and National Treasury agreed to review the Division of Revenue Bill (hereinafter referred to as the Bill) following the Commission's recommendations made in February 2010. It was agreed that there would be short and long term revisions to the Bill. Of the short term revisions that have taken place, there are some noticeable changes to the 2011 Bill.

2.1 Focus the Bill on Outcomes

Initial findings from this work are that there is a need to continue re-orienting the Bill in order for it to become distinctly outcomes focused, (i.e. ensuring that its clauses continuously agitate for a need to report on targeted outputs and outcomes, including emphasis on quality). Government has already acknowledged the need to focus not just on budget allocations but on policy outcomes in the Medium Term Strategic Framework and the delivery agreements around the 12 outcomes. This approach should find resonance in the Division of Revenue Act as well. Recent research suggests that factors listed in section 214(2) of the Constitution, collectively and when read together with the Bill of Rights result in the Division of Revenue Bill being viewed as an instrument that can be used to fulfil its minimal Constitutional obligation. In this respect, it is important to note that while the Division of Revenue Act is enacted annually outcomes are achieved only in the medium to long term. This means that the allocations (e.g. conditional grants) over the term of office of a government could be evaluated in terms of its agreed outcomes for a five year period. Making the Bill fully outcomes based is, however, not amenable to reform through short-term revisions to the Division of Revenue Act, and should be investigated further with a view to the long-term reform not only of Division of Revenue Act but of related and supporting sectoral legislation

2.2 Continue Streamlining the Bill

The 2011 Bill is significantly focused and contains clauses relevant to issues for the year to which it is enacted. This is a welcome development and in line with the preliminary findings of the joint work of the Commission and the Treasury. Some of the key short term findings of the work relate to the relationship between the Bill and other statutes. In this case, while the Bill sets conditions on grants allocated to provinces and municipalities, the Appropriation Bill allocates funds to different national departments. Compared to other statutes, findings are that while both the Division of Revenue Bill and PFMA/MFMA regulate the management of national revenue, the Division of Revenue Bill gives further effect to the framework reporting provisions of the PFMA/MFMA. The findings suggest that there is not so much duplication between the Division of Revenue Bill and the PFMA/MFMA but rather that there is more complementarity.

- It is the Commission's view that these common areas need to be cross referenced. The precise interaction between the Division of Revenue Act and other legislation will need to be fully understood and made as effective as possible.

- The joint technical team will carry out further work to identify the relevant sections that need cross referencing in this regard. Meanwhile, the provisions in the Division of Revenue Act should serve to strengthen those in the PFMA and MFMA.

- For the next phase of the review of the Division of Revenue Bill, it is the view of the Commission for work on the Bill to include;

- The Money Bills Amendment Procedure and Related Matters Act and its impact on the Bill.

The social and economic aspects of the division of revenue, bearing in mind that the Bill is a statute that gives effect to the political decisions guided by the political and economic vision, objectives and or intentions of government.

3. Sectoral Challenges

3.1 **Health:** The recent PFMA section 32 reports on provincial expenditure show that the Provincial health budget is under extreme pressure (see Table 1). Four provinces, the Eastern Cape, Gauteng, North West and the Western Cape overspend their Budgets in aggregate, while the rest of the other provinces made savings to the tune of R1 billion. KwaZulu-Natal and the Western Cape are the only provinces reflecting savings on their personnel budgets while the rest of the provinces mainly cut back their capital expenditure and goods and services. North West province exhibits over expenditure in all categories. In general provinces overspent their budget by a total of R2.9 billion while other provinces made a savings of R1.04 billion, ensuring a net overspend of R 1.8 billion for the total provincial health budget.

Table 1: Provincial Personnel Expenditure: Health as at 31 December 2010

R Thousand	Adjusted budget	Projected outcome	Actual spending as at 31 December 2010	Actual spending as % of adjusted budget	Over	Under	% (Over)/ under of adjusted budget	% share of Health Personnel to total personnal expenditure
Eastern Cape	8,204,792	8,662,892	6,289,860	76.7%	-458,100	–	-5.6%	26.2%
Free State	3,693,486	3,786,859	2,811,549	76.1%	-93,373	–	-2.5%	30.2%
Gauteng	10,893,823	12,001,693	9,031,356	82.9%	-1,107,870	–	-10.2%	37.0%
KwaZulu-Natal	13,231,196	13,153,297	9,542,832	72.1%	–	77,899	0.6%	31.9%
Limpopo	6,599,370	6,617,370	4,823,961	73.1%	-18,000	–	-0.3%	24.7%
Mpumalanga	3,579,957	3,579,957	2,657,642	74.2%	–	–	0.0%	23.1%
Northern Cape	1,199,991	1,293,944	954,694	79.6%	-93,953	–	-7.8%	25.3%
North West	3,130,487	3,295,316	2,425,603	77.5%	-164,829	–	-5.3%	25.8%
Western Cape	6,937,042	6,925,932	5,021,302	72.4%	–	11,110	0.2%	37.7%
TOTAL	**57,470,144**	**59,317,260**	**43,558,799**	**75.8%**	**-1,936,125**	**89,009**	**-3.2%**	**30.0%**

Source: National Treasury Section 32 report

3.2 Overspending curtails the provinces' ability to offer healthcare. The reasons given for increased healthcare funding revolve around increasing burden of diseases and personnel costs. However from the Auditor-General's findings, poor financial management and corruption in the supply chain management permeate almost all provinces. There is thus no certainty that increases in funding will result in any increase in outputs. Provincial departments of health, supported by National and Provincial Treasuries must put together plans of action to improve compliance with the Public Finance Management Act (PFMA) and take steps to further decentralise decision-making and internal accountability to address these internal proximate causes of poor health outcomes.

3.3 An independent external peer assessment of public health facilities level of performance in relation to the standards is long overdue. This will assist in getting an accurate assessment of the state of health services nationally. Currently, one of the difficulties of coming up with an accurate analysis is the lack of definition of all levels of the health service as well as a lack of official norms and standards for each level. The setting up of Family Health Teams is an important milestone in South Africa. Such Family Health Teams include a team of family physicians, registered nurses, social workers, and other health professionals who work together to provide health care in communities. They provide more service and a wide range of health options, especially for families that don't have a doctor and ensure that people receive the care they need in their communities, as each team is set-up based on local health and community needs. The focus should be on chronic disease management, disease prevention and health promotion, and work with other health care organizations and nongovernmental organisations.

3.4 Regarding the implementation of the National Health Insurance (NHI) in 2012, the Commission does not at this stage have official government policy documents on the health funding system proposed. It is however a fact that the NHI is going to affect the way health services are provided in the country across all three spheres of government and the private sector. In line with Government's Health 10 Point Plan, the Commission agrees that there is generally a need to improve quality in the public healthcare system, in particular addressing the required increase in professional medical personnel such as doctors and nurses as a precondition for successful implementation of the NHI. Further issues that need to be clarified for the implementation of the NHI are the role provinces and municipalities and providers and purchasers of national health services are going to play, funding streams, supply chain management and procurement of services, delivery of services, organisation and management. It is important that the space for official engagement of these issues is opened up before implementation in 2012.

3.5 **Education:** Education similarly exhibits the worrying trend of overspending. The highest over expenditure was reported for the provinces of Limpopo and the Eastern Cape for the same period (Table 2). They both average above 6 per cent of the provincial average. Taken together, provinces reflect a net overspend of R2.8 billion from their total budget with most of this made up by the Eastern Cape and Limpopo. Like the Gauteng Province problem with respect to health, this pressure comes from personnel expenditure with the Eastern Cape at R1.2 billion and Limpopo at R1 billion, respectively. These pressures can be expected to create challenges in the delivery of services unless these provinces adjust their personnel spending to an acceptable level. Depending on how the provincial administration reacts to the challenge, there is a risk of interrupted service delivery as is already the case in the Eastern Cape where there are reported cases of suspended scholar transport, school nutrition programme and the dismissal of temporary teachers. The developments in the Eastern Cape where essential but soft targets for expenditure cuts, namely learner transport, temporary teachers and children feeding schemes subsequently bore the brunt of the fiscal adjustments are unwelcome developments.

Table 2: Provincial Personnel Expenditure: Education as at 31 December 2010

R Thousand	Adjusted budget	Projected outcome	Actual spending as at 31 December 2010	Actual spending as % of adjusted budget	Over	Under	% (Over)/ under of adjusted budget
Eastern Cape	13,332,258	19,501,193	14,540,661	79.3%	-1,168,935	–	-6.4%
Free State	6,822,986	6,822,986	5,088,933	74.6%	–	–	0.0%
Gauteng	16,869,088	17,243,618	13,038,840	77.3%	-374,530	–	-2.2%
KwaZulu-Natal	22,769,852	23,505,888	17,533,163	77.0%	-736,036	–	-3.2%
Limpopo	15,162,567	16,166,419	11,838,544	78.1%	-1,003,852	–	-6.6%
Mpumalanga	9,246,479	9,246,185	6,976,751	75.5%	–	294	0.0%
Northern Cape	2,719,157	2,764,425	2,050,952	75.4%	-45,268	–	-1.7%
North West	6,937,153	6,997,153	5,293,968	76.3%	-60,000	–	-0.9%
Western Cape	9,330,046	9,326,944	6,823,873	73.1%	–	3,102	0.0%
TOTAL	**108,189,586**	**111,574,811**	**83,185,685**	**76.9%**	**-3,388,621**	**3,396**	**-3.1%**

Source: National Treasury, section 32 reports

3.6. The improved pass rate in the 2010 National Senior Certificate examinations is broadly welcomed and applauded. However, there are still challenges to be resolved to improve the quality of basic education in the country. According to the Curriculum and Policy Statements, Mathematics and Physical Science have been identified as key subjects for providing the skills needed for growth. The pass rate in both subjects remains below 50%. Another area of major concern is that many learners are falling out of the basic education system before they reach grade 12 and this high dropout rate needs to be addressed.

3.7 With regards to schools infrastructure investments, the Commission welcomes the decision by government to target directly the infrastructure backlogs and set time frames for their elimination which is in line with the Commission's 2002 recommendation. Failure to provide adequate schools infrastructure dispossesses children of the potential to realise their intellectual capabilities. It is for this reason that an alternative delivery method be piloted. From the start of the 2011 MTEF, the Department of Basic Education will administer the school infrastructure backlogs grant and the education infrastructure grant. The school infrastructure backlogs grant is aimed at ensuring that backlogs in inappropriate structures and access to basic services in schools are eradicated during the 2011 MTEF. The grant will cease to exist at the end of the MTEF (by 2013). In light of the challenges to deliver on this mandate by provinces (see for example the Eastern Cape mud schools court case), a public entity created solely for schools infrastructure development to be managed by the Department of Basic Education is proposed as an alternative service delivery model. This arrangement misses a key point that a specific purpose vehicle is created that separates asset creation from maintenance and this disjuncture will likely result in asset stripping over time. Another point is that national and provincial governments have been promising to eliminate "mud schools" by the "end of the year" for several years. Clear performance indicators must be spelt out and providers be held accountable for performance. It must also be clarified whether the new special purpose vehicle would be a permanent feature. Parliament must also increase its oversight over provinces that fail to perform in this regard.

3.8 **Agriculture:** The Commission submits that agricultural conditional grants are too small to be administered separately and to have the large desired impact on agriculture and rural development. There are three conditional grants which are specifically meant for this purpose, namely: *the Comprehensive Agriculture Support Programme (CASP), Ilima/Letsema Grant, and the Land Care Grant. The Micro-Agricultural Finance Initiative of South Africa (MAFISA),* which is managed by the Land Bank is aimed at providing micro and retail agricultural financial services and facilitate access to public sector programmes to enable market efficiency. Given the low spending capacity history for these grants, the Commission has in the past recommended the merging of these grants into one comprehensive agriculture finance programme. While funding is just but one of the challenges facing agriculture and rural development, the roles of provinces and municipalities, especially the latter in providing irrigation facilities need also to be clarified. It is also not clear how the Department of Agriculture, Forestry and Fisheries intends to interact with these spheres of government and the Department of Rural Development which is also responsible for rural livelihoods (Government's Outcome 7 on vibrant, equitable and sustainable rural communities and food security for all acknowledged this shortcoming in the context of intergovernmental relations and rural development). These intergovernmental relations (use of cooperatives as organisations to develop small scale farmers and other rural communities as well as related initiatives by the department of Trade Industry) need to be resolved as part of the rural development strategy. With regards to extension services, the Commission has not seen major improvements in the effectiveness and efficiency of extension delivery. Norms and standards for extension and advisory services in agriculture were approved in 2005. The Department of Agriculture together with Provincial Departments of Agriculture rolled-out the first year of the implementation of the Extension Recovery Plan in 2008/09. According to the Department of Agriculture, Forestry, and Fisheries, the ratio of extension staff to commercial and subsistence farmers is 1: 21 for commercial farmers, 1: 857 for subsistence farmers and 1: 878 for the combined group. These ratios are not particularly high by global standards. It is important though to point out that it is not just the global numbers of extension staff that is important per se but their capacity to deliver. This factor is a particular challenge to CASP and other agriculture conditional grants, particularly with respect to the provision of extension support to land reform beneficiaries.

3.9 **Vibrant Built Environment:** There are massive opportunities for urban development through cities. However, there is a need to look closely at effective implementation as well as managing certain risks involved.

3.10 **Roads and public transport:** Metropolitan cities and secondary municipalities are struggling to cope with increased maintenance and rehabilitation of roads and transport infrastructure due largely to the 2010 FIFA world cup investments and the implementation of the Bus Rapid Transport system. Overall urban transport funding models should be reviewed. This includes municipal own revenues, user pay principle and fiscal transfers. Maintenance and rehabilitation of road infrastructure should be a priority over the period ahead, particularly in cities. This should be extended to actively pursuing previously untapped revenue sources to finance these priorities.

1. The issue of devolving the public transport system to cities is one of the recommendations that were made by the Commission in its 2005 Annual Submission. The National Land Transport Act No. 5 of 2009 takes the devolution of public transport function further by providing for the establishment of a Municipal Land Transport Fund (MLTF). The Commission recommends that the sources of funding to contribute to the MLTF be finalised without further delays to ensure consistent and predictable funding of this function by the cities. Furthermore, performance of public transport needs to be monitored by identifying indicators such as reduced costs, reduced travel times, reduced percentages of household income spent on transport, regular renewal of the public transport fleet and access to transport.

2. Whilst noting road maintenance challenges, the Commission submits that the national fiscus alone cannot be a solution to maintenance backlogs (especially those created by coal haulage). Other options such as rail transportation for freight, user-pay principle and road traffic management for overload should be explored and enforced where deemed viable. Pertaining to user pay principle, the seemingly uncoordinated way in which the recent proposal to toll the national roads in Gauteng point to the need for government departments, agencies and spheres of government to work together. Failure to do so leads to unnecessary damage to government credibility as well as potentially compromising predictability in spending and road financing through such innovative approaches as ‘user pay’.

3.11 On the investment on rail, the Commission in its 2010/2011 Annual Submission for the Division of Revenue highlighted the fact that there has not been investment on passenger rolling stock since the 1980s. Therefore, allocation to recapitalize passenger rail rolling stock would be commendable. However, such investment should be complimented with improved service conditions in passenger rail including security issues. Furthermore, government should ensure that funding is channelled to the prioritized corridors classified as A or B on the National Rail Plan.

3.12 **Human settlements and community amenities:** Due to the Constitutional role of the local government, municipalities are responsible for the delivery of a number of services that make human settlement habitable. The Commission notes that from 2011/12, the portion of the *Human Settlements Development Grant* which went to cities for internal infrastructure to houses will be taken out of the grant and added to what was the MIG Cities and is now the *Urban Settlements Development Grant (USDG).* This move will assist to accelerate the alignment of functions as well as funding streams that impact on the built environment and human settlements. Other funding streams that still need to be aligned include the National Housing Subsidy, Municipal Infrastructure Grant (i.e., in other municipalities as those receiving USDG will not get MIG), Bulk Water, Electrification, and Transport Grants.

3.13 One of the important aspects within the delivery of housing that has been consistently debated in South African inter-governmental relations is the accreditation of municipalities where delivery capacity exists. The Commission has made recommendations on municipal accreditation in line with the Housing Act No. 107 of 1997. Some of the positive developments in this area include the establishment of an accreditation panel by the National Department of Human Settlements in 2009. However, this process has ‘crawled’ towards attaining the desired results as no municipalities, including metros have yet been accredited at level three. The Commission therefore recommends that MECs for human settlements in provinces should prioritise the process taking into account recommendations by the accreditation panel. It should be noted however, that accreditation of municipalities is not the only issue that needs urgent attention in the delivery of human settlements. Other key issues include the role of local government in housing delivery, provision of land, sustainability of the current delivery models, quality and standards compliance and monitoring (in 2010 it has been estimated that 40 000 RDP houses were of poor quality costing about 10% of the human settlements budget) and peripheral location of low-income housing projects).

3.14 The financial health of municipalities is paramount to ensuring sustainable service delivery. In addition to general poor spending performance within the sphere, municipalities are beginning to demonstrate difficulty in maintaining healthy and positive cash balances. A generally accepted norm is that municipalities should have at least three months of average operational expenditure on hand. Figures for 2008/09 indicate that three metros, 13 secondary cities, 66 Category B municipalities and 30 Category C municipalities had less than one month's worth of operational expenditure on hand. This illustrates the precarious financial position that a number of municipalities find themselves in.

3.15 Resolutions regarding a number of critical issues continue to be delayed. In addition to the issue of accreditation, the restructuring of the electricity distribution industry (EDI), a replacement for the Regional Services Council (RSC) levy for district municipalities and the need for greater certainty around the roles and responsibilities of local and district municipalities are still not finalised. Continued delays on these issues create substantial uncertainty within the local government sphere. The Commission recommends that government adopts firm policy positions on these issues that will bring finality and remove the uncertainty. The following key aspects are emphasised:

1. Specifically, on the issue of EDI restructuring, the Commission notes Government's decision to discontinue the process of creating six Regional Electricity Distributors (REDs). This is in line with the Commission's research and recommendations for the 2011/12 Division of Revenue. The Commission awaits further details on the future of the restructuring of the electricity distribution industry. It should be noted that whilst the original approach might have been dismissed, the restructuring of EDI so as to improve performance and efficiency remains to be resolved. The Commission is of the view that any new reform approach adopted should be well targeted to the challenges besetting EDI in South Africa. To this end a differentiated approach, that recognises existing cases of good performance should be adopted. In light of the continuously growing electricity distribution industry maintenance backlog (estimated at approximately R30 billion in 2010) and the need to roll out universal access to electricity, the need to effectively restructure EDI should be a high priority.

2. The Commission notes that progress and results with respect to the Department of Cooperative Governance's (DCoG) review of the White Paper has stalled. This is raised specifically in relation to the need to clarify a suitable role for district municipalities. The Commission is of the view that conclusions arising from the review process are necessary and should in fact form the basis for resolving a number of related outstanding issues – the determination of a suitable revenue source for the abolished RSC levy for district municipalities, being a case in point.

4. Provincial and Local Equitable Share

4.1 Following work on the review of the provincial equitable share (PES), the Commission made two recommendations on this in 2009. The first recommendation called *Option 1* was to stay within the confines of the current system but to fine tune the PES with the goal of addressing some of the problems that had been identified so that the PES can improve its performance in a number of important areas. However, these reforms were meant to be more of stopgap nature and not deemed sufficient to address the deep structural problems confronting the PES. The second recommendation called *Option 2*, departed from the realization that addressing problems of the PES required fixing other aspects of the current fiscal decentralization system. Specifically, the reform of the PES would require the reform of current expenditure and revenue assignments between the central and provincial governments. The implementation of Option 2 would require significant changes in the current legislation and amendments to the Constitution. National Treasury subsequently took the lead in work aimed at comprehensively reviewing the provincial equitable share. The 2011 Division of Revenue Bill reflects government's intention to implement substantial changes to the Provincial Equitable Share formula for the 2011 MTEF. The Commission would like to welcome this development as it is in line with its recommendation of 2009/10 on the review of the equitable share formula. Overall, the Commission views the work done by Government on the health component reform as very comprehensive and in the right direction wherein the new approach is trying to balance the needs-based with the demand-based approach. The debate on health sees the implementation of a close proxy of the costed norm when closely looked at especially on the output side. The Commission welcomes this approach to health financing. The other proposals made including education financing and changes to weights will require further work going forward and the Commission will be conducting further investigation.

4.2 In its submission on the 2010 MTBPS, the Commission raised a concern that the PES formula weights are not used when deciding on additional provincial allocations during the Adjustment of Estimates. Since such adjustments are mainly for personnel, the Commission had always indicated that there is a risk of rewarding some provinces for making wrong choices. These choices include making unauthorised personnel appointments and provinces deliberately creating pressures on own budgets while other provinces continue to do the right things and get penalised. Furthermore, any inherent equity in division of revenue may be negated by inequity following such adjustments and this compromises the original intent of the Division of Revenue Bill. In adjusting the formula, government indicates that the new health component will now be the only instrument used for policy adjustment to the health component. This is a welcome development and government needs to be commended for this. This consistent approach is being applied to all the formula components including the education sector.

4.3 The Commission notes the planned changes to the LES formula and the longer term review thereof and will be participating as part of the technical team working on the review.

5. Government's Response to Commission Recommendations

5.1 The Commission welcomes government's response on its recommendations on fiscal consolidation and expenditure reviews. It shares Government's proposals on fiscal consolidation and budget reprioritisation over the medium term. Moreover, the Government's inquiry into the cost effectiveness of beneficiary payments is strongly supported by the Commission. Lastly, Government's strides towards achieving high levels of education and health services, as well as the implementation of GIAMA, are welcomed by the Commission.

5.2 The Commission understands Government's position that instituting a block grant will require constitutional amendments and hence cannot be pursued in the short run. The Commission's view is that this should still be considered as a long term agenda for addressing the financing of concurrent functions and streamlining the revenue allocation processes and mechanisms.

5.3 The Commission welcomes the general response from the Government on social assistance reform. Government's view on piloting is understandable, given problems associated with reversing perceived entitlement programs. Without belabouring the point, the Commission is satisfied at this stage that Government in principle is not opposed to the idea of piloting and has in fact used the approach before to implicitly support a programme to policy approach. The realisation of this distinction is important and welcomed.

5.4 On the review of LES, the Commission welcomes the fact that all of its recommendations have been accepted by government. In particular, it welcomes and supports the proposed changes to the I component to support funding to poorer municipalities, the removal of the stepped taxation structure in the implementation of the RRC component and the discontinuation of using the RSC levy grant to approximate own revenue. These changes will impact positively on the practical mechanics of the formula in the short and long term and will further improve the efficiency and equity of the allocations.

5.5 Section 227 (2) of the Constitution states that no additional revenue raised by municipalities shall be subtracted from its share of nationally raised revenues. However, the current method of factoring a municipality's revenue raising capacity into the formula represents an inflation adjustment on actual own revenues collected by municipalities and not specifically a prediction model of revenue raising capacity. As a result, the current practice runs contrary to the Constitution. With respect to changes to the RRC component, the Commission acknowledges the short term constraints in accurately determining fiscal capacity of municipalities. The Commission has attempted to assist government with developing a prediction model that could ensure a robust, impartial and accurate prediction of municipal fiscal capacity. However, severe data and time constraints hampered any reasonable conclusions to the initiative. Government has now implicitly accepted that there are these several illegalities with this measurement, but such illegalities are outweighed by "the desirability of stable and predictable allocations" which rules out an immediate dropping of the component but rather prioritises it in the on-going review of the formula.

5.6 With this background in mind and also accepting that National Treasury also obtained legal opinion to the contrary of the one the Commission has, the position of the Commission is that in its current form, the RRC may expose Government to unwarranted litigation. The Commission however supports government's decision to prioritise the revision of the component in the broader review process of the LES formula to be completed later this year. The Commission will also be undertaking further research on methods to appropriately define and subsequently predict fiscal capacity of municipalities in its next research cycle to inform the review that government is carrying out and avoid the possible legal challenges in future.

5.7 The Commission notes government's decision to discontinue EDIH and the process of establishing the REDs. It should however be noted that the broader issue of restructuring electricity distribution and in fact the entire electricity value chain, remains unresolved. In addition the Commission's input pertained more broadly to the approach that government should take when restructuring areas of poor service delivery, in particular to the regionalisation of basic services delivery. To this end, government's response is incomplete as it only focuses on a particular aspect of the recommendation and hence does not respond to the full essence of the recommendation. The Commission's recommendation emphasised that reform strategies should be well targeted and that blanket reform strategies that have the potential to affect even cases of good performance, be avoided. Going forward it is suggested that strict accountability measures that will assist in preventing fruitless expenditure, be put in place to avoid a situation where significant resources are spent on reform strategies that are ill suited to the challenges they are meant to overcome.

6. Concluding Remarks and Recommendations

6.1 The Commission generally welcomes the 2011 Division of Revenue Bill and applauds ongoing efforts to make it a truly strategic document.

6.2 Overspending of health and education budgets constitute a major concern. This unwelcome tendency is having strong negative implications. It is not leading to better outputs and is diverting resources away from other priorities. Simply imposing special purpose vehicles to address fundamental problems of public service capacity (in decision-making and administrative capability) is not good practice. While the Commission supports the job creation thrust, there is a need to recognize that these basics of public service administration must be sorted first as a matter of urgency.

6.3 A vibrant built environment constitutes a massive opportunity for urban development. In particular, focusing on roads, public transport and human settlements. There are important risks (such as unwarranted credibility damage due to poor coordination) and opportunities (especially in road finance, human settlements) that need to be addressed.

6.4 Reforms of the Provincial Equitable Share and Local Equitable Share should be pursued with a view to comprehensively reforming these sharing arrangements and streamlining the revenue allocation processes and mechanisms so that they can respond to the new realities confronting the country (including the fact that government is now structured and running differently compared to the past when the formulae were first developed, initiatives such as NHI etc). There are outstanding issues around the treatment of RRC in the LES formulae that need to be addressed, as well as long term steps towards the funding of concurrent functions in reforming and refining the PES formula. The Commission will continue the work that was started in 2007 in this regard.

6.5 The Commission generally welcomes government's response to its recommendations. Further work will be undertaken by the joint technical team from the National Treasury and the Commission on the review of the Bill.

6.6 The Commission would like to note that for the 2011/12 division of revenue the engagement with the recommendations across the three spheres of government have been very robust and contributed to dialogues on a wide variety of topical issues which have intergovernmental fiscal dimensions. This process was very ably facilitated by the Minister of Finance on the Executive side through the Budget Council and the Budget Forum and the Finance Chairpersons on the side of the legislatures. In this regard it would be useful in future for the Commission to receive reports from the provincial legislatures on the views taken on the recommendations so that it can use such reports as a point of departure for responding to their needs as stakeholders and also as an input to its research agenda.

5.6 Submission on 2011 Fiscal Frameworks and Revenue Proposals

1. The Context: Parliament's Powers to Amend Money Bills

1.1 This submission was made in terms of Section 4(4c) of the Money Bills Amendment Procedure and Related Matters Act (Act 9 of 2009) which requires Parliamentary Committees to consider any recommendations of the Financial and Fiscal Commission (hereafter the Commission) during their deliberations on Money Bills. It is also made in terms of the FFC Act which requires the Commission to respond to any requests for recommendations by any organ of state on any financial and fiscal matters.

1.2 The Commission's Submission has five sections. The second section gives a brief description of the fiscal framework for 2011. The third section looks at the macroeconomic outlook and long term fiscal risks. Section 4 discusses tax revenue estimates and 2011 tax proposals while section 5 raises what the Commission considers as important issues in relation to future fiscal frameworks. The final section contains the conclusions.

2. Review of 2011 Fiscal Frameworks

2.1 Government tabled a total national budget of R889-billion to be spent between the three spheres for 2011 financial year, growing to R1.1-trillion in 2013/2014. A significant portion of this allocation is spent at national level (47%) and provincial level (44.3%), while the local government receives 8.7% of this allocation.

2.2 This year's fiscal framework sees expenditure rise by R94.1-billion relative to baseline over the medium term expenditure framework (MTEF). A total of R150-billion goes towards job creation and skills development programmes and R800-billion to infrastructure investment.

2.3 The allocations to provinces have been revised upwards with an additional R30.1-billion to the Provincial Equitable Share (PES) and R10.1-billion to conditional grants over the Medium Term Expenditure Framework (MTEF). Local government receives an additional R1.2-billion to its equitable share, R3.7-billion to conditional grants and R300-million for general fuel levy (to cater for the introduction of two new metros (Buffalo City and Mangaung)).

3. Macroeconomic Outlook and Long-Term Fiscal Risks Confronting South Africa

3.1 South Africa is steadily moving out of the recession with the domestic demand being supported by automatic stabilisers and monetary accommodation, increased public investment, as well as greater social support. Economic growth (in real terms) has increased from -1.7% in 2009 to 2.8% in 2010 which is reflective of the ongoing economic recovery. However, the International Monetary Fund (IMF) lowered its projection for South African economic growth in 2011 by 0.1% to 3.4% (World Economic Outlook, January 2011), citing slower pace of recovery due to lower world trade and high (chronic) unemployment rate. Similarly, South African Reserve Bank (SARB) has adjusted its growth forecast downwards to 3.4%, which is well below the expected 6.5% average growth rate for developing countries. During 2010, SARB reduced the repo rate three times to 5.5% in an attempt to boost consumer spending and aid economic recovery in South Africa. Manufacturing, as well as mining and quarrying were the biggest contributors to economic growth in the last quarter of 2010 (Statistics South Africa, 2011). In real terms, and relative to size of the industry, mining and quarrying as well as manufacturing were also the biggest contributors to the overall economic growth in 2010, and these are the industries that comprise the majority of South Africa's exports. Exchange rate is thus extremely important to the South African economy and the Commission welcomes attempts by the government and SARB to moderate the effect of capital flows on the exchange rate. These include the accumulation of foreign reserves as well as the increase in prudential limits for the South African investor community (i.e. easing of the exchange controls have already contributed to a depreciation of the Rand – some 10% as mentioned in Minister of Finance's speech).

3.2 The Commission's economic outlook last year based on a dynamic computable general equilibrium model projected that GDP would fall in 2008 and 2009 and then increase again from 2010 although it does not return to its business as usual (BAU) value even by 2015. In other words, without positive shocks or deliberate and successful interventions that stimulate the economy and counteract the negative impact of the world economic crisis, GDP will not recover to what it would have been in the absence of the crisis, that is, the BAU scenario. As was expected, South Africa has maintained moderate positive economic growth through to the fourth quarter of 2010 in line with the Commission's projection. This growth, marginally higher than the Commission projection has been driven by (a) stronger than expected global economic recovery, (b) ongoing lagged benefits of a 6 ½% decline in short-term interest rates between December 2008 and the present and (c) substantial decline in inflation and consequent increase in disposable income.

3.3 South African government recognises the importance of economic growth in job creation as well as the contribution of different sectors to economic growth. This is made clear with the announcement of the New Growth Path (which is the main focus of this year's budget), State of the Nation announcement of R9-billion jobs fund, a R10-billion allocation by the Industrial Development Corporation (IDC) and up to R20-billion tax breaks to promote investment in the manufacturing sector.

3.4 However, high economic growth ("higher, inclusive growth, and above all sustained", as Minister of Finance put it) needs to be accompanied by improvements in skills and education. South Africa faces enormous pressure to upgrade human capital skills. It suffers from competitive disadvantage in terms of quality of its human capital, its investment in research and development (R&D), and information and communication technology (ICT) penetration. The country will need to increase investments and quality of spending in education and bolster spending on R&D. These supply-side factors constitute most pressing key long-term challenges confronting South Africa and necessitate consideration of long-term fiscal risk.

3.5 The South African government adopted the United Nations Millennium Declaration alongside other countries as an unprecedented declaration of solidarity to rid the world of poverty. This declaration is encapsulated in the Millennium Development Goals (MDGs). The South African government did not only embrace the MDGs, but set policies in place to increase economic growth and employment, focusing on redistribution and thereby reducing poverty and inequality. Key policies implemented since the abolishment of apartheid include the Reconstruction and Development Program (RDP), the Growth, Employment, and Redistribution (GEAR) strategy, the Accelerated and Shared Growth Initiative for South Africa (AsgiSA), and recently the New Growth Path. Although South Africa has made progress in achieving the MDGs, some gaps remain. Using a dynamic, computable general equilibrium to analyse the budgetary efforts required to achieve the MDGs, simulations carried out by the Commission show that if the economic conditions (including external conditions and policies) do not change, there will be progress in achieving some MDGs but this progress will not be sufficient to achieve them all. South Africa should be able to achieve MDG 1 (eradicate extreme poverty and hunger[6]), but not any of the other MDGs (even when higher GDP growth numbers of 4.5% per annum are assumed) unless more efforts are made to reach these MDGs. Further scenarios were conducted to investigate the impact on public spending in order to achieve the MDGs, separately and simultaneously (excluding MDG 1). If the health MDGs (MDG 4: reduce child mortality, and MDG 5: improve maternal health) are targeted alone, health spending increases from 3.1% of GDP to 5.1% of GDP, and stays at 5.1% of GDP even when all the MDGs are met simultaneously. Water and sanitation spending increases from very low numbers in the base year to 2.3% of GDP and stays at this level even when all targets are met. Under higher growth scenarios the cost of achieving the MDGs is somewhat lower.

3.6 This year's budget sets aside some R8-billion in allocations for specific health service interventions that are meant to lay the foundation for the National Health Insurance (NHI). It is well known that the full programme will cost a lot more and hence poses a fiscal risk[7]. The Commission has recently made long-term budget projections under three scenarios that reflected different assumptions about future policies for revenues and spending that mimic introduction of NHI. The business as usual (BAU) scenario is assumed to follow a steady state path in which all variables are constant per effective labour unit. To reflect policies that could be implemented to achieve the NHI, an increase in public spending of 10% for the two first periods and of 2% for the three following years is made. In a first simulation, there is no imposition of any constraint on the debt to GDP ratio whereas we assumed, in the second scenario, that any increase in public spending would need to be financed though increased taxes on household income.

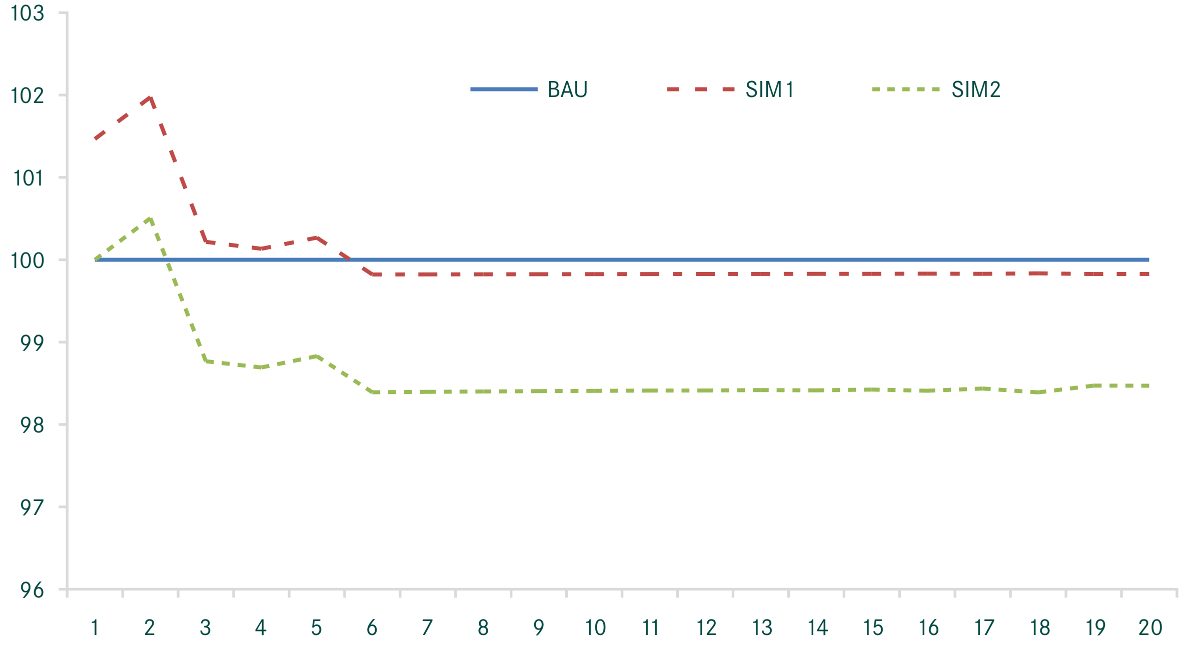
3.7 During the years of increased spending, and without any constraints on the debt level, South Africa would experience greater GDP than what would have otherwise been the case (Figure 1). This result confirms that the policy would indeed boost GDP in the short run. However, the opposite happens once the government goes back to its initial spending levels. This outcome results from the crowding out effect public spending would have on private investment. Indeed, the greater the public deficit, the less savings there are to finance other investments, which leads to a smaller productive capacity in the future, and thus, to a smaller GDP. Figure 2 shows the evolution of the public deficit to GDP index (BAU = 100). It can be seen that the index increases sharply during the first five years but also for the following periods. In fact, by borrowing more during the first years, the government increases its interest payments for all future periods, which exacerbates the crowding out effect. Figure 3 shows that under such a scenario, the debt to GDP ratio would be 5% greater than its BAU levels.

6 For more information on the MDGs, see www.undp.org/mdg/goals.

7 NHI is expected to cost R128-billion in the first year, increasing to R325-billion by 2025.

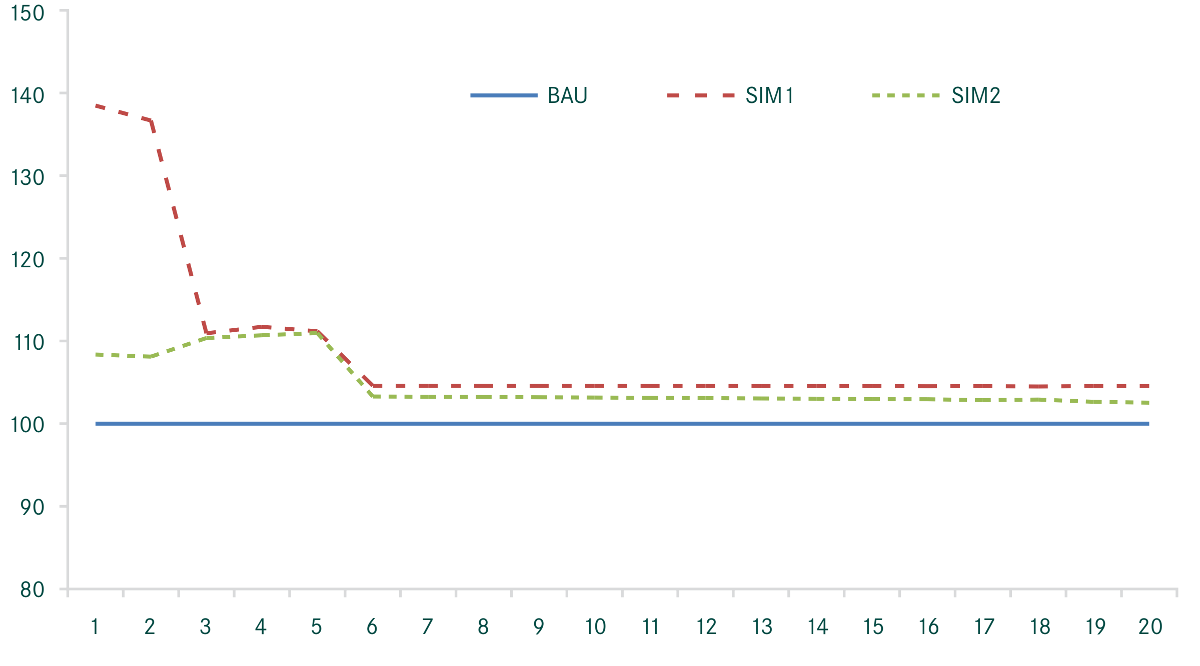
Back to Index

Figure 1: Impact of Increased Government Spending on GDP



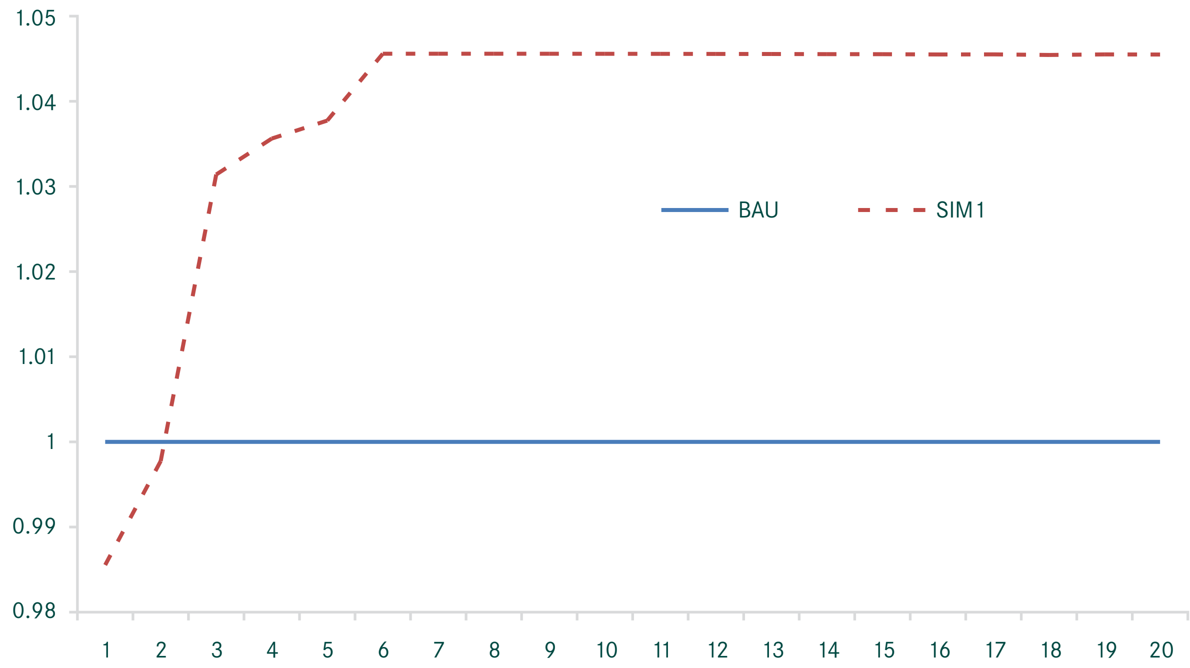
Source: FFC 2011

Figure 2: Impact of Increased Government Spending on Deficit to GDP Ratio



Source: FFC 2011

Figure 3: Impact of Increased Government Spending on Debt to GDP Ratio



Source: FFC 2011

3.8 When government cannot increase its debt to GDP ratio beyond its BAU level, in other words NHI would be financed though increased taxes, it is not surprising to see that the public deficit would not increase as much as it did under the first scenario (see Figure 2). However, the positive impact on GDP is not significant as it was in the first case. Increased taxes on households' income would have a negative impact on their consumption and saving levels, and thus on GDP. Figure 1 shows that, in the long run, greater public spending financed through increased taxes would translate into a loss of GDP close to 2%, although a small positive impact is observed in the shorter run. This year's budget has allocated R8-billion to lay the foundations for the NHI that is being implemented as part of the Department of Health's ten-point plan for improving outcomes. According to the 2011 Budget Review, over the medium to long term, the revenue requirements of the NHI system will require upward adjustments in the tax structure. Increases in VAT, payroll taxes and surcharge on the personal income tax base are financing options under consideration. The Commission's research discussed above indicates that GDP growth is lower when utilising taxation compared to utilising borrowing. In particular, private consumption spending is lower when using tax sources, but the largest impact is on private investment which declines pointing to domestic crowding out. This compromises future growth.

3.9 Another important fiscal risk that South Africa faces is that associated with adaptation to global climate change. Most Global Climate Change Models (GCMs) project a temperature increase for South Africa by 2100 (SIAM Model). While the global damage cost of a tonne of carbon-dioxide is estimated to be "only" approximately $5[8], the broader, negative, societal impact of coal, coal mining and electricity generation is very high. Examples indicating costs of up to R15-billion per year (extrapolated to R18-billion per year in 2008) in mortality, morbidity and climate change associated with coal-fired electricity generation[9]. These external effects are not reflected in the price of either coal or electricity. Neither is the cost to reduce atmospheric carbon (e.g. recent estimates for Carbon Capture and Storage are as high as R600 per tonne of carbon-dioxide). Climate change will also be reflected in increased frequency and intensity of extreme weather events, reduced precipitation in many regions and an increased probability of flooding episodes with accumulated precipitation in heavy rainy periods. On the agricultural sector front, there are likely to be net adverse effects emanating from negative impact of temperature change and from

8 Tol, R.S.J. (2005). "The marginal damage costs of carbon dioxide emissions: an assessment of the uncertainties." Energy Policy 33: 2064-2074.

9 Blignaut, J.N. and Zunckel, M., 2004. Cost of a decline in air quality. In Blignaut, J.N. and De Wit, M.P. (Eds). Sustainable options. Cape Town: Juta. Spalding-Fecher, R. and Matibe, D.K. 2003. Electricity and externalities in South Africa. Energy Policy, 31(8): 721-734.

pressures on available water supply. There will be differential impacts across regions, with shifting to different crops in different zones. For the Coastal zones, there will likely be an increase in sea level, necessitating the need for protective actions to minimize impact, particularly in regions of high development and high population density. While there are no estimates available of impact on insurance or tourism sectors, urban centres, or soil and land resources, these costs are likely to rise. These contingencies are generally not factored in the fiscal framework proposed (note that change in the structure of the electricity tariff will have an environmental consequence, but not replacing the need to consider things like an input (e.g. coal) tax purely from an environmental vantage point separately such as put forward by the National Treasury's "Environmental Fiscal Reform" policy document as well as global action but the risk is not entirely eliminated).

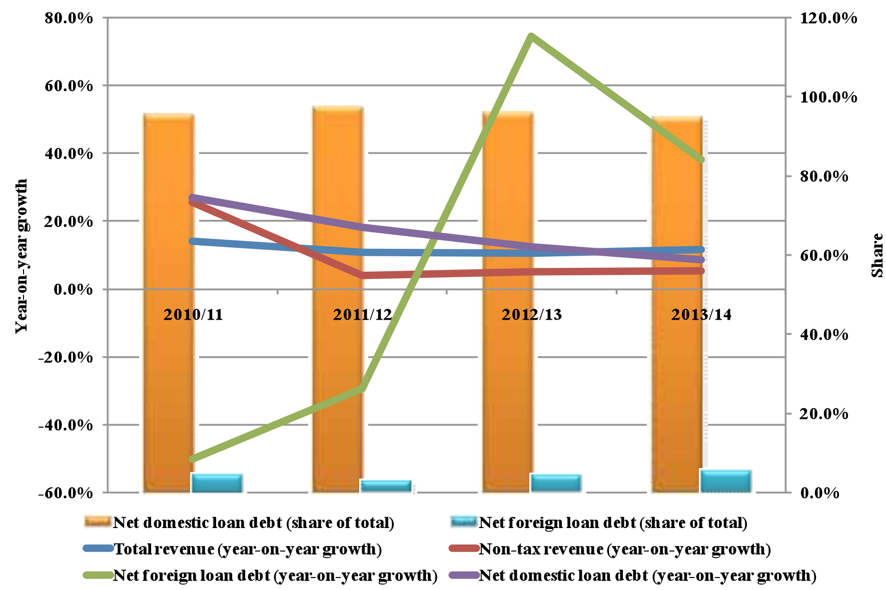
3.10 Commodity prices are expected to continue to be high during 2011. While the country would be expected to benefit from high prices on platinum and gold, oil price increases pose significant economic and fiscal risks. During the last years, the oil market has witnessed substantial price volatility as well as historically high prices for crude oil and the major light products. In July 2008, oil price struck an all time record high above $144 a barrel, seven times higher than when it was at $19.70 a barrel in December 2001. In recent weeks, political developments in North Africa have resulted in the oil price rising again to over $100 a barrel. Analysts have pointed out that higher oil prices are inevitable and it is unlikely that prices will be reduced in the long term without major discoveries of sufficient sources of oil or alternative energy sources. The oil price therefore poses significant risks to government fiscal frameworks that need to be accounted for. Government management of higher oil prices will have significant repercussions on the economy in terms of income distribution and poverty reduction. In addition, higher oil prices will lower oil consumption in favour of other sources of energy such as coal, which are known to be more damaging for the environment. Using an energy-focused computable general equilibrium model linked to a micro-simulation household model of South Africa, research carried out by the Commission suggests that oil price increases would reduce gross domestic product by between 2.2% and 2.5% depending on the magnitude of the increase assumed. The impact on government deficit varies widely among the scenarios, ranging from a worsening of 12% to 22% in the floating prices and the fixed price scenarios, respectively. Poverty headcount ratio increases and the poorest households are most adversely affected by the increase of oil prices. Employment and wages drop. Thus, the Commission concludes that oil prices do pose a substantial risk to the current fiscal position.

3.11 In his speech, the Minister of Finance mentioned that debt service costs are the fastest rising component of government expenditure in South Africa. The budget balance is expected to gradually decrease from 5.8% of GDP in 2010 to 5.3% in 2011. However, the debt figures are expected to rise in the same period from 30.8% to 34.3% of GDP, respectively (Budget Review, 2011[10]). As mentioned in the Commission's response to the MTBPS, the source of funds used to finance the deficit need to be closely examined (see Figure 4 below). Non-tax revenue includes mineral and petroleum royalties, mining leases and departmental revenue. The revenue components as well as the net domestic loan debt growth rates level off, whereas the net foreign debt growth rate increases sharply. It is true that the share of net foreign debt to total debt remains constant at approximately 5%, but there still is cause for concern around the sharp increase in foreign indebtedness. Figure 5 below shows that state debt increases no matter how one looks at it – that is, in absolute terms, as a percentage of total expenditure, or as a percentage of total revenue. State debt as a percentage of total revenue can loosely be interpreted as the debt service ratio, which is increasing steadily pointing towards an increase in the state debt burden. This implies that expenditure increases are increasingly being financed by debt. While it is in part necessary for government to borrow in order to pursue countercyclical policies and ensure sufficient service delivery, exposure to foreign exchange risk is cause for concern. In addition, borrowing should only be spent on capital financing exercises (golden rule). In last year's submission, the Commission also noted that the current political nature of the vertical division of revenue makes it difficult to determine with certainty the expenditure items to which the debt finance is apportioned. This would make the determination of rules particularly difficult.

10 The IMF Fiscal Monitor, January 2011 reports slightly higher figures, but a resulting increase nonetheless.

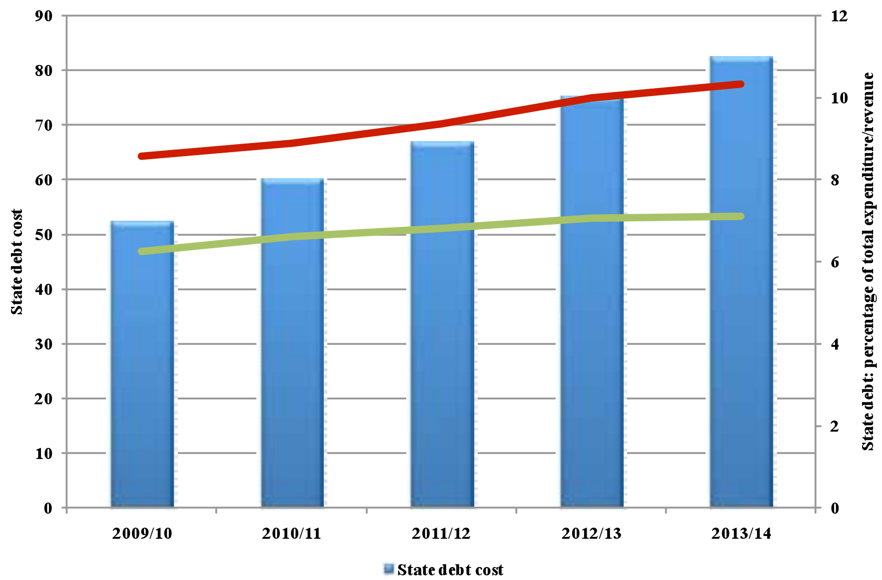
Back to Index

Figure 4: Loan Debt and Revenue



Source: National Treasury (2011), Commissions' own calculations.

Figure 5: State Debt Projections



Source: National Treasury (2011), Commissions' own calculations. 2

3.12 Closely linked to the issue of debt are rising personnel costs. The present fiscal position, while sound, is still imbalanced in terms of the share of wages and salaries and hence too reliant on one-off measures such as the results of wage bargaining. On political economy grounds, it is hard to change these commitments now but they do pose significant fiscal risks going forward.

3.13 There are a number of contingent risks associated with commitments on public private partnerships (PPPs in transport, water, energy, education, correctional services, defence, and hospital sector). These are akin to debt, but not reflected in the Budget Review although some information pertaining to PPPs appears in the Estimates of National Expenditure.

3.14 Finally, there are also "inevitable surprise" factors, that is, shocks that are difficult to predict for which fiscal leeway is required. The contingency reserve "top slice" amount that South Africa routinely sets aside should be commended and further strengthened.

3.15 Therefore, there are many issues that pose fiscal risks for South Africa. These range from explicit, legislated, commitments, to implicit fiscal commitments flowing from perceived role of government (e.g. Government backup for NHI, dealing with effects of sea level rise, sectoral adjustments in agriculture, flooding, etc.). The question is whether or not South Africa should tighten the fiscal policy framework further to take account of these long-term issues.

4. Revenue Estimates and Tax Proposals

4.1 Tax revenue has recovered in 2010/11 and is 12% higher than last year. The revised tax revenue estimates for 2010/11 are up R73.5-billion compared to 2009/10 and R24.35-billion above the 2010 budget estimate. However, tax revenues are R7-billion below the 2010 Medium Term Budget Policy Statement (MTBPS) estimate.

4.2 Tax revenue growth is driven by value added tax and custom duty revenues which display strong growth. There is modest growth in personal income tax revenues while corporate income tax revenue is lagging.

4.3 Government has proposed introduction of a third rebate for taxpayers that are 75 years and older, tax on gambling winnings, conversion of medical tax deductions to tax credits, increases in the monetary thresholds relating to the exclusion from capital gains. Government is also exploring options to fund increased spending on the health system and considering tax incentivised savings accounts (first time home deposits and for higher education). On business taxes, the new dividends tax will be introduced on 1 April 2012. In addition, a youth employment tax credit is proposed as well as an extension of the date of the learnership/skills development tax incentive. The incentive regime to facilitate equity investments in small and medium size companies and junior mining companies (venture capital companies) will be reviewed. Indirect tax proposals include increase in fuel taxes, electricity environment levy, alcohol and tobacco taxes and air passenger departure tax.

4.4 The proposed tax structure in this year's budget is designed to support economic growth and the Commission welcomes that. International evidence suggests that corporate taxes are the most harmful type of tax for economic growth, followed by personal income taxes and consumption taxes. Generally, growth-oriented tax reform measures involve tax base broadening. The rest of the Commission's commentary on the specific tax proposals are as follows:

a. *Fuel levy increase:* Previous work carried out by the Commission on fuel taxes found out that the welfare effects of increasing the fuel levy are negative but very small. Similarly, the marginal excess burdens for efficiency and equity (poverty) are quite low, suggesting much smaller impacts of the intervention on both economic activity and equity. A fuel levy increase is progressive as it has stronger negative effects on higher income households than the lower income households. On the basis of this, it is the Commission's view that the proposed measure is reasonable. However, continued increases in the fuel levy need to be heeded with caution, given the large increases in the tax in last year's budget as well as South Africa's high dependence on oil.

b. *Sin' taxes:* As pointed out last year, the proposal to raise revenue through increasing sin taxes should generally be supported as sin taxes are an important revenue source for national government and an instrument of improving social living standards and curb the negative social impacts of alcohol and cigarette abuse. However, government needs to review the potency of the tax instrument to achieve the latter goal. Alcohol and cigarettes are addictive goods. Government should not run the risk of over increasing taxes on these goods to such an extent that it impacts negatively on household expenditure and promote instances where individuals spend most of their disposable incomes on these goods due to addiction. There would thus be negative social returns to the tax as household expenditure on food and other necessities are sacrificed.

c. *Potential tax options for funding NHI:* As discussed above, research carried out by the Commission so far suggests that GDP growth is lower when utilising taxation, private consumption spending is lower and private investment declines. The Commission will continue its work and also respond to the proposals presented by the Minister.

d. *Environmental Levy:* The Commission welcomes the idea of an environmental levy to encourage desirable behavioural change. The proposed levy potentially results in actions towards cutting down of environmentally damaging expenditures. The levy however has potential to negatively impact on poverty and income distribution. The Commission awaits further details on how such negative consequences of the levy would be addressed.

Back to Index

5. How Can South Africa's Fiscal Framework be Improved?

5.1 What a country should do to respond to the risks identified in the sections above is not easy at all. This is because we are dealing with problems for which there are fundamental uncertainties. Policy responses will imply significant short-run costs to taxpayers with uncertain scale of actions required and uncertain benefits to future generations (e.g. climate change). There is a need to decide how much risk aversion is acceptable in judging sustainability of policies and what probability of long-term fiscal sustainability is desirable. In addition, the losses if action not taken need to be considered. The answer will depend on social time preference rates (intergenerational welfare choices and associated difficulties of defining generations).

5.2 Government has proposed guidelines for fiscal sustainability in the 2011 budget aimed at protecting fiscal gains for future generations. It proposes that government (a) adopts an annual target for the structural budget balance, (b) make explicit the costs of existing and new programmes requiring a long term expenditure commitment and (c) set out a timeline to bring the budget back on target following large fiscal shocks.

5.3 In last year's submission, the Commission proposed a "multi-pronged" strategy to take long-term fiscal concerns into account in the short to medium-term. The tenets of this include a budget process and framework more clearly recognizing long-term fiscal risks that builds on existing work, strengthened analytic approaches and a blend of aggregate fiscal rules. It noted that the important issue is really not in the minor differences between its projections and the National Treasury's, but rather on whether the country should explicitly adopt a temporary operating rule such as measures to improve cyclically adjusted current budget each year once the economy emerges from the downturn (so that it reaches balance and debt is falling as a proportion of GDP once the global shocks have worked their way through the economy in full). This could be formalised in some kind of a fiscal pact or stability pact. For instance, the pact will clearly establish the level of debt and what the debt can or cannot finance, and possibly guarantee a move towards current budget surplus (cyclically adjusted). The point is that a successive government will have to agree to cutting debt incurred by the previous government.

5.4 The Commission is of the view that indeed fiscal rules can be used as a mechanism for achieving fiscal sustainability.

a. South Africa has come a long way in operating some sort of fiscal rules that are implemented through constitutional amendments, statutory provisions or policy guidelines. A variety of enforcement mechanisms exist to enforce these. For example, when rules are violated, sub-central governments may be subject to administrative sanctions, financial penalties, or a loss of prestige and reputation. In addition, "peer pressure" in the form of recommendations by the Financial and Fiscal Commission (FFC) to restore fiscal discipline when subnational governments fail to adhere to such rules is available. There have been instances where local level authorities are removed from office for violating fiscal rules. Furthermore, a constitutional provision allowing the parliament to adjust the budget proposed by government has proved to act as if allocations are indeed rules. The government's medium-term horizon for fiscal policy, which gave fiscal policy some discipline without making it rules-based, also proved useful because markets could easily detect any deviation from medium-term targets. Thus, there is entrenched recognition and clear demonstration of fiscal prudence by South African authorities permeating through subnational government.

b. A key issue that arises in the context of South Africa is whether and how to strengthen fiscal rules. The Commission's analysis, though preliminary and tentative, suggests that subnational government's fiscal policy has been disciplined without necessarily being rules-based in the conventional sense. Furthermore, the emerging empirical evidence appears to reject the notion of the flypaper effect suggesting that rules embedded in intergovernmental transfers to local governments have not had discernible perverse effects. For the provincial government, it appears that rules embedded in intergovernmental transfers have delivered government's equity goal while the efficiency objective has largely not materialized.

c. In view of the above considerations, a more nuanced view of the appropriate role of fiscal rules at national and subnational government needs to recognize that a sophisticated intergovernmental system is in place and furthermore look at how to improve an existing and functioning system. Thus, the starting point should be recognition of the existence of some sort of fiscal rules that largely are working reasonably well.

d. As is common in other countries pursuing fiscal rules, government is certainly conflicted when it comes to acting as both judge and jury on its performance. This calls for a separation of function. The Swedish model in this regard of setting up an independent fiscal policy council is a good guide and needs to be considered. Based on these considerations, a possible option for fiscal rules would be to target a balanced budget or surplus over the cycle without any limits which allows for the operation of automatic stabilisers and also for discretionary countercyclical action. In addition, limits on the government wage bill need to be imposed. Generally, if an expenditure rule is to be proposed, then limiting capital expenditure (which is thought to contribute to long-run growth) is not an option – however, transparent, unambiguous and operationally sensible definitions of capital expenditure are needed (so that the focus is on productive capital expenditure). If we use the example of Australia and New Zealand, which generally is the case when macroeconomic policy is concerned in South Africa, these two countries have strengthened their fiscal frameworks without having to announce numerical fiscal targets. When it comes to the second aspect, the set up of a South African Fiscal Policy Council appears plausible. Such an institution would be given executive powers, assess cyclical position and fiscal risk distribution, recommend appropriate cyclical policies, monitor compliance with fiscal rules, evaluate debt management strategy, monitor transparency of fiscal data and conduct research on South African fiscal policy.

e. When it comes to fiscal rules, there are a number of issues to ponder over, including (a) establishing its accountability lines (whether to Parliament or Executive) and who reviews this Council, and (b) issue of public sector pay and if there will potential destabilising effect on budget – will there be political/civil buy in for such a Council when it pronounces on annual wage adjustments, for example? While the role may be played by the recently created National Planning Commission and/or Monitoring and Evaluation Departments in the Presidency, this would not eliminate the conflict issue entirely as the Council would need to be depoliticised or at least be independent. Fiscal institutions such as the FFC should continue to play a complementary to effective rules, and in particular to compliance as pertaining to intergovernmental fiscal relations through its periodic advisories.

f. However, as noted in the Commission's 2010 submission, it is in favour of the proposal by government to make explicit fiscal rules in order to ensure time-consistency of policy and reduce political rent-seeking. Fiscal rules should apply to all policy areas which may affect future resources. Both the Public Finance Management Act (PFMA) and the Municipal Finance Management Act (MFMA) are a step in that direction, particularly by adding a rule for public investment, or to allow policy makers to borrow for public investment.

g. The Commission is looking forward to contributing to the debates surrounding this topic.

5.5 Spending is directed towards core social priorities and economic infrastructure. The Commission's research on public expenditure finds some evidence that expenditure on defence, health and transport seems to be contributing positively to economic growth in South Africa. It should be noted that these expenditures have been given priority in the 2011/12 budget. In addition, given that the recently announced New Growth Path has included infrastructure investment and maintenance as well as National Health Insurance (NHI) on its list of key focus areas, it is encouraging that the analysis finds these components of expenditure to be growth-promoting. The estimated elasticities for health are particularly impressive, indicating that health in particular seems to be an important driver of growth in South Africa. Similarly, backlogs in education, particularly those pertaining to infrastructure and teachers (i.e. performance and quality issues), pose an enormous challenge for the government over the coming years.

5.6 There is a need for Parliament to obtain greater clarity on the risks to which the public sector is exposed. This entails clarifying potential costs of different risk factors (e.g. climate change).

5.7 The political economy challenge of dealing with long-term fiscal policy issues requires provocation of public debate on long-term fiscal challenges – implied intergenerational tradeoffs, degree of risk aversion, etc. Pre-announcement of alternative ways of financing NHI and guidelines for fiscal sustainability by Government in the 2011 budget, for example, are a big positive step in this direction.

5.8 Pertaining to fairness, Government should be required to publish analysis of the distributional impact of new policies. Requiring such analysis as a rule on all new policy would be welcome, as would a requirement to publish assessments of the inter-generational or long-term impact of policies whose effects vary over time and/or generations.

5.9 In the interest of efficiency, a requirement to evaluate regularly the impact of policies – where not prohibitively costly – would strengthen the fiscal frameworks in South Africa.

6. Conclusion

Overall, this year's budget contrasts the conflicting objectives between job creation and fiscal consolidation. However, the question becomes will South Africa achieve higher growth through its fiscal stance? The budget acknowledges that debt service costs are rising faster than any category of spending, yet the Government has failed to reduce the budget in the coming year. It is important to point out that this year's fiscal frameworks are noteworthy in one major respect, reflecting explicit recognition by the Executive of the need to take account of long-term issues in budget formulation. It is critical that such a perspective is shared both by executive and legislative branches. As with most other emerging countries, South Africa needs to take account of potential long-term structural developments and risks. There are *fiscal* dimensions to many of these risks and these dimensions involve dealing with problems for which there are fundamental uncertainties. A multi-pronged approach is necessary to deal with issues of a long-run nature, one that involves strengthened policy analysis, reforms of the budget process, sustained fiscal consolidation, as well as sectoral policy reforms. It should be noted that in 2011 South African fiscal frameworks was acknowledged as the most transparent of 94 countries surveyed when it comes to making information public. The Commission commends the Government for this achievement.

5.7 Commission Submission on the 2010 Medium Term Budget Policy Statement

1. Background

1.1 This submission was made in terms of Part 1 (3) {1} of the Financial and Fiscal Commission (FFC) Act (2003) as amended, which provides for the FFC to act as a consultative body for and to make recommendations to organs of state in the national, provincial and local spheres of government on financial and fiscal matters. The Submission is also made in terms of Section 4 (4c) of the Money Bills Amendment Procedure and Related Matters Act (MBAPRMA)(2009), which requires Committees of Parliament to consider the FFC's recommendations when dealing with money bills and related matters.

1.2 In view of the above legislative mandate and government outlined priority areas, the Appropriations Committees of Parliament formally requested the FFC on 28 October 2010 to comment on the MTBPS that was tabled by the Minister of Finance on 27 October 2010.

1.3 This Submission, over and above making general observations on the highlights of the MTBPS against the Commission's recommendations for the 2011 Division of Revenue also addresses in more specific terms the following areas: *the spending priories of government for the next three years; the proposed division of revenue among the spheres of government and among arms of government within a sphere for the next three years; the proposed substantial adjustments to conditional grants allocations to provinces and local government if any; and a review of actual spending by each national department and each provincial government between 1 April and 30 September of the current financial year* in line with the request of the Committee.

1.4 A hallmark of the new government administration has been a distinct thrust towards outcomes-based policy formulation and this would be expected to be the main driver of change in government's economic policy. The key development areas that government outlined for the next 5 years are: *creation of decent work and sustainable livelihoods; education; health; rural development, food security and land reform; and the fight against crime and corruption*. Such priorities find expression in the MTBPS. Over and above these are seven other key outcomes that government has identified that should also inform the way government conducts its business and utilises its resources.

2. Overall Fiscal Framework and Fiscal Consolidation

2.1. Global Economy and Potential Risks for South African Economy

2.1.1 Since mid-2008, the Government has utilised the fiscal and monetary space gained through previous prudent macroeconomic policy to support economic recovery following the global economic crisis of 2007. The repo rate has steadily decreased from 12% in 2008 to a current level of 6%, while the budget deficit has increased from a small surplus of 0.9% to a projected deficit of 7.3% of gross domestic product (GDP) during the same period. Latest economic growth figures are positive (3.2% during the second quarter of 2010) indicating that South African economy is indeed in the recovery phase. Economic forecasts by institutions such as the International Monetary Fund (IMF) and the South African Reserve Bank (SARB) also forecast positive economic growth of around 3% for

2010 overall, with the output gap closing around 2014 in line with the "moderate recession impact scenario" projections the Financial and Fiscal Commission (FFC) carried out in its recommendations for the 2011 Division of Revenue.

2.1.2 The following factors may pose a threat to the recovery pace/path of South African economy:

a. Interruptions in global recovery may affect the South African economy – specifically, major trading partners' slow recovery may impact the sectoral composition of economic growth. The major contributors to the latest economic growth figures are reported to be (a) manufacturing, (b) wholesale, retail, motor trade and accommodation, and (c) finance, real estate and business services. These are the likely sectors to suffer in the case of disruptions to the global recovery process[11].

b. Exchange rate volatility (which has been increasing over the last couple of years) might potentially harm the demand for South African exports.

c. Though South Africa is quite diversified in terms of the sectoral contributions to economic growth, human resource needs and labour markets (characterised by a substantial skills mismatch) remain serious constraints across the different sectors of the economy as observed also in a recent United Nations (UN) report on Africa.

d. Access to budget deficit financing might be constrained by the international demand on capital markets driven, in particular, by economies that were relatively more severely affected by the sovereign debt crisis, although South Africa has of late benefitted from short term financial liquidity inflows that could be managed properly to partially finance the deficit. These inflows are, however, quite volatile and cannot be sustained over the longer term.

2.1.3 Projections show a persistent budget deficit over the medium term. As noted in FFC's Submission on the 2009 MTBPS, the main drivers of the budget deficit remain continued increases in infrastructure investment, expansion of the social safety net and wage bill costs (larger than anticipated). While investment in infrastructure is not particularly problematic, the rest of the drivers do pose sustainability problems in the long term.

2.2 Summary of the Fiscal Austerity (Consolidation) Measures and Job Creation

2.2.1 Given the evidence that fiscal austerity (fiscal consolidation) may be harmful to economic growth (especially in the short run[12]), there is a need for a credible austerity (consolidation) package that will be able to stimulate demand (through consumer and business confidence[13]) and produce a positive net effect on economic growth.

2.2.2 In South Africa, the floating exchange rate regime as well as an accommodative monetary policy will need to facilitate the process of fiscal consolidation. When talking about "fiscal consolidation", we must look beyond deficit reduction. Given that economic recovery is gaining momentum in South Africa, the government should actively be looking for ways to increase productivity in a bid to support long-term, sustainable economic growth. A possible way to do this is through innovation as well as diffusion of Information and Communications Technology (ICT). While the South African government does emphasise the need to create a "knowledge based economy", it is lagging behind the rest of the world in terms of innovation as well as the pace of ICT development. The recently established Technology Innovation Agency is a step in the right direction in this respect. Hence, consistent policies and implementation strategies (including resources) need to be put in place to address this issue.

2.2.3 Taking into account the macroeconomic factors, as well as the different aspects of fiscal policy, the Commission modelling exercises find that a gradual fiscal consolidation is the best policy option for South Africa over the medium term. "Best" policy option refers to a policy that would bring the output back to its potential level (over the medium term) as well as one that will result in the least possible amount of output volatility.

11 It should be noted that (a) – (c) are the largest industries in the second quarter of 2010 (STATSSA, 2010), with the first two being especially important South African exports to the European Union (EU).

12 IMF (2010), Chapter 3.

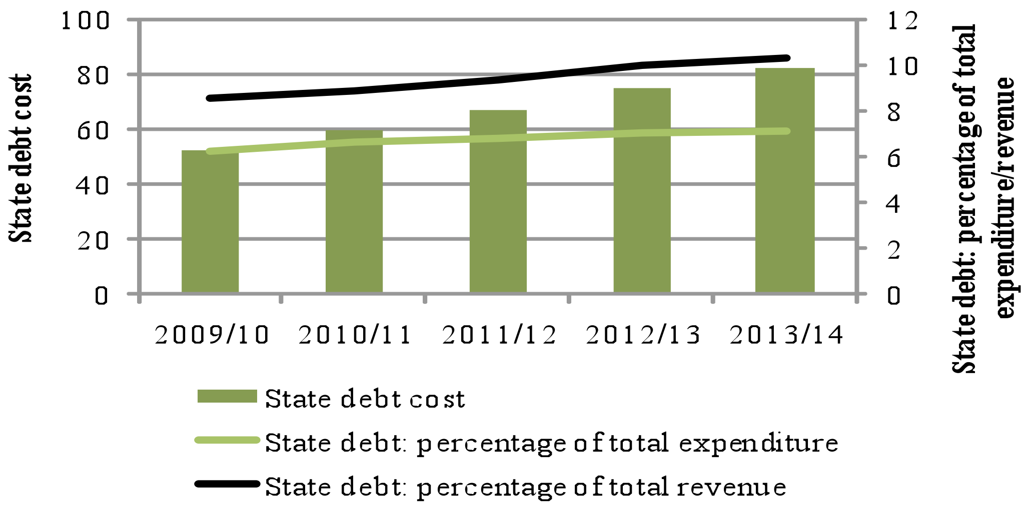
13 Alesina and Ardagna (2009)

Back to Index

2.2.4 In addition, the role of debt management in the budget consolidation process must not be underestimated. Though the South African government has reduced its debt obligations prior to the recession, there is a need to ensure that rising debt costs do not penalise future expenditure and economic growth[14].

2.2.5. Figure 1 below shows that state debt increases no matter how one looks at it – that is, in absolute terms, as a percentage of total expenditure, or as a percentage of total revenue. State debt as a percentage of total revenue can loosely be interpreted as the debt service ratio, which is increasing steadily pointing towards an increase in the state debt burden. This implies that expenditure increases are increasingly been financed by debt.

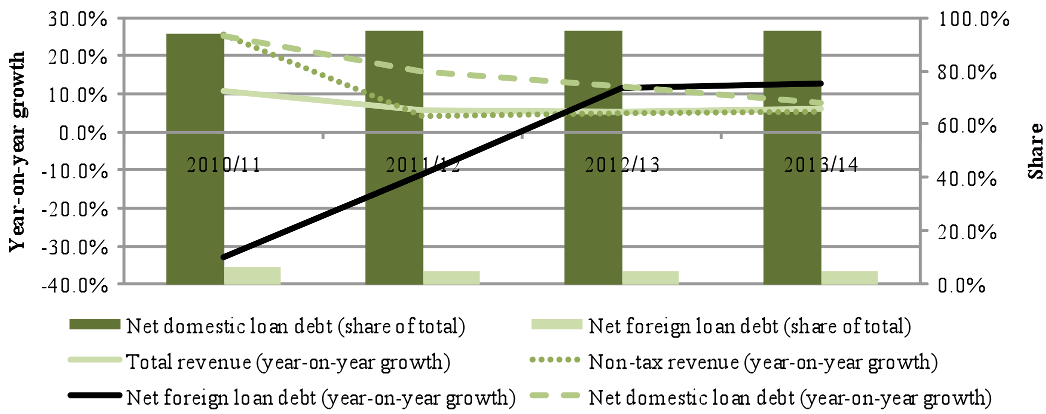
Figure 1: State Debt Projections



Source: National Treasury (2010), Commission's own calculations.

2.2.6 Figure 2 illustrates the source of funds used to finance the deficit. Non-tax revenue includes mineral and petroleum royalties, mining leases and departmental revenue. The revenue components as well as the net domestic loan debt growth rates level off, whereas the net foreign debt growth rate increases sharply. It is true that the share of net foreign debt to total debt remains constant at approximately 5%, but there still is cause for concern around the sharp increase in foreign indebtedness.

Figure 2: Loan Debt and Revenue



Source: National Treasury (2010), Commission's own calculations.

14 It should be noted that debt service costs are also a "first" charge on the division of revenue pool, effectively increasing the national slice and squeezing out subnational expenditure. Furthermore, the non-discretionary nature of debt service costs also introduces fiscal rigidities while decreasing discretionary fiscal policy space i.e. to accommodate ambitious new spending initiatives.

2.3. Economic Growth, Social Services and Infrastructure

2.3.1 Economic Growth:

a. There is a general consensus that what the country needs at this stage is a faster and more inclusive economic growth. The recent launch of the New Growth Path aimed at alleviating poverty and creating employment by Government is welcome in this respect. In particular, it is the Commission view that the commitment in the MTBPS to improve education and skills development, to concentrate government spending on infrastructure (and specifically labour intensive infrastructure), as well as to root out corruption by means of new systems to regulate the management of the rollout of government tenders would enhance economic growth if implemented tenaciously.

b. From a public finance perspective, the main concern is that although South Africa has very high spending on social services (South Africa spends as much as a first world country), their productivity, impact and social returns remain below expectation.

c. As noted in the FFC's 2011 Division of Revenue recommendations, distribution of social expenditure needs to be rethought. While social grant expenditure has been well targeted and reduced poverty, increases in access in the other areas of the social assistance package remain suboptimal and need to be accompanied by massive improvements in service delivery efficiency, effectiveness and quality.

2.3.2 Investment in infrastructure:

a. Investment in bulk infrastructure has been identified as a key ingredient for job creation. There are funding versus capacity issues here that need urgent redress[15]. Capacity issues are pertinently illustrated by rollovers in conditional grants especially for local government. Interventions could focus on institutionalisation of project management (Contract Management and Project Implementation Department) with proper tenders/bidding and follow-ups, greater involvement of the private sector through public private partnerships (or PPP's which currently constitute approximately 5% of total public sector infrastructure expenditure), revaluation (external auditing) of budgeted expenditure and further developing and institutionalising life-cycle project management. With regard to all this, there is a need to realise that funding might not be as much of a problem as capacity is.

b. Government would need to accelerate the speed of undertaking already approved infrastructural investment projects, as well as increase maintenance and rehabilitation spending. There is a need to establish and enforce expenditure norms in the budgets of government if the country is to arrest the deterioration of new and existing infrastructure and the accumulation of backlogs.

2.4. Financing of New Imperatives: MDGs and Health

2.4.1 In its Submission on the 2011 Division of Revenue, the FFC cautioned against implementing large and expensive new government programmes in the face of fiscal consolidation. However, there are two major developments in terms of government priorities that cannot be ignored going into 2011 and the MTEF period, namely a push toward attainment of Millennium Development Goals (MDGs) and the National Health Insurance (NHI) scheme that has come to the fore of the policy discourse and is being investigated by Government. With regard to the MDG's a particular point to note is that these speak quite closely to gaps in the health sector (child and maternal mortality, HIV/AIDS and also on job creation and income distribution). While issues of job creation and income distribution are partly linked to the New Growth Path there is still a need to boldly address the specifics of how government intends to proceed with these programs quite quickly in order to limit the potentially unwelcome uncertainty regarding its ability to address or implement such large programmes in the face of fiscal consolidation efforts.

15 We should not only look at increase in the stock of new infrastructure but also the rehabilitation and upgrade of existing infrastructure.

2.4.2 From the Commission's perspective, the first step should be to establish exactly how much is required to finance these mega programmes against an array of possible delivery models. The second step would then be to agree on ways of raising the required financing in as least costly a manner as possible to the economy. The third and final step would then be to formalise the effective delivery models and to assess how these will impact on the current intergovernmental fiscal arrangements and where there is a need, the powers and functions of the different spheres of government.

2.4.3 The Commission is of the view that government could at one extreme rely entirely on reprioritisation and spending cuts or at the other on tax increases. Ongoing work by the Commission on expenditure cuts and consolidation tentatively suggests that irrespective of the outcome of the spending cuts and prioritisation exercise, fiscal consolidation will still require tax increases even though they may be unwelcome. The magnitude of the requisite tax increases cannot be immediately ascertained, however. Some of the areas that government could look into in raising these revenues could be (a) higher income taxes, (b) higher value-added tax (VAT), (c) new carbon tax, (d) Tobin tax[16] and (e) windfall tax.

2.4.4 It is clear that the implementation of such large and complex interventions affects national, provincial and municipal spheres of government. It would require massive coordination of these various spheres in their approach to the development and implementation to avoid waste, ineffectiveness and duplication which could result in unnecessarily high costs for the tax payer. In this respect the efforts of government directed at deriving value for money in public expenditure should be supported by all South Africans.

3. Spending Priorities of National Government for the Next Three Years

3.1 Table 1 below gives detailed analysis over the three years by reporting the average annual growth for the medium term.

3.2 In terms of recent FFC research, the expenditure components that contribute to growth are mainly defence and health – interestingly enough, these two are projected to decrease in the medium term. Other productive expenditure components that can contribute positively to growth are also agriculture, education and housing – all of which are also decreasing and can thus negatively affect the growth trajectory over the medium term.

Table 1: Average Annual Growth of Expenditure Components (Functional Classification)

Category	2009/10	2010/11	2011/12	2012/13
General public services	8.1%	2.8%	2.1%	8.0%
Defence	-1.9%	13.7%	7.4%	6.0%
Public order and safety	11.4%	8.5%	7.9%	6.5%
Agriculture	10.5%	7.1%	6.1%	5.8%
Fuel and energy	6.0%	5.7%	2.2%	6.3%
Housing and community amenities	17.5%	13.0%	9.0%	6.5%
Health	11.5%	9.3%	6.8%	6.8%
Recreation and culture	-13.5%	-6.3%	6.7%	4.7%
Education	11.0%	10.1%	5.8%	7.0%
Social protection	9.2%	10.6%	9.0%	7.7%

Source: National Treasury (2010), Commission's own calculations.

16 This is a small tax (0.1 - 0.5%) on cross-border currency transactions designed to stabilize currency markets. It can be enacted by national legislature, followed by multilateral cooperation for effective enforcement.

3.3 Table 2 below shows that the shares of expenditure components in total expenditure are not expected to vary so much over the medium term (the most notable finding here is that the share for housing is expected to increase by about 1% over the medium term, which according to the Commission's modelling work on the impact of spending is a welcome development as housing expenditure contributes positively to growth).

Table 2: Expenditure Components (Functional Classification) Share in Total Expenditure

Category	2009/10	2010/11	2011/12	2012/13	2013/14
General public services	5.2%	5.2%	4.9%	4.6%	4.6%
Defence	4.4%	3.9%	4.2%	4.1%	4.0%
Public order and safety	9.4%	9.6%	9.6%	9.6%	9.4%
Agriculture	1.8%	1.9%	1.8%	1.8%	1.8%
Fuel and energy	1.0%	1.0%	1.0%	0.9%	0.9%
Housing and community amenities	10.0%	10.8%	11.3%	11.3%	11.1%
Health	11.0%	11.3%	11.4%	11.2%	11.0%
Recreation and culture	0.9%	0.7%	0.6%	0.6%	0.6%
Education	18.8%	19.2%	19.5%	19.0%	18.7%
Social protection	14.8%	14.8%	15.2%	15.3%	15.1%

Source: National Treasury (2010), Commission's own calculations.

3.4 If we compare the revised estimates for 2010/11 (see Table 3 below) with what was projected in this year's budget, the following categories were revised upwards:

- Defence,
- Public order and safety,
- Housing and community amenities,
- Education, and
- Social protection.

On the other hand, the following categories were revised downwards:

- General public services,
- Agriculture[17],
- Health,
- Fuel and energy, and
- Recreation and culture.

Of these, the only causes of concern for the Commission are downward revisions of agriculture and health which are found to contribute positively to economic growth (and which also have really high positive elasticities[18] together with education). Furthermore, these are in the broader priority areas of government especially agriculture which is a key component under Rural Development and Food Security.

17 The projections related to agriculture are contrary to those related to government's development goals, namely rural development, food security and land reform.

18 The elasticities discussed here measure the impact of an increase in an expenditure component on growth – i.e. a positive elasticity implies that increase in a particular expenditure component contributes towards economic growth. In addition, the higher the estimated elasticity, the bigger the contribution of that particular expenditure component towards growth.

Table 3: Revisions of the Expenditure Components (Functional Classification)

Category	2010/11 figure (Budget Review)	Revised 2010/11 figure (MTBPS)	Percentage change
General public services	52	46.7	-10.2%
Defence	33.8	35.7	5.6%
Public order and safety	85.6	86.8	1.4%
Agriculture	17.1	16.8	-1.8%
Fuel and energy	28.9	8.8	-69.6%
Housing and community amenities	93.2	97.4	4.5%
Health	104.6	101.9	-2.6%
Recreation and culture	5.8	6.4	10.3%
Education	165.1	173.2	4.9%
Social protection	128.4	134.2	4.5%

Source: National Treasury (2009, 2010), Commission's own calculations.

4. Proposed Medium Term Expenditure Framework and the Division of Revenue between the Spheres of Government

4.1 Table 4 below sets out the division of revenue among the three spheres of government. As is evident, an increased share of growth in allocations is projected for provinces and local government.

4.2 The total expenditure envelope grows from a revised R748 billion in 2010/11 to R914 billion in 2013/14. This represents a growth in expenditure of about 6.9%, with provinces and local government growing at above 7% each. This type of growth is essential, especially as these two spheres are better placed to implement service delivery and protect the poor and vulnerable.

4.3 The national share of allocation continues to decline over the MTEF from 48.2% in 2010/2011 to 46.7% in 2013/14. Over this same period, the provincial and local government share of the division of revenue grows from 43.9 and 7.9% to 44.6% and 8.6%, respectively.

4.4 Provincial baselines are expected to grow by only 7.5% over the 2011/12 medium term. With an assumed CPI of 3.2%, the real growth of the provincial resource envelope is therefore only 4.3%.

4.5 Local Government baselines grow by a healthy 10% over the MTEF with significant growth in the conditional grants framework. Such an addition is to be expected given the fact that local government has come under the spotlight in the service delivery arena.

	2010/11	2011/12	2012/13	2013/14	2011	Average Annual Growth
R billion	**Revised**	**Medium-term estimates**			**MTEF**	**2010/11 – 2013/14**
National	**360.6**	**374.5**	**401.0**	**427.3**		**5.8%**
Provincial	**328.1**	**359.5**	**382.3**	**407.7**		**7.5%**
Equitable share	265.1	289.0	305.7	323.3		6.8%
Conditional grants	63.0	70.5	76.6	84.4		10.2%
Local	**59.3**	**67.2**	**74.0**	**79.0**		**10.0%**
Equitable share	30.6	34.1	37.6	40.0		9.4%
Conditional grants	21.2	24.5	27.4	29.5		11.6%
General fuel levy sharing with metropolitan municipalities	7.5	8.6	9.0	9.6		8.4%
TOTAL	**748.1**	**801.2**	**857.3**	**914.1**		**6.9%**

Table 4: Division of Revenue, 2010/11-2013/14

	2010/11	2011/12	2012/13	2013/14	2011	Average Annual Growth
R billion	**Revised**	**Medium-term estimates**			**MTEF**	**2010/11 – 2013/14**
Percentage share						
National	48.2%	46.7%	46.8%	46.7%		
Provincial	43.9%	44.9%	44.6%	44.6%		
Local	7.9%	8.4%	8.6%	8.6%		
Changes to baseline						
National	**1.5**	**4.0**	**7.3**	**12.5**	**23.8**	
Provincial	**5.3**	**9.0**	**13.0**	**18.2**	**40.1**	
Equitable share	4.2	8.3	10.3	11.2	29.8	
Conditional grants	1.1	0.7	2.7	7.0	10.3	
Local	**0.5**	**0.5**	**1.0**	**1.6**	**3.1**	
Equitable share	0.4	0.2	0.3	0.7	1.2	
Conditional grants	0.1	0.3	0.6	0.8	1.7	
General fuel levy sharing with metropolitan municipalities	–	0.0	0.1	0.2	0.3	
TOTAL	**7.3**	**13.5**	**21.3**	**32.3**	**67.0**	

Source: National Treasury (2010), Commission's own calculations.

5. Local Government Fiscal Framework

5.1 Over the 2011 MTEF period, there is a welcome R3.1 billion increase in transfers to local government. Of this, R1.2 billion is in respect of increases to the baseline of the local government equitable share (LES) and R1.7 billion is for conditional grants. In addition, R300 million will go to metropolitan municipalities from the sharing of the general fuel levy.

5.2 The increase in the LES is a positive development as pressure for basic services from communities, coupled with increased input costs in providing services, have been mounting. Government should ensure that increases to local government are informed by a thorough understanding and costing of municipal expenditure pressures.

5.3 The Commission notes the planned changes to the LES formula and the longer term review thereof. However the Commission would like to emphasis two important issues:

5.3.1 In its Annual Submission for the 2011/12 Division of Revenue, the FFC undertook a comprehensive review of the LES formula and pointed out several technical and legal flaws. One of the most pertinent issues was the unconstitutional aspect of the Revenue Raising Correction (RRC) component of the formula that required immediate change. The Commission will be raising this matter again in consultations with the government towards the finalisation of the budget.

5.3.2 Government's proposed approach to target funding to poorly resourced municipalities through amendments to the LES formula is a positive step and resonates well with the FFC's recommendation to restructure the Institutional (I) component to fund poor municipalities. In the 2010 MTBPS, Government states that increased funding to poorer municipalities will not be to the detriment of metropolitan municipalities. Given the zero-sum allocation nature (formula is applied on a pre-determined pool based on priorities) of the formula, the Commission would like to caution against detrimental effects for middle-income municipalities.

5.4 Over the MTEF period, the largest increase to the local sphere is via conditional grant allocations. Poor performance with respect to conditional grant spending is emphasised by the R1.8 billion in rollovers from the previous financial year. Past spending performance and access to adequate human capital capacity and technical capacity of municipalities should be considered when determining allocations, particularly in the case of municipalities that perennially under spend on their budgets. The potential benefits of increased funding to municipalities could be lost should ineffective and/or underspending, as a result of inadequate capacity, persist. To this end, the FFC views continued allocation of funds in respect of local government capacity building initiatives without concomitant improvement in outcomes as an inefficient use of public resources. In addition, existing capacity challenges could seriously endanger the achievement of the objectives of the Local Government Turnaround Strategy (LGTAS).

Back to Index

5.5 Past resolutions regarding a number of critical issues continue to be delayed. In addition to the issue of accreditation discussed in more detail below, the restructuring of the electricity distribution industry (EDI), a replacement for the RSC levy for district municipalities and the need for greater certainty around the roles and responsibilities of local and district municipalities are still not finalised. Continued delays on these issues create substantial uncertainty within the local government sphere. The Commission recommends that government adopt firm policy positions on these issues that will bring finality and remove the uncertainty.

5.6 Municipal consumer debt severely constrains the extent of own revenue that municipalities have at their disposal. However, it is anticipated that the baseline increases in respect of the devolution of the property rates grant to provinces will bring some relief. The Commission notes that the extent to which potential benefits of the devolution process will be realised will depend on the efficacy with which provinces transfer funds/pay municipalities.

6. Proposed substantial adjustments to Conditional Grants Allocations to Provinces and Local Government

6.1 Before dealing specifically with adjustments to conditional grants, it is important to look at changes to the equitable shares (see Table 5). These adjustments are made up of R1.5 billion to the national sphere, R5.4 billion to provinces and R 500 million to local government.

6.2 Table 5 shows aggregate budget and expenditure of provinces as at March 2010 and spending up to September 2010 on the current 2010/11 MTEF. What is clearly visible is the reduction in the number of provinces that have overspent their budgets compared to previous years. This is clearly a result of conscious decisions taken to ensure that provinces engage in cost savings through reprioritization on goods and services. Such measures are to be applauded.

Table 5: Provincial Expenditure as at 31 March 2010 and PES versus Adjusted Budgets

R thousand	Adjusted budget	Pre-audited outcome as at 31 March 2010	Pre-audited outcome as % of adjusted budget	(Over)	Under	% (Over)/ under of adjusted budget
Eastern Cape	44,565,434	45,234,576	101.5%	-669,142	–	-1.5%
Free State	19,351,054	18,783,121	97.1%	–	567,933	2.9%
Gauteng	58,546,671	59,695,097	102.0%	-1,148,426	–	-2.0%
KwaZulu-Natal	61,906,779	63,811,448	103.1%	-1,904,669	–	-3.1%
Limpopo	35,954,875	35,596,564	99.0%	–	358,311	1.0%
Mpumalanga	23,856,044	23,683,918	99.3%	–	172,126	0.7%
Northern Cape	8,390,707	8,178,513	97.5%	–	212,194	2.5%
North West	20,670,779	20,365,345	98.5%	–	305,434	1.5%
Western Cape	30,672,104	30,113,167	98.2%	–	558,937	1.8%
TOTAL	**303,914,447**	**305,461,749**	**100.5%**	**-3,722,237**	**2,174,935**	**-0.5%**
			Net	**-1,547,302**		

R thousand	Adjusted budget	Pre-audited outcome as at 31 March 2010	Equitable share per province	Share of Adjusted Budget	Share of Expenditure Outcome	% Deviation from Equity
Eastern Cape	44,565,434	45,234,576	15.2%	14.7%	14.8%	-0.4%
Free State	19,351,054	18,783,121	6.0%	6.4%	6.1%	0.1%
Gauteng	58,546,671	59,695,097	17.4%	19.3%	19.5%	2.1%
KwaZulu-Natal	61,906,779	63,811,448	22.0%	20.4%	20.9%	-1.1%
Limpopo	35,954,875	35,596,564	12.6%	11.8%	11.7%	-0.9%
Mpumalanga	23,856,044	23,683,918	8.1%	7.8%	7.8%	-0.4%
Northern Cape	8,390,707	8,178,513	2.7%	2.8%	2.7%	0.0%
North West	20,670,779	20,365,345	6.7%	6.8%	6.7%	0.0%
Western Cape	30,672,104	30,113,167	9.2%	10.1%	9.9%	0.6%
TOTAL	**303,914,447**	**305,461,749**	**100.0%**	**100.0%**	**100.0%**	

Source: National Treasury (2010).

6.3 It should be noted that the pressures experienced by provinces are in the main personnel-related, bringing projected overspend to R4.7 billion for all the nine provinces.

6.4 There are certain important changes to the conditional grants fiscal framework. During FFC's consultations with National Treasury, indications were made that conditional grants would be reviewed for the MTEF period and that some grants could be merged and/or rationalised, whilst others would be consolidated into the equitable share. The Commission will await the details of these changes and make detailed recommendations at the appropriate time. Table 6 below shows proposed revisions to conditional grants for provinces followed by a discussion.

Table 6: Proposed Revisions to Provincial Conditional Grant Allocations, 2011/12-2013/14

R million	2011/12	2012/13	2013/14	Total
Technical revisions				
Health	**–**	**-620**	**-1,154**	**-1,774**
Forensic Pathology Services Grant	–	-620	-654	-1,274
Hospital Revitalisation Grant	–	–	-500	-500
Public Works				
Expanded Public Works Programme Incentive for the Infrastructure Sector	-244	-241	-201	-686
Social Sector EPWP Incentive Grant for Provinces	244	241	201	686
Addition to baselines				
Agriculture, Forestry and Fisheries	**50**	**120**	**230**	**400**
Comprehensive Agricultural Support Programme	50	120	230	400
Higher Education and Training	**104**	**536**	**864**	**1,504**
Further education and training colleges	104	536	864	1,504
Health	**60**	**60**	**1,360**	**1,480**
Comprehensive HIV and Aids	60	60	1,360	1,480
National Treasury	**100**	**1,415**	**3,689**	**5,204**
Infrastructure Grant to Provinces	100	1,415	3,689	5,204
Public Works	**338**	**528**	**752**	**1,618**
Devolution of Property Rate Funds	338	527	695	1,560
Social Sector EPWP Incentive Grant for Provinces	–	1	57	58
Total Additions to baselines	**652**	**2,659**	**6,895**	**10,206**

Source: National Treasury (2010).

6.5 *Dinaledi Schools initiative to boost maths and science pass rates*: Although government has identified mathematics and science as key school focus subjects to reach its education development goals, continuing low pass rates do not augur well for the future. There are currently more than 500 Dinaledi schools in South Africa. In 2009, the national Matric pass rate stood at 60.7%, representing a 2% decrease from the 62.5% pass rate achieved in 2008. Overall, pass rates in science, maths, mathematical literacy and accounting dropped. In 2008, the Dinaledi schools accounted for over 50 000 of matriculates writing maths and science exams. According to its 2008 performance report, 54 of the Dinaledi schools had fewer than 20 maths passes and science passes fell below 2008 targets. However, the Commission is of the view that targeting and funding should also be made available to strengthen numeracy and literacy at primary school level, In this regard, the Foundations for Learning Campaign, which focuses on improving reading, writing and numeracy abilities to ensure that all learners are able to demonstrate age-appropriate levels of literacy and numeracy should be supported.

6.6 *Comprehensive HIV/AIDS Conditional Grant*: The proportion of the global burden of disease borne by South Africa, with a population of only 48 million, is disproportionately high. The combination of acute and chronic diseases spanning all age-groups and socioeconomic strata imposes a massive burden on an already weak and underdeveloped public health-care delivery system. Moreover, the rise in HIV-related mortality has contributed to average life expectancy at birth to be 50 years for men and 54 years for women. More than half a million people are now on antiretroviral treatment in the country and the target, which is unprecedented worldwide, is 1.5 million by 2010. The effect on the health budgets of providing for such an uptake would be quite high and government would have to closely monitor this.

6.7 *Modernisation of hospitals and primary health care facilities*: The Commission notes that the role of the *National Tertiary Services grant* is important in contributing to the operation of modernized tertiary hospital services. The grant is necessary to ensure that the significant cross boundary flows to access tertiary services are funded. However, it should be noted that health expenditure is dominated by tertiary-level hospitals; 30% of total public health expenditure is spent on super tertiary hospitals based in Johannesburg, Pretoria, Cape Town, and Durban. Not disregarding the important role played by tertiary hospitals in terms of regional referral and educational roles, investment in primary health care is equally important if not a prerequisite, for effective health systems. It is important that increased effort be directed towards primary health care facilities over the medium term. The rapid rise in demand for chronic care for HIV and tuberculosis and non-communicable diseases emphasises the need for strong and modernised primary and community health care system. There is a need therefore to re-examine the distribution of resources between the different levels of care without weakening the role played by tertiary hospitals but also strengthening the role played by primary health care in the health system of this country. In addition, this should be coupled with improvements in the quality of primary health care service delivery. Previous FFC research (2008) indicates that whilst access to clinics and other primary health care facilities is good, utilisation is low due to poor quality and other service delivery issues (perceived and/or actual).

6.8 *Eradication of Backlogs in Education and Health Infrastructure*: The Commission raised a concern about the termination of two conditional grants in the 2009/10 financial year that were aimed at addressing backlogs in the provision of electricity, water and sanitation in schools and clinics. A considerable number of schools and clinics, especially in the rural areas remain without electricity, water and sanitation. The Commission is of the view that the decision on these grants should be reviewed against the objectives for which they were introduced and that there should be greater focus on the relevant departments to deliver.

6.9 *Agriculture Conditional Grants*: Agricultural expenditure by economic classification shows that almost 47% of the budget is spent on personnel and an average of 12% is spent on transfers and subsidies. There are three main conditional grants focusing on agricultural development, namely, the Comprehensive Agriculture Support Programme (CASP), Ilima/Letsema grant, and the Land Care Grant. The Micro-Agricultural Finance Initiative of South Africa (MAFISA), which is managed by the Land Bank is aimed at providing micro and retail agricultural financial services and facilitate access to public sector programmes to enable market efficiency. On average, CASP accounts for 74% of the total agriculture conditional grant allocations. Letsema accounts for 16% and the Land Care grant accounts for 5%. Generally, these budget allocations (equitable share and conditional grants) are quite small in relation to the amounts required to revive rural economies and ensure food security. Rural provinces should be incentivised to spend more on agriculture and this is where the rationalisation of agricultural fiscal frameworks, which includes both the equitable share and conditional grants, is required. The Commission recommended in 2006 that these grants should be merged and still subscribes to the same view.

6.10 Expanded Public Works Programme (EPWP) Incentive Grant for Infrastructure: The Commission notes the low expenditure reported against this grant in the Provincial Finance Management (PFMA) Section 32 reports. This grant is also not reported in the Municipal Finance Management Act (MFMA) Section 71 reports due to its *"after the event performance nature"*. The way the grant is administered is that provinces and municipalities only get budget allocations once they have achieved targets set by national Department of Public Works (NDPW). For the current financial year (as at 31 August 2010), the grant was only transferred to four provinces (Eastern Cape, Gauteng, KwaZulu-Natal and Mpumalanga) which achieved target as set out by NDPW. Other provinces cannot reflect expenditure as the grant is not yet transferred to them (see Table 7).

Back to Index

Table 7: Provincial Expenditure: EPWP Incentive Grant for Infrastructure

Province	Dec-09	Feb-10	Aug-10
Eastern Cape	-	-	7.4%
Free State	-	-	-
Gauteng	-	-	3.0%
KwaZulu-Natal	-	-	2.5%
Limpopo	9.2%	9.2%	-
Mpumalanga	89.6%	89.6%	0.5%
Northern Cape	-	-	-
North West	42.4%	21.1%	-
Western Cape	15.0%	65.0%	-
TOTAL	**5.1%**	**4.9%**	**3.0%**
Benchmark Performance	**75%**	**91.67%**	**41.67%**

Source: National Treasury (2009).

6.11 At the EPWP Summit held in Durban on 14 October 2010, the NDPW indicated that it will meet with the Mayors and MECs for public works in nine provinces to ascertain the next step in their respective EPWP programmes. The department reported that work opportunities were being created but not properly reported by provinces and municipalities. It reported that effective reporting of EPWP projects allows municipalities to access incentives grants, which is something KwaZulu-Natal, the Eastern Cape and Gauteng have managed to do efficiently. As a way forward, municipalities will receive technical support across all EPWP sectors to optimise the implementation of EPWP and will be provided support in the form of monitoring and evaluation, training and enterprise development for all municipal projects. The Commission concurs with this approach and is of the view that it was long overdue.

6.12 The Commission recommends the following with respect to transport and human settlements.

6.13.1 As required by the National Land Transport Act (No. 5 of 2009), the government must accelerate:

- The devolution of the public transport function to cities,
- The establishment of the dedicated Municipal Land Transport Fund.

6.13.2. While alignment of housing plans and funding streams is crucial, the following challenges needs to be addressed:

- Slow pace of accreditation,
- General poor quality and peripheral location of low-cost housing projects.

7. Review of Actual Spending by National and Provincial Government between 1 April and 30 September 2010

7.1 If aggregate government spending were to be evenly distributed through the four quarters of the year, it would be expected that total expenditure up to September would be at 50% of the main budget. This would differ depending on whether the government program that the department is dealing with is recurrent or capital expenditure driven.

7.2 Such expenditure smoothing would most likely lead to improved quality of spending and reduced level of unauthorised spending.

7.3 Departmental spending benchmark would be about 50% at end of September were this smoothing in spending to be realised. Table 8 below shows aggregate spending and deviation from this norm.

Table 8: Aggregate Spending and Deviation from the Norm

R 1,000	Main Budget	Spending as at September 2010	% expenditure
Total Expenditure	**350,625**	**170,975**	**48.8%**
Appropriation by Vote	461,518	223,460	48.4%
Direct charges against Revenue Fund	818,143	394,436	48.2%
Fuel levy	7,542	2,514	33.3%
State debt cost	71,358	32,988	46.2%
Other charges against national Revenue fund	10,751	4,986	46.4%
PES Transfers from National	**260,974**	**130,487**	**50.0%**
Selected Key budget Votes	**168,348**	**84,118**	**50.0%**
6. Public Works	6,446	2,780	43.1%
14. Basic education	6,166	2,834	46.0%
15. Health	21,497	10,599	49.3%
16. Higher Education and Training	23,721	17,292	72.9%
20. Correctional Services	15,129	6,504	43.0%
23. Justice and Constitutional Development	10,250	4,632	45.2%
24. Police	52,556	24,752	47.1%
25. Agriculture, Forestry and Fisheries	3,658	1,894	51.8%
27. Economic Development	419	171	40.8%
28. Energy	5,535	2,089	37.7%
30. Human Settlements	16,201	7,798	48.1%
32. Rural Development and Land Reform	6,770	2,773	41.0%
PES Expenditure at provincial level	**329,810**	**152,612**	**46.3%**
Education	137,439	65,487	47.6%
Health	98,381	46,315	47.1%
Social Development	10,236	4,332	42.3%
Other	83,755	36,479	43.6%

Source: National Treasury (2010), Commission's own calculations.

7.4 Total government spending as at September 2010 is below the norm by 1.8% at R394 billion against a total of R818 billion. A total of all votes at national level have also spent 1.6% (or R223 billion of the main budget) below the 50% norm, and the figure increases when looked at as a total direct charge against national revenue fund to 1. 2% (R170 billion of the main budget) below the 50% norm.

7.5 Using key selected government programs that drive government recent priorities (such as Education, Health, Justice and Policing, and key Built Environment programmes such as Energy, Housing and Rural Development), government is on the optimal 50% point expenditure norm as assumed above. This bodes well for the achievement of the agreed priories within the stipulated time frames as budgeted.

7.6 With respect to the equitable share, although 50% of the equitable share due to provinces in this financial year has been transferred, provinces reported R590 million more expenditure on their budget table in February (this includes provincial own revenue and conditional grants). Provinces have spent 46.4% of the main vote. This represents an under spending of about 3.7% below the norm. The expenditure can be expected to rise significantly quicker with the advent of the implementation of the agreed to wage settlement.

7.7 Two important points to be noted with respect to this section include:

7.7.1 Over the 2010/11 period of adjustment, the Commission has become aware of the fact that expenditure adjustments are and can be unduly influenced by a provincial own decision. For instance, some provinces can decide to unilaterally spend on personnel beyond agreed norms or expand on the number of people employed without an approved budget. Over-expenditure creates perverse incentives since it rewards weak budget constraints and penalises provinces which have maintained fiscal discipline and taken hard decisions in the interests of fiscal consolidation. Furthermore, any inherent equity in division of revenue may be negated by inequity following such adjustments and this compromises the original intent of the Division of Revenue Bill. It is therefore proposed that government should define more tightly what should constitute unforeseen and unavoidable expenditure in this respect. The Division of Revenue Amendment Bill is a positive step in this direction and assists Cabinet to monitor the extent to which the proposed adjustments can justifiably be regarded as unforeseen and unavoidable. The Bill will also allow members to ensure that there is equity in the inclusion or exclusion of requests that should be treated as unforeseen and unavoidable.

7.7.2 Given an environment of fiscal consolidation, issues of operational efficiency are very paramount. These issues include but are not limited to the reduction of fruitless and wasteful expenditure and outright corruption. For instance the recent Public Service Commission (PSC) Report indicated that in the 2008/09 fiscal year, about R100 million was siphoned out of the system through fraud and financial misconduct of civil servants, fruitless and wasteful expenditures, of which only about 10% was recovered. It is therefore important that Government has prioritized improvements in public sector management going forward. The move towards tightening the disincentives to engage in this area should be welcome, for example dismissals as opposed to paid suspensions that can take as long as eighteen months to resolve. In general, Government in the 2010 MTBPS has recognised the need for vigorous anti-corruption efforts and the need to entrench ethical values in the stewardship of public resources, and the Commission strongly supports these initiatives.

8. Concluding Remarks

8.1 The MTBPS is a key first milestone in a conversation about the budget process that will culminate in the tabling of the Budget in 2011. This Statement needs to provide more detail on the economic policy direction of government which frames the fiscal environment in which the intergovernmental fiscal relations system must operate.

8.2 In particular issues around the proposed NHI and the new growth path constitute an important development in the system that would require detail, especially in relation to the implications for the three spheres of Government. Such detail will enable the Commission to more effectively engage with processes at a fairly early stage as opposed to an environment where it is consulted at the tail-end of the process as happened with the Constitution, 17th Amendment Bill in 2009 where the Commission had to write to the relevant Ministers upon observing that it had not been formally consulted on such an important matter falling in the ambit of its mandate.

8.3 This, the second submission on the MTBPS by the Commission, details and highlights the key issues emerging from the 2010 MTBPS and tries to link the issues with the Commission's recommendations that were tabled in May 2010. This approach is taken partly to enable the Commission to understand the extent to which its recommendations find resonance with Government's own direction and also to enable Parliament to be able to process the MTBPS and take on board the Commission's recommendations in accordance with the legislation.

The Commission, through its evidence based research and impartial policy advice, will be engaging further with Government through the consultative processes prescribed in legislation, in particular the Intergovernmental Fiscal Relations Act (1997) and the Financial and Fiscal Commission Act (2003) on the range of implementation issues that have been tabled in the MTBPS and going forward to the finalization of the budget process for 2011. Issues that the Commission will follow up on include but are not limited to reforms of the provincial and local equitable share formulae, the review of the local government fiscal framework including the new approaches to cities, review of conditional grants and the associated grant frameworks. The Commission will also be closely monitoring the unfolding discourse around the NHI and the implementation of the EPWP incentive programme as a job creation vehicle.

Back to Index

5.8 Commission's Submission on the 2011 Appropriations Bill

The submission on the Appropriation Bill[19] was made in terms of sect 4 (4) 2 of the Money Bills Amendment Procedure and Related Matters Act of 2010. The section requires Parliament to consider any recommendations of the Commission in processing this Bill.

The Commission was specifically invited by Standing Committee on Appropriations to comment of the Bill in respect of Constitutionally Mandated Services (CMS).

1. Commission's Approach to the Submission

The submission focused on the following

- The Commission's interpretation of CMSs in relation to the Appropriations Bill
- Analysis of the specific and special funding of priorities over the period 2007 to 2011.
    - Assessing the extent to which appropriations address CMS among the three spheres of government over the past five years
    - Analysis of a within-sphere financing of CMS

2. The Relationship between the Appropriations Bill and CMS

The object of the Bill is to "appropriate money from the National Revenue fund for the requirements of the State..." From the Commission's perspective the sharing of nationally raised revenue needs to be balanced against the assigned Constitutional roles of all the three spheres of government. There is thus a link in the amount to be appropriated and the constitutional mandates of the three spheres. Technically there is a need to balance the share of additional funding across spheres in line with the identified outcomes and priorities through the Bill.

The Bill sets out clearly appropriations for the requirement of the State for the forthcoming financial year, in this case 2011/2012. Therefore the Bill is focused on dealing with a single year of appropriations that are to be spent through specific votes across the three spheres.

3. Commission's definition of CMS

In its submission for the 2004-2007 MTEF the Commission identified selected services listed under the Bill of Rights, Chapter 2 of the Constitution as constitutionally mandated basic services (CMBS) which form part of the broader CMS for which the State needs to ensure progressive realisation.

An identification of these services and the spheres responsible for them becomes important if we are to locate them within the various votes in the Appropriations Bill. This will further reflect the extent to which government is funding these CMSs. The identification of these services is however complicated by the high degree of concurrency which is further compounded by the general lack of national norms and standards in a range of these services. Within these concurrent functions there is also a lack of a clear delineation of roles and functions across and among spheres of government. The complexity that these factors bring in, would therefore make it difficult to assign accountability in the delivery of CMS to citizens where it is due, for example with services like housing and education where policy is made in one sphere and implementation generally happens in another.

Constitutionally Mandated Services are clearly defined and assigned to various sphere, followed by Constitution. The mandates linked to the Bill of Rights (CMBS) according to the Commission's submission represent the basic core of what key programmes should receive special focus within the broader CMS if the lives of the people are to be improved. For this report it is important to consider that all constitutional mandates need to be funded. Over and above this the Commission recommended a need to ensure a correct balance between the delivery of these services and the considerations listed in section 214(2) a-j of the Constitution.

19 The Appropriation Bill is piece of legislation that serves to appropriate money from the National Revenue Fund for the requirements of the national government in order to provide for subordinate matters incidental thereto.

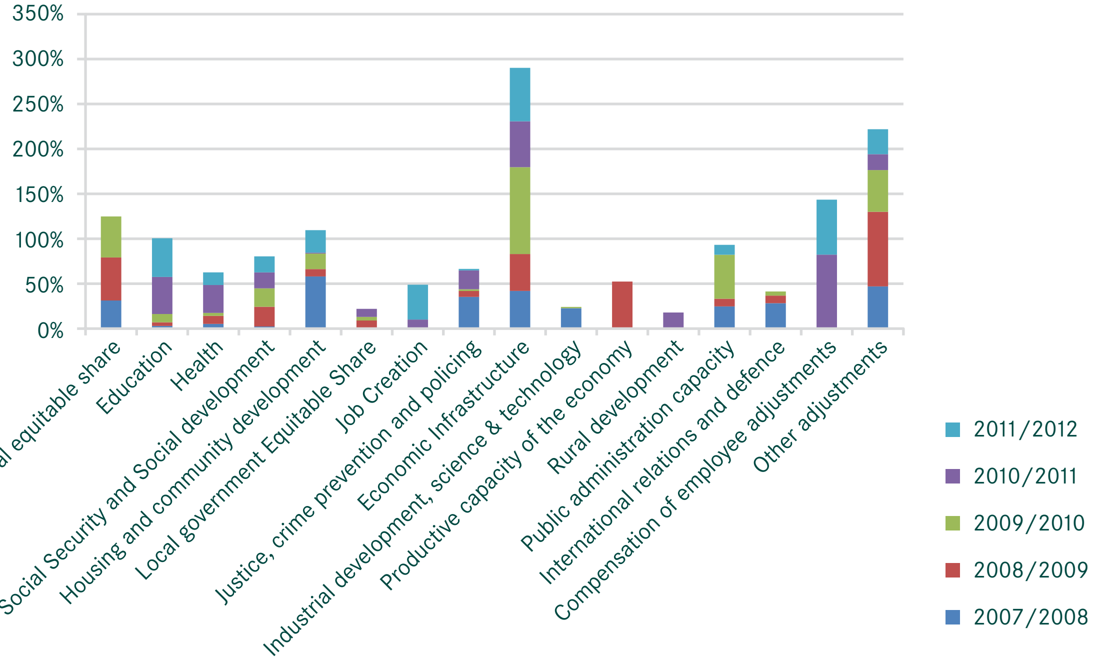
It is important to emphasise that government revenue should be used for purposes of the provision not only of CMBS but CMS in general. This means that other services such as infrastructure and economic development, the criminal justice system, security and protection, and administrative services are equally important and therefore should receive equal attention as the basic services if the rights of South Africans and the obligations of the State are to be realised. While the Commission delineated the Constitutionally Mandated Basic Services per sphere identifying for provinces, school education, adult basic and further education and training (before it was devolved to national sphere), primary and secondary health care, social security, and housing programmes this should in no way be interpreted to imply that the other functions assigned to provinces are less important.

Finally the Commission has in the past proposed an approach for assessing government progress on these services. The approach suggests that progressive realisation should be evaluated in terms of policy outcomes through the use of financial inputs of service delivery. Such a progressive realisation was acknowledged to be bound by the limits of resource availability.

4. Locating the CMSs within the Appropriations to determine the extent to which they are funded

Figure 1 shows that with the exclusion of the category "Other Adjustments", a total of 15 priority areas have been funded in the past 5 years of appropriations, with minor inconsistencies.

Figure 1: Priority funding over the 2007-2011 MTEF periods



For the purpose of this submission spending items or programmes that receive special preferential funding over and above baselines from additional revenue are analysed. For the period reviewed, spending items that receive the highest attention include economic infrastructure development (R48.8 billion), education (R8.9 billion), health (R6.1 billion), social development (R8.4) and housing and built environment (R11.5 billion). The least prominent and non sustained priorities over the review period are rural development (R1 billion), productive capacity of the economy (R3.2 billion) and industrial development, science and technology (R1.6 billion). Over the past 5 years of appropriations government has been adding around R20 billion per annum except for 2009 where R68 billion was added. This substantial increase was brought about by the R30 billion which was granted to Eskom. The additional appropriated amounts ranged from R17 billion in 2007/08 growing to R20 billion in 2011/12.

Over the past five years, government has appropriated additional allocations to key CMSs such as education, health and social security. This has been significantly supplemented by programmes that stimulate economic development such as infrastructure development and job creation. The latter are, in their own, enablers or catalysts that lead to improved access to CMSs.

4.1 Appropriations and Constitutionally Mandated Basic Service

To get a handle on the extent to which government funds CMSs requires a tracking of the priorities that government funded and classifying these into CMS and non CMS.

While CMSs are explained in the early part of this document, there is a need to give recognition to certain priorities that may not be deemed CMSs but contribute directly or accelerate the rate of achievement or access to CMSs. These as per table 1 and 2 are categorised as CMS-enablers. An example of a CMS-enabler is economic infrastructure funding and job creation which can be deemed a catalyst to economic development. These categories of priorities have a direct influence in lifting the poor out of poverty, affording them jobs and ensuring increased tax collection from personal income tax (PIT) and thus contributing to the fiscus. An increased fiscus would in return ensure that CMSs are progressively realised quicker.

There are also appropriations that can be out rightly categorised as non-CMSs; these include overfunding for noncore administrative personnel.

Table 1: Appropriations and funded priorities 2007 to 2011 MTEF

	R million	2007/08	2008/09	2009/10	2010/11	2011/12	Total 2007/2011
CMBS	Provincial equitable share	3 570	5 903	5 585			**15 058**
	Education	342	495	1 131	4 150	2 807	**8 925**
	Health	600	1 100	404	3 121	918	**6 143**
	Social security and social development	270	2 705	2 510	1 785	1 164	**8 434**
	Housing and community development	6 623	1 004	2 119	100	1 634	**11 480**
	Local government Equitable Share		1 114	491	900		**2 505**
	Total CMBSs	**11 405**	**12 321**	**12 240**	**10 056**	**6 523**	**52 545**
CMBS Enablers	Job creation				567	2 301	**2 868**
	Justice, crime prevention and policing	1 636	400	750	1 180	100	**4 066**
	Economic infrastructure	1 943	2 492	37 988	2 872	3 532	**48 827**
	Industrial development, science & technology	1 052		561			**1 613**
	Productive capacity of the economy		3 180				**3 180**
	Rural development				1 010		**1 010**
	Total CMBSs Enablers	**4 631**	**6 072**	**39 299**	**5 629**	**5 933**	**61 564**
Non CMBS	Public administration capacity	444	478	8 159		2 058	**11 139**
	International relations and defence	508	474	766			**1 748**
	Compensation of employee adjustments				10 000	11 413	**21 413**
	Other adjustments	844	4 652	7 743	2 145	5 185	**20 569**
	Total Non CMBSs	**1 796**	**5 604**	**16 668**	**12 145**	**18 655**	**54 868**
	Grand Total	**17 832**	**23 997**	**68 207**	**27 831**	**25 927**	**168 978**

Source: Generated from DORB Annexure E1 tables

Table 2: Prominance of priority over time

	R million	2007/08	2008/09	2009/10	2010/11	2011/12	Average	Shares
CMBS	Provincial equitable share	31%	48%	46%	0%	0%	**25%**	9%
	Education	3%	4%	9%	41%	43%	**20%**	5%
	Health	5%	9%	3%	31%	14%	**13%**	4%
	Social security and social development	2%	22%	21%	18%	18%	**16%**	5%
	Housing and community development	58%	8%	17%	1%	25%	**22%**	7%
	Local government Equitable Share	0%	9%	4%	9%	0%	**4%**	1%
	Share of CMBSs	**64%**	**51%**	**18%**	**36%**	**25%**	**31%**	
CMBS Enablers	Job creation	0%	0%	0%	10%	39%	**10%**	2%
	Justice, crime prevention and policing	35%	7%	2%	21%	2%	**13%**	2%
	Economic infrustructure	42%	41%	97%	51%	60%	**58%**	29%
	Industrial development, science & technology	23%	0%	1%	0%	0%	**5%**	1%
	Productive capacity of the economy	0%	52%	0%	0%	0%	**10%**	2%
	Rural development	0%	0%	0%	18%	0%	**4%**	1%
	Share of CMBSs Enablers	**26%**	**25%**	**58%**	**20%**	**23%**	**36%**	
Non CMBS	Public administration capacity	25%	9%	49%	0%	11%	**19%**	7%
	International relations and defence	28%	8%	5%	0%	0%	**8%**	1%
	Compensation of employee adjustments	0%	0%	0%	82%	61%	**29%**	13%
	Other adjustments	47%	83%	49%	18%	28%	**44%**	12%
	Share of Non CMBSs	**10%**	**23%**	**24%**	**44%**	**72%**	**32%**	

Source: Generated from DORB Annexure E1 tables

The table above shows that for the past five years of appropriations, the largest share of additional funding went into CMSs enablers at 36% mainly driven by economic infrastructure. The second largest share went to non-CMSs at 33% while the balance 31% share was directly for CMSs.

A direct funding of CMSs could be in the form of a cash grant which on its own is not sustainable unless there is enough available revenue for sustained period. Therefore it makes sense to look at the category of CMS and CMS enablers as one broad category in understanding the relationship between the funded priorities and basic constitutional rights. From this perspective it can be argued that 67 % of appropriations in the last 5 years have directly and indirectly benefited CMS.

The most prominent funded priority as a share of the total funded priorities is economic and infrastructure development, funded at 29%. This has laid a foundation to some extent for government's new growth path of accelerating growth and job creation.

The section below gives a perspective of the extent to which CMS are funded and dealt with in the various spheres.

4.2 National Government and the Extent of Funding Towards CMS

Justice, Crime Prevention and Policing

Justice, Crime Prevention and Policing have been one of government's top priorities. Between 2007/08 and 2010/11 financial year additional funds were appropriated to cater for the construction of courts, upgrading of information technology infrastructure and additional personnel for Police to boost visible policing. In 2011/12 an amount of R100 million is added in the area of Policing to increase personnel that will support more visible policing and training. It is important to note that it is impossible for individuals to enjoy their constitutional rights if this area of National CMS is dysfunctional. The Criminal Justice System is also equally important as social justice which is what the Constitution indicates in the Bill of Rights.

Higher Education

Between 2007/08 and 2009/10 additional funding for higher education was appropriated towards higher education subsidies to cater for increases in higher education costs and enrolments. In 2010/11 and 2011/12 spending is prioritised for FET Colleges and skills development. This programmes received an amount of R 2.027 billion in 2011/12. Of this amount R5 million is prioritised for teacher bursaries and R2.022 billion is added for FET Colleges grant and skills development. The FET College grant caters for additional funding for FET College function which is currently being shifted from the provincial to the national sphere.

While the higher education system is being prioritized by government, challenges remain with regards to student equity, graduation rates and enrollment rates in scarce skills such as science, engineering and technology. One of the challenges is to improve the number of students who complete their studies and graduate.

With regards to the shifting of FET Colleges function shift to the national sphere, it is important to note that the basis for the allocation of funds to this function is not clear and this will have an impact in the division of revenue between spheres of government. The Department of Higher Education as a new department would also have to deal with its capacity issues in redirecting the system to respond to the needs of the economy and realigning the work of the SETA's with the broader objectives of government including the efficient utilization of resources in the skills development arena. It is acknowledged that the higher education sector has produced substantial increases in the number of unemployed graduates.

Social Protection

Social protection has been given priority by government. An amount of R1.164 billion is added to the fiscus in 2011/12 financial year. This amount is directed towards funding social grants, mainly the increases in the value of social grants and the extension of Child Support Grant to children up to 18 years. Also included are unemployment insurance, occupational compensation and the road accident fund.

The case for directing funding and maintaining the existing social grants is very strong as they effectively assist government in reducing poverty. However, the expansion of these grants should be combined with developmental social welfare services that are aimed at rehabilitation and integration of persons back into social and economic life, foster independence while increasing opportunities for development. The Commission is aware that there are moves to reform the social security system but has not yet been officially apprised by government on the form that the reforms will be taking. In this respect the Commission will await direction from the Government.

4.3 Provincial Sphere and the Extent of Funding Towards CMS

For the provincial sphere, most if not all its functions are duly assigned by the Constitution and can be expected to be directed to CMS's. Since they raise little own revenue and are in the main implementers of national policies in one form or another.

For the period under review, basic education and health which are an important constitutional mandate that respectively contributes to human capital investment and improved life expectancy and healthy society receive consistent funding. A part of the equitable share goes to funding personnel this in the main to keep up with inflation related increase to salary adjustments and lately (disturbingly OSD). For this category of personnel expenditure, the return on spending is directly linked to the need in provinces.

Provincial Investments in Social and Economic Infrastructure

The extensive infrastructure expenditure programme that government is currently undertaking is aimed at a country-wide improvement and increment of both the efficiency and network of infrastructure. These investments are targeted at both economic infrastructure (which includes electricity, water supply, telecommunications, roads, railways and ports) and social infrastructure (which includes schools, health, sanitation, social welfare facilities and access roads).

The Commission notes with concern the persistent provincial under expenditure on infrastructure budgets for year 2010/11. Of the R11.3 billion made available to provinces through the infrastructure grant to province (IGP), R2.5 billion was initially withheld and subsequently stopped by the National Treasury due to under expenditure. Other grants that were stopped include the Hospital Revitalisation Grant and Comprehensive Agriculture Support Programme. The opportunity cost of under spending in infrastructure is the foregone CMS that could not be funded due to the resource constraint and reflects technical inefficiency, given that we still have massive backlogs. From an allocation point of view resources are allocated to the correct areas but are inefficiently utilised by the recipients.

There are challenges in provincial infrastructure delivery that have been in the system for some time. These challenges range from planning, project appraisal, financing, lack of options analysis in the delivery of infrastructure to lack of capacity in the delivery departments such as the Provincial Public Works. Challenges in supply chain management and procurement, including corruption, also contribute to sluggish expenditure and by implication delivery of quality projects. Although the Commission advocates for increasing budget allocations for economic and social infrastructure, expenditure by government should ensure that it produces high quality physical infrastructure that matches the rate of investments. It is thus important that transferring national departments responsible for these grants take steps to address the capacity issues associated with the implementation of programmes funded through their conditional grants in order to reduce the disturbing trend towards withheld funds.

The government has to use the fiscal position to generate social infrastructure, with a special emphasis on the rural areas. Linked to this is that State Owned Enterprises (SOEs) should also consider investing in provinces that lack economic development and suffer from acute poverty (e.g. Eastern Cape and Limpopo) through infrastructure and labour intensive projects as this will assist in improving regional economic development.

With respect to human settlements development and investments, Government has made considerable progress in the delivery of housing and infrastructure but much still needs to be done to achieve better developmental outcomes and to keep pace with increasing backlogs especially in cities. There is therefore a need for improved efficiency and coordination of investments in the built environment. An emerging challenge is that there still an imbalance in housing and infrastructure delivery taking place in rural areas, because urban biased fiscal instruments ignore rural challenges. There is therefore a need for a differentiated or asymmetric approach in funding rural infrastructure and the strengthening of community based delivery mechanisms.

4.4 Local Government and the Provision of CMS

CMS in the Local government sphere include, inter alia, potable water, electricity, public transport, sanitation and refuse removal. Local authorities are constitutionally mandated to provide these services adequately and efficiently. However, backlogs of varying magnitude exist across the spectrum of local authorities in the provision of such basic services. In some cases poor delivery of such services has given rise to many protests. The government has continued to place these basic services on its priority list to eradicate backlogs as well as covering new ground.

In the local government sphere the CMS are funded through the LES. However, it must be noted that the local government sector generates its own revenues to fund the CMS. In fact the bulk of funding for CMS is from municipality own revenues. From the fiscus, funding priorities through the LES have featured consistently up to the 2010/11 financial year, albeit with significant fluctuations across the years (see Table 1 below). In 20010/11 the LES funding amounted to R900 million from R491 million in the previous financial year (2009/10). In 2008/9 funding under the LES was R1114 million in 2008/9. These fluctuations do not augur well for eradicating backlogs and covering new additional demands for basic services. In addition, it should be noted that additional priority funding through the LES happened only once for the past five years in 2009/10 appropriations.

Table 1: Local Government and Funded Priorities

	2007/08	2008/09	2009/10	2010/11	2011/12
LES	825*	1,114.00	491.00	900.00	–
Municipal infrastructure, transport and water schemes	1,853.00	604.00	nil	nil	840.00
Public transport, roads and rail infrastructure				468.00	
Regional bulk infrastructure				54.00	
Green economy					200.00
Municipal disaster grant					470.00

** This figure is for Municipal equitable share and siyer*

Priority funding for CMS from the local government perspective has also been channelled through other infrastructural grants, namely the “municipality infrastructure, transport and water schemes”, “public transport roads and rail infrastructure” and “Regional bulk” infrastructure grants. These funding windows have played a critical role in improving the provision of basic services. They have also directly and indirectly contributed to job creation, poverty alleviation and amelioration of inequalities in the society. Whereas these funding windows play a critical role, their inconsistency over the years is cause for concern. For example, the municipality infrastructure, transport and water schemes was a priority in 2007/8, 2008/9 and 2011/12. In 2009/10 and 2010/11, it was not in the priority list at all. On the other hand, Public Transport, roads and rail infrastructure and regional bulk infrastructure featured only in 2010/11

4.5. Government policy priorities in the utilization of the national revenue fund financial year 2010 - 2012

In this year's Division of Revenue Bill, government identified top five policy priorities for the 2011/12 financial year namely;

1. Enhancing the quality of basic education and skills development.

2. Improving the quality of health care and infrastructure;

3. Investing in new infrastructure and proper maintenance of social and economic infrastructure networks;

4. Acceleration of job creation;

A sectoral categorization of the budget priority table indicates that a total additional R94 billion was added to the fiscus this year. This shows that the government responded well to the recent recession when it allocated adequate funding towards maintenance of social expenditure in the previous financial year.

5. Conclusion

The biggest concern for the period under review is that compensation of employees/personnel costs have surged and remain the biggest funded item on the budget. The conclusion to deem it a concern is that there are serious service delivery challenges out of which the amount spent on personnel does not yield the required outcomes.

One of the other challenges and concern for the IGFR is sustained funding of priorities over the MTEF periods. Perceptively, an Appropriation Bill serves to confirm and guarantee allocations for the first year of the MTEF. Therefore the other outer two years may be compromised as new priorities emerge in the following years of appropriation. There is therefore a need to ensure that funded priorities are sustained over the MTEF with their projected expenditure.

A combination of the rise in personnel expenditure with low output and inconsistent ongoing priorities especially for non CMSs will pose a threat to the progressive realisation of basic services to the poor. The situation is also not going to be easily diverted, especially that the amount of discretionary finance far outstrips the conditional one.

The Commission's analysis of the appropriations by government over the past five years including 2011/12 is that government does significantly fund Constitutionally Mandated Services both directly and indirectly. It is further the Commission's view that while resources are generally efficiently allocated to priority areas, there is an urgent need for government to improve the technical efficiency with which resources are spent if these appropriations are to contribute to the lives of all South Africans.

5.9 Additional 2010/2011 Commission Submissions

During the course of the year under review, the Commission also made the following submissions:

1. Submission on the Financial Management of KwaZulu-Natal Legislature Bill 2010 to the KwaZulu-Natal Provincial Legislature

2. Submission on the Local Government Municipal Property Rates Amendment Bill, 2010 to the Department of Cooperative Governance and Traditional Affairs

3. Submission on the Challenges Encountered With The Funding Norms Applicable To Independent School to the Department of Basic Education

Back to Index

Chapter 6

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2011

6.1 Approval of the Annual Financial Statements

The annual financial statements which appear on pages 103 to 120 have been approved and authorized for issue on date of signature by the Commission and is signed on its behalf by:

Bongani Khumalo (Mr.)
Acting Accounting Officer
31 May 2011

Back to Index

6.2 Report of the Accounting Officer for the year ended 31 March 2011

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

1.1 Strategic Overview

The strategic direction of the Commission as reflected in its Corporate Strategic Plan and Estimates of National Expenditure is informed by among others the Commission's goals of undertaking cutting edge research that focuses on innovation, the developmental impact of public resources and providing Parliament, provincial legislatures, organised local government, and other organs of state with coherent and appropriate policy advice, on matters relating to the IGFR system.

Whereas the Commission had in the past focused on the first generation issues of the equitable division of the provincial and local equitable share, expenditure assignments and development of relevant research tools, it has become increasingly clear that the issue at stake is no longer so much about the quantum of public funds and its allocation, but rather whether these financial resources could be translated into service delivery outputs which actually have an impact on communities. It has become important for these second generation issues of the outcomes and impact of government interventions to be given prominence, and this has to be premised on desire to identify a broader set of institutional and governence arrangements that are capable of achieving positive public expenditure outcomes. In this regard, the Commission's focus is on four themes: expenditure outcomes, accountable institutions, equitable growth and redistribution of resources, and flexible response.

This effort is supported internally by the following strategic imperatives: the building of organisational capacity and capabilities; strategic visioning and leadership; and a stakeholder focus.

For a more detailed discussion of the outcome of these strategic activities, please refer to the relevant Chapters in this Report dealing with the performance of the Commission.

2. Key Developments

Theme
The Commission will continue to focus on expenditure outcomes, accountable institutions, equitable growth and redistribution of resources, and flexible response in an effort to realise the ideal of positive public expenditure outcomes.
Stakeholder Focus

The Commission will continue in its efforts to reach a broader set of stakeholders, create a platform for discourse on the South African System of Intergovernmental Relations, and to provide stakeholders with coherent and appropriate policy advice.

Review of Division of Revenue Bill
In consultation with National Treasury and other relevant stakeholders, the Commission will continue to strive for improved accountability to Parliament, provincial legislatures, organised local government and the general public in the alignment of allocated resources with expected outputs

3. Annual Appropriation

The total appropriation for the Financial and Fiscal Commission for the year ending March 31 2011 was R31 792 661.

4. Secretariat Structure

The Commission Secretariat consists of a Research and Recommendations Programme, a Corporate Services Division, a Finance Division and a Commission Administration Unit. The Research and Recommendations Programme translates and implements the strategic direction of the Commission for research; the Corporate Services Division translates and implements the objectives of the Commission for Human Resource Management, ICT and Facilities Management; the Finance Division assists the Accounting Officer of the Commission in the effective financial management of the Commission including the exercise of sound budgeting and budgetary control practices, the operation of internal controls and the timely production of financial reports; and Commission Administration provides support to the Commission.

The total allocation for the Research and Recommendations Programme was R12 880 840, for the Corporate Services Division R8 061 491, for the Finance Division R3 824 100, and for Commission Administration R6 540 378.

The total expenditure for the Research and Recommendations Programme was R11 324 268, for the Corporate Services Division R8 705 668, for the Finance Division R4 355 919, and for Commission Administration R8 919 955.

5. Revenue Received

The Commission received a total of R31 792 661 in revenue for the reporting period which consisted of R31 391 000 of government grant and R401 661 of other income.

6. Donor Funds

No donor funding was received

7. Events after the Reporting Date

The South African Revenue Service (SARS) has reversed penalties amounting to R132 324 imposed because of the alleged late submission of EMP 201 Returns and late payment of PAYE. It does appear that the payments were in fact received on time but incorrectly allocated by the South African Revenue Services. The penalty appears in the Audited Financial Statements of the Commission that follow as fruitless and wasteful expenditure, and in the Report of the Auditor General as a matter of emphasis. The Auditor General was informed of this development on July 18 2011 but has advised the Commission that it was not prepared to change its Report to Parliament to reflect this development. The Auditor General would address the matter in its Report for the First Quarter of the 2011/2012 Financial Year.

8. Major Event Expenditure

The Commission did not incur any expenditure in respect of a major non-mandate event during the period under review.

9. Services Rendered by Commission

The core business of the Commission is fully set out in Chapter 1 of this Report. The Commission is not a service delivery institution and does not render services in the public domain on a cost recovery basis.

10. Constraints

A legacy deficit of R3m continues to be the major challenge for the Commission. The situation has been exacerbated by the general fall in budget allocations, the ever expanding scope of the mandate of the Commission, and an exponential increase stakeholder demands. The deficit for the year under review was R1.6m and the accumulated deficit now stands at R3.9m. Strict financial discipline will continue to be implemented in an effort to make a dent on the deficit and negations with National Treasury to intervene are ongoing particularly in the light of the Going Concern issue raised by the Auditor General in his Report to Parliament in the past and in the year under review.

Another challenge was the review of the Commission's *delivery model* to address among others financial constraints, the demands of a changed and changing environment, and the scarcity of key talent. The criteria for a leaner model have been defined. The recruitment and filling of vacant positions has been placed on hold pending the completion of an organisational development exercise and risk assessment. This continues to be work in progress.

Antiquated *ICT Infrastructure and systems* have threatened to undermine the day to day operations of the Commission and to derail the Commission's efforts at preserving institutional memory. The limited funding that could be made available for this function was used to introduce a degree of stability to the system through the replacement and/or reconfiguration of some critical hardware and systems. The threat of a total collapse will however remain unless and until a full upgrade of the system has been undertaken.

A related matter is that of the employment of the services of an *ICT Support Provider* who was in default of his obligations to the South African Revenue Services (SARS). The fact of non-compliance was only discovered after the service provider was engaged; notice of intention to terminate the contract was duly given; the contract could not, on the advice of the South African State Information Technology Agency (SITA), be terminated as the service provider was in the middle of a major installation; and, with the Commission budget available for such services, no other service provider had been prepared to assist. This issue is the subject matter of *unauthorized expenditure* of finding of R203 719 by the Auditor General and has been raised a *Matter of Emphasis*. It has however to be noted that decisions regarding this matter were not taken lightly. Full account was taken of the law as it stands. After careful consideration, it was resolved that the bigger risk was the total collapse of the Commission's ICT Infrastructure and Systems and the possible failure ultimately by the Commission to deliver on its mandate. It was imperative for this eventuality to be averted even at the risk of non-compliance.

11. Corporate Governance Arrangements

11.1 *Internal Audit Function (IAF)*

The IAF of the Commission is outsourced. The current service provider is SEMA Integrated Risk Solutions (SEMA IRS) appointed in November 2008. The Contract expires in October 2011. The IAF is an integral part of the Financial and Fiscal Commission System of Governance.

The IAF provides objective and independent assurance to management and to the Audit Committee on the adequacy and effectiveness of internal controls, risk management and governance processes within the Commission. In pursuing this activity, the IAF is guided by a fully functional Audit Committee which operates in terms of an approved Audit Charter.

The IAF through comprehensive engagement with internal stakeholders formulated a comprehensive three-year rolling plan, incorporating an annual plan that was approved by the Audit Committee. The annual internal audit plan was fully executed during the year under review. The IAF also performed a number of consulting activities and relationships with management improved as evidenced by the number of unplanned specialised audits, which in turn indicate that Management sees the value of IAF within its system of governance.

The head of the IAF has complete access and a direct reporting line to the Audit Committee and reports at each Audit Committee meeting on control weaknesses and other internal audit activities.

11.2 Audit Committee

The Audit Committee continues to operate within its written terms of reference, which are reviewed annually. The Audit Committee met four times during the year. In these meetings, the accounting officer and executive management were always represented. The Auditor-General of South Africa (AGSA) or the staff of the AGSA is always invited to attend, thus ensuring that such meetings are as effective as possible.

11.3 Risk Management

Because of its size, the Commission does not have a separate Enterprise Risk Management (ERM) Unit under the leadership of a Chief Risk Officer (CRO). The discharge of this responsibility devolves on all members of Executive Management and is coordinated by one such member.

The responsible member of Executive Management has continued to coordinate and support the implementation of risk management activities and Management has reviewed the Commission's Enterprise Risk Management Strategy, which informed the continuous integration of risk management into the day to day activities of the Commission.

Management has championed good governance practices by creating awareness and instituting approved risk management processes and procedures in alignment with regulations and the Public Sector Risk Management Framework. The ongoing risk management activities have culminated in an updated Risk Profile for the Commission that is monitored, on an ongoing basis, by internal governance structures, including the Executive Committee and the Audit Committee. The Executive responsible for coordinating ERM has commenced a process of coordinating the Commission's Business Continuity and Disaster Recovery processes, and will continue to manage this process going forward.

During the course of developing its risk profile, the National Treasury has identified corruption risks that it may face. In line with the Commission's zero tolerance stance on corruption, activities to mitigate corruption risks have been incorporated into the reviewed Fraud Prevention Plan for implementation by the identified risk owners. The implementation of the Plan will be monitored to ensure that corruption risks are managed and a strong ethical culture is maintained throughout the Commission.

11.4 Internal Policy Review

During the course of the year under review, the Executive Committee approved among others the following governance policies and prescripts for implementation and final approval by the Accounting Officer:

- Facilities Policies and Procedures
- Human Resource Policies and Procedures

11.5 Other Governance Matters

In addition to the governance arrangements listed above, the following governance issues were also given attention:

- Established a fully functional Procurement Committee;
- Complied with all tax, levy, duty, pension and audit commitments as required by the relevant statutes and regulations;
- Settled contractual obligations and paid outstanding amounts owing, within the prescribed or agreed period, except where discrepancies had been identified or circumstances beyond reasonable control had prevented the timely processing and finalisation of such payments;
- Formulated the internal budget guideline document; and
- Submitted all required documents and reports to the relevant authorities.

12. Discontinued Activities

No activities were discontinued during the course of the reporting period

13. New Activities

Except for requests received from stakeholders in terms of Section 3 of the Financial and Fiscal Commission Act, there were no other new activities during the course of the reporting period.

14. Asset Management

In terms of Sub-section 38(1) (b) of the Public Finance Management Act (1 of 1999) as amended, the Accounting Officer for the Department is responsible for the effective, efficient, economical and transparent use of the resources of the Institution.

In addition to the normal day-to-day administration and management of the Commission's Asset Register, the Finance and Corporate Services Divisions of the Commission undertook several key activities to improve on the overall asset management environment of the Commission. These activities are as follows:

14.1 Asset verification

Assets are Commission resources that should be disclosed in the Commission's annual financial statements. As such the Commission ensured that all its assets are properly tagged, verified and accounted for and that any lost or redundant assets are identified and removed from the asset register on a timely basis.

An asset verification process was conducted during the current financial year in order to ensure that Commission assets are accounted for and reported accurately in the annual financial statement.

14.2 Asset disposal

During the reporting period, the Finance and Corporate Services Divisions of the Commission, in line with the National Treasury Asset Management Disposal Policy, National Regulations and Governance report pertaining to corporate social responsibility, managed to dispose redundant and obsolete assets. The Commission identified and disposed of a 1996 Toyota Corolla motor vehicle through a bid process to Commission staff members. The vehicle was disposed of to a staff member for R30 000.00.

The Commission will continue to support needy communities in the future.

14.3 Acquisition of ICT Assets

The Commission follows Supply Chain Management processes in the acquisition of assets. The Commission has an Information Communication and Technology (ICT) Steering Committee. Each functional Division is represented in the Committee. The terms of reference of the Committee will be reviewed in the 2011/12 financial year and this will include an assessment of the effectiveness of its operation.

15. Performance Information

Divisional heads have reported to the Accounting Officer on a regular basis on the progress made with regard to functional delivery and measurable objectives, as contained in the Commission's Strategic Plan.

16. Standing Committee on Public Accounts (SCOPA)

There were no SCOPA resolutions in the 2009/2010 financial year relating to the Financial and Fiscal Commission

17. Prior Modifications to Audit Reports

Apart from the issues of fruitless and wasteful expenditure and unauthorised expenditure already mentioned, the Auditor General also raised an issue about the restatement of corresponding figures. This was as a result of an error which was later corrected. No other matters of significance were reported on by the Auditor General regarding the Commission's administration. Those internal control related matters highlighted in the management letter are being addressed and required control processes implemented to prevent re-occurrence.

18. Approval

The Annual Financial Statements set out on pages 103 to 120 have been approved by the Accounting Officer.

Bongani Khumalo (Mr.)
Acting Chairperson/Chief Executive
31 July 2011

Back to Index

6.3 REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL AND FISCAL COMMISSION

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Financial and Fiscal Commission, which comprise the statement of financial position as at 31 March 2011, and the 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 information, as set out on pages 103 to 120.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No.1 of 1999) (PFMA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.

4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 judgement, 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

7. 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 2011, and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the PFMA.

Emphasis of matters

8. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Irregular expenditure

9. The commission incurred irregular expenditure of R203 719, as the expenditure was incurred in contravention of Treasury Regulation 16A9.1(d) relating to supply chain management.

Back to Index

Fruitless and wasteful expenditure

10. The commission incurred fruitless and wasteful expenditure of R132 324, due to interest and penalties arising from the late submission of EMP 201 returns and late payments to the South African Revenue Service.

Going concern

11. Note 19 to the financial statements indicates that the commission incurred a net loss of R1 652 678 during the year ended 31 March 2011 and, as of that date, the commission's total liabilities exceeded its total assets by R3 055 159. These conditions, along with other matters as set forth in note 19, indicate the existence of a material uncertainty that may cast significant doubt on the commission's ability to operate as a going concern.

Restatement of corresponding figures

12. As disclosed in note 23 to the financial statements, the corresponding figures for 31 March 2010 have been restated as a result of an error discovered during 2011 in the financial statements of the Financial and Fiscal Commission at, and for the year ended, 31 March 2010.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

13. In accordance with the PAA and in terms of *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010,* I include below my findings on the annual performance report as set out on pages 22 to 42 and material non-compliance with laws and regulations applicable to the constitutional institution.

Predetermined objectives

Usefulness of information

14. The following criteria was used to assess usefulness:

    - Consistency: Objectives, indicators and targets are consistent between planning and reporting documents.

15. The following audit finding relates to the above criteria:

Reported indicators and targets were not consistent when compared to the quarterly reports

Reported performance against predetermined indicators and targets was not consistent with the quarterly reports.

Compliance with laws and regulations

Annual financial statements

16. The accounting officer submitted financial statements for auditing that were not prepared in all material aspects in accordance with generally recognised accounting practice, as required by section 40(1)(a) and (b) of the PFMA. The material misstatements identified by the Auditor-General of South Africa with regard to disclosure items were subsequently corrected.

Procurement and contract management

17. Goods and services were procured from suppliers who failed to provide written evidence from the South African Revenue Service that their tax matters were in order, as per the requirements of Treasury Regulation 16A9.1(d).

18. Contracts were extended or modified to the extent that competitive bidding processes were circumvented, contrary to the requirement of a fair, equitable, transparent, competitive and cost-effective supply chain management system in terms of Treasury Regulation 16A3.2.

Back to Index

Expenditure management

19. The accounting officer did not take effective and appropriate steps to prevent irregular, fruitless and wasteful expenditure, as per the requirements of section 38(1)(c)(ii) of the PFMA and Treasury Regulation 9.1.1.

20. The accounting officer did not take effective and appropriate steps to comply with tax legislation, as per the requirements of section 38(1)(e) of the PFMA.

21. Payments due to creditors were not settled within 30 days from receipt of an invoice, as per the requirements of section 38(1)(f) of the PFMA and Treasury Regulation 8.2.3.

INTERNAL CONTROL

22. In accordance with the PAA and in terms of *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010,* I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the findings on the annual performance report and findings on compliance with laws and regulations included in this report.

Leadership

Oversight responsibility regarding reporting and compliance

23. The accounting officer did not exercise adequate oversight over the financial statements, report on predetermined objectives and the compliance process resulting in material adjustments to the financial statements, findings on predetermined objectives, and non-compliance with laws and regulations.

Financial and performance management

Accuracy and completeness of financial statements and report on predetermined objectives

24. The financial statements and the report on predetermined objectives contained a number of misstatements that were corrected. This was mainly due to staff members not fully understanding the requirements of the financial reporting and performance reporting framework. Furthermore, non-compliance issues were not identified due to the lack of adequate processes over compliance-related issues.

Review and monitor compliance with laws and regulations

25. I identified instances of non-compliance with laws and regulations that were not prevented by the commission. This was mainly due to the lack of oversight and implementation of processes to monitor compliance with all laws and regulations.

Auditor-General

Pretoria

29 July 2011

AUDITOR-GENERAL
SOUTH AFRICA

6.4 Report of the Audit Committee for the year ended 31 March 2011

Introduction

We are pleased to present our report for the financial year ended 31 March 2010 in terms of the Public Finance Management Act, 1 of 1999 section 38(1)a, (4)d and 77, and Treasury regulations 3.1.11.

Membership and attendance

The Audit Committee consists of the members listed below. All the Audit Committee members are independent, which is in line with the industry corporate governance practice. During the year under review, the Audit Committee held four (4) meetings as per the approved terms of reference.

NAME	Attended
Jerry Sithole	4
Tania Ajam	2
Mkuseli Bashe	4

Audit Committee Responsibility

The Audit Committee confirms that it has complied with its responsibilities arising from section 38(1) (a) of the Public Finance Management Act (PFMA) and Treasury Regulations 3.1.13.

The Audit Committee has regulated its affairs in compliance with its approved charter and has discharged all its responsibilities as contained therein.

The Effectiveness of Internal Control

The review of the effectiveness of the system of internal control by the Audit Committee is informed by the reports submitted by Internal Audit and management, who are responsible for the development and maintenance of the internal control system.

The system of control is design to provide cost effective assurance that assets are safeguarded and that liabilities and working capital are efficiently managed. In line with the PFMA and the King II report on Corporate Governance requirements, Internal Audit provides the Audit Committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes.

From the various reports of the Internal Auditors, the Audit Report on the Annual Financial Statements together with the management report of the Auditor-General, it was noted that, except for the issues reported on by the Auditor-General, no other significant or material non compliance with prescribed policies and procedures have been revealed. Accordingly we can report that the system of internal control for the period under review was efficient and effective.

The internal control environment has been continuously improving as evidenced by the willingness to address the control weaknesses identified by the auditors.

Back to Index

Risk Management

The Audit Committee has an oversight responsibility over FFC internal risk management processes. In the year under review the Committee monitored the implementation of Risk Management and reviewed progress quarterly.

Review and assessments of FFC strategic risk will continue to be done on a quarterly basis by the Audit Committee.

The Quality of Management and Monthly/Quarterly Reports Submitted in terms of the PFMA

The Audit Committee is satisfied with the content and quality of monthly and quarterly reports prepared and issued by the management of the FFC during the year under review.

Evaluation of Financial Statements

The Audit Committee has:

- Reviewed and discussed the audited annual financial statements to be included in the annual report, with the Auditor-General and the management;
- Reviewed the Auditor-General's management report and management's response thereto; and
- Reviewed significant adjustments resulting from the audit.

The Audit Committee concurs and accepts the Auditor-General's conclusions 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.

Jerry Sithole
Chairperson of Audit Committee
Date: 31 July 2011

FINANCIAL AND FISCAL COMMISSION

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2011

	Notes	2011 R	2010 R
ASSETS			
Non-current assets		840,810	919,106
Property, plant and equipment	2	807,504	867,061
Intangible assets	3	33,306	52,045
Current assets		59,553	182,425
Receivables - exchange transactions	4	58,110	52,334
Cash and cash equivalents	13	-	130,091
Total assets		900,363	1,101,531
CAPITAL, RESERVES AND LIABILITIES			
Capital and reserves		(2,834,167)	(1,402,481)
Capital contribution	5	918,752	918,752
Accumulated deficit		(3,973,911)	(2,321,233)
Current liabilities		3,580,538	2,315,326
Payables - exchange transactions	6	3,399,276	1,955,374
Leave pay accruals	7	399,849	359,952
Bank overdraft		963	
Noncurrent liabilities		153,992	188,686
Financial obligation	8	153,992	188,686
Total capital reserves and liabilities		900,363	1,101,531

FINANCIAL AND FISCAL COMMISSION

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31 MARCH 2011

	Notes	2011 R	2010 R
Operating revenue	9	31,391,000	26,580,000
Government grant		31,391,000	26,580,000
Other revenue		401,661	97,255
Interest received	10	154,516	96,053
Rendering of Services		223,694	
Gain on sale of equipment		23,450	
Other income			1,202
Total revenue		31,769,210	26,677,255
Operating expenses			
Employee costs		(19,664,428)	(17,640,745)
Depreciation and amortisation		(584,227)	(780,328)
Professional services		(4,539,046)	(2,500,802)
Forex losses		(1,084)	
Other operating expenses		(8,517,024)	(6,110,540)
Total operating expenses		(33,305,810)	(27,032,415)
Deficit before interest	11	(1,513,149)	(355,160)
Interest paid	12	(139,529)	(157,692)
Net deficit for the year		(1,652,678)	(512,852)

FINANCIAL AND FISCAL COMMISSION

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED 31 MARCH 2011

	Capital contribution R	Accumulated surplus/(deficit) R	Total R
At 1 April 2009	918,752	(1,808,381)	(889,629)
Deficit for the year 2010		(512,852)	(512,852)
Balance at 1 April 2010	918,752	(2,321,233)	(1,402,481)
Deficit for the year 2011		(1,652,678)	(1,431,686)
Balance at 31 March 2011	918,752	(3,973,911)	(3,055,159)

FINANCIAL AND FISCAL COMMISSION

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2011

	Notes	2011 R	2010 R
Cash flow from operating activities			
Receipts		31,769,210	26,677,255
Grants		31,391,000	26,580,000
Interest received		154,516	96,053
Sale of Services		223,694	-
Other receipts		-	1,202
Payments		31,415,537	26,910,868
Employee costs		19,624,531	17,614,676
Suppliers		11,653,884	9,138,500
Interest paid		139,529	157,692
Net cash flows from operating activities	13	**351,266**	**(233,612)**
Cash flows from investing Activities			
Purchase of property, plant and equipment		(482,486)	(159,275)
Proceeds from sale of property, plant and equipment		30,000	-
Purchase of Intangible assets		(29,836)	(66,025)
Net cash flows from investing activities		**(482,321)**	**(225,300)**
Net increase/(decrease) in cash and cash equivalents		(131,055)	(458,912)
Cash and cash equivalents at beginning of year		130,092	589,004
Cash and cash equivalents at end of year	13	**(963)**	**130,092**

FINANCIAL AND FISCAL COMMISSION

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 MARCH 2011

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 years presented unless otherwise stated.

1. Basis of preparation

The financial statements have been prepared in accordance with South African statements of Generally Recognised Accounting Practice (GRAP) including any interpretations of such statements issued by the Accounting Practices Board. The financial statements have been prepared on the going concern basis despite having a significant accumulated deficit. This is due to the Commission being entirely dependent on funding from Government, with no indication having been received that such funding will cease in the foreseeable future.

1.1 Revenue Recognition

Revenue is recognised when it is probable that future economic benefits will flow to the Commission and these benefits can be measured reliably.

Revenue comprises of government grants and interest received

Government grants are the Commission's main source of revenue and are treated with reference to the guidance provided by GRAP 23: Revenue from Non-exchange Transactions. Without early adopting the Standard, the Commission has developed an appropriate accounting policy on this basis, namely that revenue from non-exchange sources is only recognised to the extent that a corresponding asset satisfies the recognition criteria, but limited to the amount of any outstanding obligation in the form of conditions attached to the grant.

Interest is recognized on a time proportion basis, taking account the principal outstanding or invested and the effective rate over the period to maturity when it is determined that such income will accrue to the Commission.

Rendering of services is recognised in the reporting period in which the services are rendered, by reference to the stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

1.2 Property, Plant and Equipment

Property and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment cost. Depreciation is calculated using the straight line method to allocate the cost of assets to their residual values over their estimated useful lives as follows:

Computer equipment	3 years
Furniture and fittings	5 years
Motor vehicle	5 years
Office equipment	5 years
Leasehold Improvements	3 years

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

The assets' residual values, useful lives and depreciation methods applied are reviewed and adjusted if appropriate, at each statement of financial position date.

1.3 Intangible Assets

Acquired computer software is classified as finite assets and 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 of two years less any impairment cost. The amortisation method applied is reviewed and adjusted if appropriate. If there has been a change in the expected pattern of consumption, the amortisation method is changed to reflect the changed pattern. After initial recognition, an intangible asset is carried at its cost less any accumulated amortisation and any accumulated impairment loss.

1.4 Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statement. Estimates are based on current conditions and on other assumptions that are believed to be reasonable under the circumstances. Significant items subject to judgment and such estimates include estimated useful lives and the recoverability of the carrying value of assets.

1.5 Leases

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 statement of financial performance 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 recognized as an expense in the period in which termination takes place.

1.6 Provisions

Provisions are recognised when the 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. Provisions are reconginised at the present value of the future amount required to settle the obligation at reporting date.

1.7 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
Defined Contribution plans are plans to which the Commission makes contributions on behalf of employees, but without any further obligation to fund the plan in the event of a shortfall in benefits. Contributions to a defined contribution plan in respect of services in a particular period are recognised as an expense in that period.

1.8 Deferred income

Deferred income is initially recognised in the Statement of Financial Position when cash is received for services not yet rendered and subsequently recognised in the Statement of Financial Performance when services are been rendered.

1.9 Foreign currency translation

Transactions and balances
Transactions denominated in foreign currencies are translated into South African rand (i.e. functional currency) at the foreign exchange rate prevailing at the date of the transaction. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Monetary transactions are translated at exchange rates prevailing at the close of the reporting period.

Back to Index

Forex Profit and Loss
Foreign exchange gains or losses resulting from the settlement of such transactions and are recognised in statement of Financial Performance.

1.10 Financial instruments

Financial instruments carried on the statement of financial position include cash and bank balances, receivables and trade creditors. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Recognition
Financial instruments are initially recognised at fair value 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:

- Financial Assets

- Trade and other receivables

Receivables from exchange transactions are categorised as loans and receivables and consist of staff loans and rental deposits. These are initially measured at fair value, and subsequently measured at amortised cost, being the initially recognised amount, plus any interest accrued, less any repayments, less any impairments.

Impairment of financial assets
At each reporting date the Commission assesses all financial assets to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the Commission, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment deficits are recognised in the statement of financial performance. Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Where financial assets are impaired through use of an allowance account, the amount of the deficit is recognised in the statement of financial performance within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Financial liabilities
The Commission's principal financial liabilities are accounts payables, categorised as other financial liabilities measured at amortised cost. Initial measurement is at fair value, with subsequent measurement being at amortised cost, being the amount initially recorded plus any accrued finance charges, less repayments made.

1.11 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents include cash on hand and bank overdrafts.

1.12 Impairment of non-financial assets

Non-financial assets such as property, plant and equipment and intangibles (except for indefinite life intangibles) are tested for impairment at each reporting date. The impairment is determined as being the difference between the recoverable amount (or recoverable service amount) and the assets current carrying value, and is recognised immediately in surplus or deficit for the period.

1.13 Irregular, and Fruitless and Wasteful expenditure

Irregular expenditure means expenditure, other than unauthorized expenditure, incurred in contravention of, or that is not in accordance with a requirement of any applicable legislation, including:

- The PFMA, or
- The state Tender Board Act, 1968 (act No.88 0f 1986), or any regulations made in terms of that Act; or
- Any national legislation providing for procurement in the National Government.

Fruitless and wasteful expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

Irregular or Fruitless and Wasteful expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.14 New Standards, interpretations approved but not yet effective

Standards issued, but not yet effective
The following approved Standards of GRAP have been approved and issued by the Accounting Standards Board, but only become effective in the future or have not been given an effective date by the Minister of Finance. The Commission has not early-adopted any new Standards but has in some cases referred to them for guidance in developing appropriate accounting policies in accordance with the requirements of Directive 5: Determining the GRAP Reporting Framework:

GRAP 18 – Segment Reporting:
Requires additional disclosures on the various segments of the business in a manner that is consistent with the information reported internally to management of the entity. The precise impact of this on the financial statements of the Commission is still being assessed, but it is expected that this will only result on additional disclosures without affecting the underlying accounting. This standard does not yet have an effective date.

GRAP 21 – Impairment of Non-Cash Generating Assets
This standard becomes effective for years beginning on or after 1 April 2012 and will only be formally adopted on that date. It determines the requirements and provides additional guidance on how to impair non-cash generating assets, being assets that are not held to generate any sort of commercial benefit. In particular, it provides guidance on how to determine an asset's recoverable service amount in the absence of any future cash flows. The Commission has considered the principles set by this standard in developing its general asset impairment policy and therefore does not expect any significant changes in how assets will be accounted for or disclosed when the standard becomes effective.

GRAP 23 – Revenue from Non-Exchange Transactions
This standard becomes effective for years beginning on or after 1 April 2012 and will only be formally adopted on that date. It determines the requirements and provides additional guidance on how to account for revenue from non-exchange transactions. In particular, it requires the entity to recognise revenue from grants received, to the extent that there are no further conditions attached to the grant that give rise to an obligation to repay. The key principles established by this standard have already been utilised to develop appropriate accounting policies for accounting for non-exchange revenue and therefore it is not expected to have a significant impact on the financial statements when it becomes effective (refer accounting policy note 1.1).

GRAP 24 – Presentation of Budget Information in the Annual Financial Statements
This standard becomes effective for years beginning on or after 1 April 2012. It determines the specific requirements and provides additional guidance on how to present a comparison between budgeted and actual amounts in the financial statements, as required by GRAP 1. This is expected to add significantly to the level of disclosures currently being provided in terms of the interim guidance on minimum budget information from the Accountant General's Office.

GRAP 25 – Employee Benefits
This standard prescribes similar requirements to those in terms of IAS 19: Employee Benefits. Since IAS 19 has been applied in developing the current accounting policy, and since there are no post employment benefits, no significant impact on the financial statements of the Commission is expected. This standard does not yet have an effective date.

Back to Index

GRAP 26 – Impairment of cash-generating assets
This standard becomes effective for years beginning on or after 1 April 2012. It determines the requirements and provides additional guidance on how to impair cash generating assets, being assets that are expected to generate a commercial benefit. The standard requires a similar treatment to that currently required by IAS 36, the principles of which have already been incorporated into the accounting policies of the Commission in the prior year. As a result, the impact of this standard becoming effective is expected to be limited.

GRAP 103 – Heritage Assets
This standard becomes effective for periods beginning on or after 1 April 2010 and has not been early adopted. It determines requirements for accounting for heritage assets. Heritage assets are defined as assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations. The Commission does not presently hold any such assets and has accounted for all property, plant and equipment in accordance with GRAP 17.

GRAP 104 – Financial Instruments
This standard will introduce some relatively significant changes when compared to IAS 39, especially in the way financial assets are classified and treated. However, the impact on the Commission's financial statements is not expected to be significant due to the relatively simple types of financial instruments held by the Commission. The precise impact is still being assessed but as a rule this standard does not yet have an effective date, there is no intention to early adopt it in the foreseeable future.

GRAP 105 – Transfer of Function between Entities under Common Control
This standard provides the accounting treatment for transfers of functions between entities under common control and has already been referred to for guidance where necessary in developing appropriate accounting policies for the treatment of the assets transferred to the Commission from the Department. The standard is only expected to have an impact on the Commission in respect of any future transfers of functions. This standard does not yet have an effective date.

GRAP 106 – Transfer of Function Between Entities Not Under common Control
This standard deals with other transfers of functions (i.e. between entities not under common control) and requires the entity to measure transferred assets and liabilities at fair value. It is unlikely that the Commission will enter into any such transactions in the foreseeable future. This standard does not yet have an effective date.

GRAP 107 – Mergers
This standard deals with requirements for accounting for a merger between two or more entities, and is unlikely to have an impact on the financial statements of the Commission in the foreseeable future. This standard does not yet have an effective date.

The following interpretations have also been issued and are expected to have an insignificant impact on the financial statements, since they generally reflect the interpretations and principles already established under SA GAAP. It is unlikely that the Commission will encounter any of these issues in the normal course of its business.

Preface to Interpretations of the Standards of GRAP

IGRAP1	–	Applying the Probability Test on Initial Recognition of Exchange Revenue.
IGRAP2	–	Changes in Existing Decommissioning Restoration and Similar Liabilities.
IGRAP3	–	Determining Whether an Arrangement Contains a Lease.
IGRAP4	–	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds.
IGRAP5	–	Applying the Restatement Approach under the Standard of GRAP on Financial Reporting in Hyperinflationary Economies.
IGRAP6	–	Loyalty Programmes.
IGRAP7	–	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interactaction.
IGRAP8	–	Agreements for the Construction of Assets from Exchange Transactions.
IGRAP9	–	Distributions of Non-cash Assets to Owners.
IGRAP10	–	Assets Received from Customers.
IGRAP11	–	Consolidation - Special Purpose Entities.
IGRAP12	–	Jointly Controlled Entities - Non-Monetary Contributions by Ventures.
IGRAP13	–	Operating Leases – Incentives.
IGRAP14	–	Evaluating the Substance of Transactions Involving the Legal Form of a Lease
IGRAP15	–	Revenue - Barter Transactions Involving Advertising Services.

Back to Index

2. Property, Plant and Equipment

2011	Paintings R	Computer Equipment R	Motor Vehicle R	Furniture & Fittings R	Leasehold Improvement R	Total R
Opening Balance						
Cost	38,806	1,634,146	65,494	2,737,385	351,443	4,827,274
Accumulated depreciation	-	(1,462,614)	(58,944)	(2,087,219)	(351,436)	(3,960,213)
Net Book Value	**38,806**	**171,532**	**6,550**	**650,166**	**7**	**867,061**
Movement for the year:						
Additions	-	216,978	236,827	13,793	14,887	482,486
Disposals	-	-	(65,494)	-	-	(65,494)
	-	-	58,944	-	-	58,944
Depreciation	-	(128,826)	(39,471)	(363,722)	(3,474)	(535,493)
	-	**88,152**	**190,806**	**(349,929)**	**11,414**	**(59,558)**
Closing Balance						
Cost	38,806	1,851,124	236,827	2,751,178	366,330	5,244,266
Accumulated depreciation	-	(1,591,440)	(39,472)	(2,450,941)	(354,910)	(4,436,763)
Net Book Value	**38,806**	**259,684**	**197,356**	**300,237**	**11,421**	**807,504**

2010	Paintings R	Computer Equipment R	Motor Vehicle R	Furniture & Fittings R	Leasehold Improvement R	Total R
Opening Balance						
Cost	38,806	1,848,669	65,494	2,744,307	351,443	5,048,719
Accumulated depreciation	-	(1,591,316)	(58,944)	(1,660,695)	(292,864)	(3,603,819)
Net Book Value	**38,806**	**257,353**	**6,550**	**1,083,612**	**58,579**	**1,444,900**
Movement for the year:						
Additions	-	159,275	-	-	-	159,275
Disposals	-	(373,798)	-	(6,922)	-	(380,720)
Depreciation on disposed asset	-	373,798	-	6,922	-	380,720
Depreciation	-	(245,096)	-	(433,446)	(58,572)	(737,114)
	-	**(85,821)**	**-**	**(433,446)**	**(58,572)**	**(577,839)**
Closing Balance						
Cost	38,806	1,634,146	65,494	2,737,385	351,443	4,827,274
Accumulated depreciation	-	(1,462,614)	(58,944)	(2,087,219)	(351,436)	(3,960,213)
Net Book Value	**38,806**	**171,532**	**6,550**	**650,166**	**7**	**867,061**

	2011 R	2010 R
3. Intangible assets		
Computer Software		
Opening Balance		
Cost	861,716	795,691
Accumulated Amortisation	(809,672)	(766,459)
Net Book Value	**52,044**	**29,232**
Movement for the Year:		
Additions	29,836	66,025
Adjustment on Costs (See Note 23)	-	28,862
Adjustment on Accumulated amortisation	-	(28,862)
Amortisation	(48,574)	(43,213)
	(18,738)	**22,813**
Closing Balance		
Cost	920,414	861,716
Accumulated Amortisation	(887,108)	(809,672)
Net Book Value	**33,306**	**52,045**

4. Receivables

Rental Deposit	52,155	52,154
Other Receivables	5,956	180
	58,110	**52,334**

5. Capital contribution

Value of Assets Acquired from National Treasury	918,752	918,752

6. Payables

Trade creditors	2,829,235	1,407,644
Deferred income	17,046	
Accruals	552,995	547,730
	3,399,276	**1,955,374**

6.1 Deferred Income

Deferred income relates to tuition fees received from PEP school transactions for candidates that did not participate in the current year.

	Opening balance	Utilised during the year	Additions	Closing balance
7. Provisions				
Reconciliation of the provisions - 2011				
Leave pay benefits	359,952	(163,402)	203,299	399,849
Reconciliation of the provisions - 2010				
Leave pay benefits	333,884	(29,469)	55,537	359,952

8. Financial Obligation

Accrual in respect of straight line lease	153,992	188,686

9. Revenue

Revenue comprises grants received from National Treasury	31,391,000	26,580,000

10. Interest received

Bank Interest	151,182	95,875
Interest on staff loan	3,333	178
	154,516	96,053

	2011	2010
	R	R

11. Expenditure

Expenditure includes the following significant items

Auditors Remuneration	1,443,292	792,081
Current Year Fee	1,443,292	792,081
Professional Services	4,539,046	2,500,802
Commissioners' Expenses	174,034	192,068
Operating Leases:		
Office Premises	1,726,933	896,536
Depreciation and Amortisation	584,227	780,328
Employee Costs	22,034,373	15,524,701
Included in staff costs are:		
Defined contribution plan expense (See note 18)	2,369,945	2,116,044
And after crediting:		
Interest received:		
Bank account	151,182	95,876
Staff loans	3,333	177
	154,516	96,053
Number of employees at year end	34	34

12. Interest paid

Interest	7,187	9,737
Late payment of tax	132,342	147,955
	139,529	157,692

	2011	2010
	R	R

13. Notes to the Cash flow statement

(a) Cash and cash equivalents

Cash and cash equivalents included in the cash flow statement comprise the following

Cash on hand	1,412	2,601
Bank overdraft	(2,375)	127,490
	(963)	130,091

(b) Reconciliation of net cash flows from operating activities to deficit

Deficit	((1,652,678)	(512,852)
Non-cash Movements	2,003,944	279,240
Depreciation	535,493	737,116
Amortisation	48,574	43,213
Increase in accounts payable	1,443,901	(577,207)
(Decrease)/Increase in provisions relating to employee costs	39,897	26,069
Gain on sale of plant and equipment	(23,450)	
Straight line lease	(34,694)	(14,155)
Increase/decrease in accounts receivable	(5,776)	64,204
Net cash flows from operating activities	351,266	(233,612)

14. Related parties transactions

All National Departments of Government and National State-controlled entities are regarded as related parties in accordance with IPSAS 20.The Financial and Fiscal Commission is a constitutional institution reporting to Parliament and provisional legislatures from which it received grants in the current and prior years. The following transactions and balances were recorded relating to transactions with related parties as defined. Transactions with related parties that are on the same terms as those generally available in the sector and related to transactions in the ordinary course of business are not discloseable in terms of IPSAS 20.

	2011	2010
	R	R

15. Irregular expenditure, Fruitless and wasteful expenditure

Opening Balance	201,151	-
Add: irregular expenditure: current year	203,719	53,196
Add: Fruitless and wasteful expenditure: current year	132,324	147,955
Irregular expenditure awaiting for condonation	537,194	201,151
Analysis of expenditure awaiting condonation per age classification		
Current year	280,279	147,955
Long services Bonus	53,196	-
Irregular expenditure	203,719	53,196
Total	537,194	201,151

16. Financial Risk Management

Credit risk
Financial assets which potentially subject the Commission to concentrations of credit risk are principally of receivables. Loans and Receivables are of a sundry nature and the credit risk is therefore limited, the credit risk is managed through periodic reviews of the level of bad debts. Accordingly the Commission has no significant concentration of credit risk.

Interest rate risk
The Commission has cash and cash equivalents placed with financial institutions and is therefore exposed to interest rate fluctuations and such changes in market interest rates affect the fair value of cash. The interest rate risk embodies not only the potential for loss but also the potential for gain and is managed through the cash management policy.

Foreign currency risk
The Commission transacts with foreign persons from time-to-time. The PEP School fees are denominated in USD and are translated to ZAR using the spot rate on date of transaction, which is usually the date that advance cash payments are received. The Commission is relatively insensitive to subsequent fluctuations in currency since most transactions are settled in advance, resulting in there being few monetary items that would again require translation at reporting date. The Commission's management will continue to assess the frequency and nature of these transactions to determine whether further foreign currency risk management strategies are required but at this stage the risk is limited.

Fair Values
At 31 March 2011 the carrying amounts of accounts payable and accounts receivable approximated their fair value due to the short term maturities of these assets and liabilities. Since the Commission does not undertake any significant investment strategy there is no significant sensitivity to fair value fluctuations of financial instruments.

17. Deficit

The Commission recorded a deficit of R 1,652,678, which is attributable to insufficient baseline allocation.

18. Retirement Benefits Information

During the year, the Financial and Fiscal Commission contributed to Momentum 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 2 369 945 (2010: R2116 044) was recognised as an expense during the year for contributions to the retirement fund. FFC has no liability to members beyond what is contributed to the fund.

19. Going Concern

Attention is drawn to the statement of financial performance which indicates that the Commission incurred a net deficit of R1,652,678 in the year ended 31 March 2011, and thus increasing the Commission's accumulated deficit to R3,973,911. Furthermore the Commission's liabilities exceed its assets at the reporting date by R3,055,159. The Commission's ability to continue as going concern depends largely on the continued support of government by means of annual appropriation. In this regard the Commission is engaging government through the National Treasury.

20. Operating lease commitments

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

	2011	2010
Not later than 1 year	933,468	637,765
Later than 1 year but not later than 5 years	573,692	1,108,752
	1,507,161	**1,746,517**

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

Back to Index

21. Remuneration for Commission Members

Year ended 31 March 2011	Salary R	Pension contributions R	Other contributions R	Total R
Executive Commissioners				
B Setai – Chairperson (Term expired in August 2010)	598,395	-	24,298	622,693
B Khumalo- Acting Chairperson	1,092,797	-	80,160	1,172,957
	-		-	-
	1,691,192	**-**	**104,458**	**1,795,650**
Non Executive Commissioners				
T Ajam	22,356		-	22,356
N Shezi	12,590		-	12,590
D Savage	30,169	-	-	30,169
L Abrahams	36,788			36,788
	101,903	**-**	**-**	**101,903**
				-
TOTAL	**1,793,095**	**-**	**104,458**	**1,897,553**

Year ended 31 March 2010	Salary R	Pension contributions R	Other contributions R	Total R
Executive Commissioners				
B Setai - Chairperson	1,087,490	123,334	54,288	1,265,112
B Khumalo	950,060	-	72,587	1,022,647
	2,037,550	**123,334**	**126,875**	**2,287,759**
Non Executive Commissioners				
T Ajam	67,068	-	-	67,068
N Shezi	19,139			19,139
D Savage	30,855			30,855
L Abrahams	23,763			23,763
	140,825	**-**	**-**	**140,825**
TOTAL	**2,178,375**	**123,334**	**126,875**	**2,428,584**

22. Reconciliation between budget and statement of financial performance

Reconciliation of budget surplus with the deficit in the statement of financial performance

Net deficit per the statement of financial performance	(1,652,678)
Adjusted for:	
Depreciation and amortisation	584,227
Straight line lease	(34,694)
Surplus on sale of asset	(23,450)
Increase in Provisions	39,897
Net surplus per approved Budget	(1,039,797)

The Commission prepares its budget on an accrual basis to match the inflow of income with commitments. However the budget for capital goods is recorded in the statement of financial performance when it is received whereas the depreciation to match the cost of such capital goods is released to the statement of financial performance over the useful life of an asset.

The budget variance arises as a direct result of higher than anticipated audit fees, stakeholder requests and office space.

23. Prior Year Adjustment

A system error occurred in the prior year which caused a difference between the asset register and the ledger, since the net effect is nil, it was agreed during the audit that a correction adjustment be processed. The statement of financial position figures are restated as follows:

	Actual 2009/10	Correction	Corrected Actual 2009/10
Non Current Assets			
Cost Intangible assets	861,716	28,862	890,578
Accumulated Amortisation	809,672	28,862	838,534

The net effect of the correction has no impact on the book value amount of the intangible assets.

Back to Index

Chapter 7
HUMAN RESOURCE MANAGEMENT

1. Overview

The Financial and Fiscal Commission has utilised the 2010/11 reporting period to address implementation of aspects of the Human Resources Strategy and Policy that was aligned to the Commission's 2009 to 2014 Strategic Plan.

A key development in terms of Human Resources has been the final stage of implementation of a reconstituted Executive Manager division in the organisation. The reconfigured structure that was implemented during the previous reporting period and was now finalised, has made distinction between the Commission Services portfolio (now residing under the Commission Secretary post) and the Corporate Services component of the function, Human Resources, Information Technology and Facilities (under the recently appointed Corporate Services Manager).

These developments ensured that implementation of the Commission Strategy received appropriate focus and accountability within the designated functions.

The Research and Recommendations Program (RRP) developed and implemented a 5-year Research Strategy that provides policy guidelines and indicators for the future functioning and effectiveness of the Commission's core business division.

During the reporting period the Commission also started a revision of the Commission's Delivery Model. The Commission intends to use the new delivery model to optimise its human resource utilisation and to ensure effective delivery on its mandate. This will be achieved by reducing the number of non-core staff members (support staff or non RRP) through a process of natural attrition, refocusing the way in which research is done by drawing in specialised technical expertise rather than employing our own resources and finally to focus on the training and development of research staff to improve their capacity, including the managing of large research contracts An Organisational Risk Assessment and Implementation Plan, in line with the Commission's Strategic objectives is being developed which will include strategies and tactics to mitigate identified risks going forward.

In line with the new delivery model, capacity expansion was put on hold which resulted in the appointment of only two new staff members over the reporting period. Both of these appointments were made to the Research and Recommendations Program.

Further in line with the Employment Equity Plan identified in the Commission Strategy both appointees were female and one was appointed at the Middle Management Level. The FFC's Employment Equity Plan has identified the appointment of female staff at the Professional (09 – 12) and Senior Management Services (13 – 16) Levels as a key equity target. The Plan targets a Male / Female employee ratio of 60% / 40% for both these occupational categories.

During the 2010/11 reporting period this target was exceeded for the Professional Occupational Category – currently at 31.25% Male and 68.75% Female. In the Senior Management Occupational Category the ratio is currently 87.5% Male and 12.5% Female.

For the SMS category, the FFC will need to implement a targeted selection strategy for future appointments to meet the gender and people with disabilities ratio. Posts identified in the revised organisational structure and future recruitment strategy should provide an opportunity for this to be achieved although this was found to be very difficult in the past.

The last Employment Equity report was submitted to the Department of Labour in October 2010 and the next report is due in October 2012.

The Commission reported four terminations for the 2010/11 reporting period, two resignations (a member of the support staff and a senior researcher), one expiry of a Term of Office (the Chairperson / Chief Executive of the Commission) and one termination due to operational requirements (a researcher). None of these positions were replaced due to the development of the new delivery model whereas capacity expansion was put on hold. This is similar to what was reported in the previous reporting period and a decrease on previous reporting periods, staff terminations for 2008/09 were seven and eleven were reported for 2007/08.

These developments have resulted in an overall reduction in the Commission Staff complement, which at the close of the reporting period was recorded at 34 staff members.

During the reporting period the Commission continued with the implementation of the Revised Performance Management Framework based, in part, on the DPSA / National Treasury guidelines for Performance Management within the Public Sector, which was reported on in the previous reporting period.

The implementation of the second phase of the Revised Performance Management Framework ensured that two Touch base reviews were conducted in July and December 2010, Mid-term performance reviews were conducted October 2010 and in March 2011 the Annual Performance Evaluations, were completed for all members of staff.

For the 2010/11 reporting period the Commission invested a total of R224 332 (138 training day's equivalent) in employee skills training and development in spite of the budget constraints experienced. This translates to an average training days per employee of 3.6 at an average cost of R5 903 per employee for the reporting period.

The statistical tables and information that follows provides further data applicable to FFC Human Resources Management. All HR information published can be verified through the office of the Corporate Services Manager.

2. Expenditure

Table 2.1 Personnel costs by salary bands, 2010/ 11

Salary Bands	Personnel Expenditure	% of Total Personnel Cost	Average Personnel Cost Per Employee
Salary levels 1 - 2	R 186 728.68	1.1%	R 93 364.34
Salary levels 3 - 5	R 863 121.79	4.9%	R 215 780.45
Salary levels 6 - 8	R 533 906.76	3.0%	R 266 953.38
Salary levels 9 - 12	R 8 156 527.83	46.2%	R 407 826.39
Salary levels 13 - 16	R 7 902 369.55	44.8%	R 790 236.96
Total	**R17 642 654.61**	**100%**	**R 464 280.38**

Table 2.2 Salaries, Overtime and Medical Assistance by salary bands, 2010/ 11[20]

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	R 115 735	62%	-	-	R 53 457	29%
Salary levels 3 - 5	R 578 253	67%	-	-	R 180 880	21%
Salary levels 6 - 8	R 410 485	77%	-	-	R 48 069	9%
Salary levels 9 - 12	R 6 433 223	79%	-	-	R 593 143	7%
Salary levels 13 - 16	R 6 659 676	84%	-	-	R 436 329	6%
Total	**R14 197 372**	**80%**	**-**	**-**	**R1 311 878**	**7%**

20 Note: the Commission does not provide a Home Owners Allowance benefit.

Back to Index

3. Vacancies

Table 3.1 Employment and Vacancies by Salary Bands, 31 March 2011

Salary Band	Number of Posts	Number of Posts Filled	Vacancy Rate %	Additional to the establishment
Salary levels 1 - 2	2	2	0	0
Salary levels 3 - 5	4	4	0	0
Salary levels 6 - 8	2	2	0	0
Salary levels 9 - 12	19	17	10.5%	2
Senior Management (13 – 16)	12	9	25%	3
Programme Total	39	34	12.8%	5

4. Job Evaluation

No Job Evaluation was conducted at the Financial and Fiscal Commission for the reporting period 2010/11.

Table 4.1 Employee Salary Level Exceeding the Grade Determined by Job Evaluation, 01 April 2010 to 31 March 2011

Occupation	Number of Employees	Job Level	Remuneration Level	Reason for deviation
Research Specialist	1	12	Between 12 - 13	Retention Strategy
Senior Researcher	1	12	Between 12 - 13	Retention Strategy
Manager: Library and KM	1	12	Between 12 - 13	Retention Strategy
Facilities Manager	1	11	12	Post previously benchmarked against Private Sector rates
Personal Assistant	1	09	10	Post previously benchmarked against Private Sector rates
Reference Librarian	1	08	10	Post previously benchmarked against Private Sector rates
Driver/office Assistant	1	05	08	Post previously benchmarked against Private Sector rates
Receptionist/Travel Desk	1	04	08	Post previously benchmarked against Private Sector rates
General Office Assistant	1	03	06	Post previously benchmarked against Private Sector rates

Table 4.2 Profile of Employees: Salary Levels Exceeding the Grade Determined by Job Evaluation, 01 April 2010 to 31 March 2011

Beneficiaries	African	Indian	Coloured	White	Total
Female	2	-	2	2	6
Male	3	-	-	-	3
Total	5	-	2	2	9

5. Employment Changes

Table 5.1 Annual turnover rates by salary bands for the period 01 April 2010 to 31 March 2011

Salary Bands	Number of employees per Level as at 01 April 2010	Appointments and Transfers In	Terminations and Transfers Out	Turnover Rate
Salary levels 1 – 2	2	-	-	-
Salary levels 3 - 5	4	-	-	-
Salary levels 6 - 8	2	-	-	-
Salary levels 9 - 12	18	2	3	-1
Senior Management 13 - 16	10	-	1	-1
Total	36	2	4	-2

Table 5.2 Reasons why staff is leaving the FFC

Termination Type	Number	% of total turnover
Death	0	0
Resignation	2	50
Expiry of Contract	1	25
Dismissal - organisational changes	0	0
Dismissal - misconduct	0	0
Dismissal - inefficiency	1	25
Discharge due to ill-health	0	0
Retirement	0	0
Other	0	0
Total	4	100%

Table 5.3 Promotions by Salary Band

Salary Band	Employees 01 April 2010	Promotions to another salary level	Salary Band promotions as a % of employees by salary level
Salary levels 1 - 2	2	-	-
Salary levels 3 - 5	4	-	-
Salary levels 6 - 8	2	-	-
Salary levels 9 - 12	18	-	-
Senior Management 13 – 16	10	1	10%
Total	36	1	2.7%

Back to Index

6. Employment Equity

Table 6.1 Total number of employees (FFC secretariat staff) in each of the following Occupational Categories as at 31 March 2011:

Occupational Categories	Male				Female				TOTAL
	African	Coloured	Indian	White	African	Coloured	Indian	White	
Legislators, senior officials and managers	5	-	-	1	1	-	-	-	7
Professionals	3	1	1	1	5	2	-	4	17
Technicians and associate professionals	-	-	-	-	-	-	-	-	-
Clerks	1	-	-	-	3	2	-	-	6
Service and sales workers	-	-	-	-	-	-	-	-	-
Skilled agricultural and fishery workers	-	-	-	-	-	-	-	-	-
Craft and related trades workers	-	-	-	-	-	-	-	-	-
Plant and machine operators and assemblers	-	-	-	-	-	-	-	-	-
Elementary occupations	-	-	-	-	2	-	-	-	2
TOTAL PERMANENT	**9**	**1**	**1**	**2**	**11**	**4**	**-**	**4**	**32**
Non-permanent employees[21]	1	-	-	-	-	-	-	-	1
TOTAL	**10**	**1**	**1**	**2**	**11**	**4**	**-**	**4**	**33**
Persons with disabilities	-	-	-	-	-	-	-	-	0

21 Non-permanent employees include interns and fixed-term contracts

Table 6.2 Total number of employees (Commission Secretariat staff) per Occupational Level as at 31 March 2011

Occupational Bands	Male				Female				TOTAL
	African	Coloured	Indian	White	African	Coloured	Indian	White	
Top Management	-	-	-	-	-	-	-	-	-
Senior Management	5	-	-	1	1	-	-	-	7
Professionally qualified and experienced specialists and mid-management	2	1	-	1	2	2	-	2	10
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	1	-	1	-	3	-	-	2	7
Semi-skilled and discretionary decision making	1	-	-	-	3	2	-	-	6
Unskilled and defined decision making	-	-	-	-	2	-	-	-	2
TOTAL PERMANENT	**9**	**1**	**1**	**2**	**11**	**4**	**-**	**4**	**32**
Non-permanent employees	1	-	-	-	-	-	-	-	1
TOTAL	**10**	**1**	**1**	**2**	**11**	**4**	**-**	**4**	**33**
Persons with disabilities	-	-	-	-	-	-	-	-	0

Table 6.3 Recruitment for the Period 01 April 2010 to 31 March 2011

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

Back to Index

Table 6.4 Promotions for the Period 01 April 2010 to 31 March 2011

Occupational Bands	Male				Female				TOTAL
	African	Coloured	Indian	White	African	Coloured	Indian	White	
Top Management	-	-	-	-	-	-	-	-	-
Senior Management	1	-	-	-	-	-	-	-	1
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	-	-	-	-	-	-	-	-	-
Unskilled and defined decision making	-	-	-	-	-	-	-	-	-
TOTAL PERMANENT	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1**
Non-permanent employees	-	-	-	-	-	-	-	-	-
TOTAL	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1**

Table 6.5 Terminations for the Period 01 April 2010 to 31 March 2011

Occupational Bands	Male				Female				TOTAL
	African	Coloured	Indian	White	African	Coloured	Indian	White	
Top Management	-	-	-	-	-	-	-	-	-
Senior Management	-	-	-	-	-	-	-	-	-
Professionally qualified and experienced specialists and mid-management	1	-	-	-	-	-	-	-	1
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	-	-	-	-	1	-	-	-	1
Semi-skilled and discretionary decision making	-	-	-	-	1	-	-	-	-
Unskilled and defined decision making	-	-	-	-	-	-	-	-	-
TOTAL PERMANENT	**1**	**-**	**-**	**-**	**2**	**-**	**-**	**-**	**3**
Non-permanent employees	-	-	-	-	-	-	-	-	-
TOTAL	**1**	**-**	**-**	**-**	**2**	**-**	**-**	**-**	**3**

Table 6.6 Disciplinary Action for the period 01 April 2010 to 31 March 2011

Occupational Categories	Male				Female				TOTAL
	African	Coloured	Indian	White	African	Coloured	Indian	White	
Disciplinary Action	0	0	0	1	0	0	0	0	1

Table 6.7 Skills Development for the period 01 April 2010 to 31 March 2011

Occupational Categories	Male				Female				TOTAL
	African	Coloured	Indian	White	African	Coloured	Indian	White	
Legislators, senior officials and managers	4	-	-	1	1	-	-	-	6
Professionals	2	-	1	1	5	2	-	4	15
Technicians and associate professionals	-	-	-	-	-	-	-	-	-
Clerks	1	-	-	-	3	1	-	-	5
Service and sales workers	-	-	-	-	-	-	-	-	-
Skilled agricultural and fishery workers	-	-	-	-	-	-	-	-	-
Craft and related trades workers	-	-	-	-	-	-	-	-	-
Plant and machine operators and assemblers	-	-	-	-	-	-	-	-	-
Elementary occupations	-	-	-	-	-	-	-	-	-
TOTAL PERMANENT	**7**	**-**	**1**	**2**	**9**	**3**	**-**	**4**	**26**
Non-permanent employees	1	-	-	-	-	-	-	-	1
TOTAL	**8**	**-**	**1**	**2**	**9**	**3**	**-**	**4**	**27**
Persons with disabilities	-	-	-	-	-	-	-	-	0

Back to Index

7. Performance Rewards

Table 7.1 Performance Rewards, by race, gender and disability, 01 April 2010 to 31 March 2011

	Number of beneficiaries	Total Number of employees in group	% of total within group	Cost (R'000)	Average cost per employee
African					
Male	4	10	40%	97 483	24 371
Female	4	11	36.4%	35 673	8 918
Indian					
Male	1	1	100%	13 560	13 560
Female	0	0	0	0	0
Coloured					
Male	1	1	100%	16 075	16 075
Female	3	4	75%	39 060	13 020
White					
Male	1	2	50%	14 918	14 918
Female	3	4	75%	55 374	18 458
TOTAL	**17**	**33**	**51.5%**	**272 143**	**16 008**
Employees with disability	-	-	-	-	-

Table 7.2 Performance Reward by salary band for personnel below senior management service, 01 April 2010 to 31 March 2011

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	2	50%	2 392	2 392	0.9%
Salary levels 3 - 5	2	4	50%	12 903	6 451	4.7%
Salary levels 6 - 8	2	2	100%	15 470	7 735	5.7%
Salary levels 9 - 12	10	17	58.8%	162 965	16 297	60%
Total	**15**	**25**	**60%**	**193 730**	**12 915**	**71.3%**

Table 7.3 Performance related rewards by salary band, for Senior Management Service, 01 April 2010 to 31 March 2011

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	2	8	25%	78 414	39 207	28.7%
Total	**2**	**8**	**25%**	**78 414**	**39 207**	**28.7%**

Back to Index

8. Foreign Workers

There were no foreign workers by major occupation and salary band from 01 April 2010 to 31 March 2011

9. Leave Utilisation from April 1 2010 to March 31 2011

Table 9.1 Sick Leave 01 April 2008 to 31 March 2009

Salary Band	Total days	% certification	# 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	59	100%	2	100%	29.5	18 254	59
Salary levels 3 - 5	42	68%	3	75%	14	19 352	28.5
Salary levels 6 - 8	20	85%	2	100%	10	17 975	17
Salary levels 9 - 12	84	85%	15	75%	5.6	169 830	71
Salary levels 13 - 16	51	65%	9	90%	5.7	148 736	33
Total	**256**	**81%**	**33**	**86.8%**	**8.3**	**343 238**	**208.5**

Table 9.2 Disability Leave (temporary and permanent), 01 January 2010 to 31 December 2010
There was no disability leave for the reporting period

Table 9.3 Annual Leave, 01 April 2010 to 31 March 2011

Salary Bands	Total days taken	Number of employees in grade	Average per employee
Salary levels 1 – 2	43	2	21.5
Salary levels 3 - 5	70.5	4	17.6
Salary levels 6 - 8	41	2	20.5
Salary levels 9 - 12	328.5	20	17.3
Salary levels 13 - 16	169.5	10	16.9
Total	**652.5**	**38**	**17.2**

Table 9.4 Leave payouts for the period 01 April 2010 to 31 March 2009

Reason	Total Amount (R'000)	Number of employees	Average payment per employee
Leave payout for 2010/11 due to non-utilisation	R 60 806	1	R 60 806
Current leave payout on termination of service	R 102 596	4	R 25 649
Total	**R 163 402**	**5**	**R 32 680**

Back to Index

10. HIV/AIDS and Health Promotion Programmes

The Financial and Fiscal Commission has an HIV / Aids Policy which was introduced in 2002. This policy was reviewed in 2008/09 as part of the HR Policies and Procedures review and updating process.

The HIV / Aids Policy make a clear statement regarding the issue of discrimination and protection of employees who are HIV-positive or perceived to be HIV-positive.

With regards to risk of occupational exposure, no specific units or categories of employee have been identified to be at high risk of contracting HIV and related diseases.

The 2009 to 2014 HR Strategy includes the implementation of staff HIV / Aids Awareness and Health Promotion Programs. The organisation has installing a first aid station on site and two officials were trained in all aspects of first aid support. This resource covers general occupational health and safety issues as well as HIV / Aids related support in the workplace.

The HR Strategy also includes implementation of an Employee Assistance Program to address broader issues related to employee well-being and health.

11. Labour Relations

Table 11.1 Collective Agreements, 01 April 2010 to 31 March 2011

Total Collective Agreements	None

Table 11.2 Misconduct and Disciplinary Hearings Finalised, 01 April 2010 to 31 March 2011

Outcomes of disciplinary hearings	Number	% of total
Correctional Counselling	-	-
Verbal Warning	-	-
Written Warning	-	-
Final Written Warning[22]	1	2.6%
Suspended without Pay	-	-
Fine	-	-
Demotion	-	-
Dismissal	-	-
Case withdrawn	-	-
Total	**1**	**2.6%**

Table 11.3 Grievances lodged for the period 01 April 2010 to 31 March 2011

Number of grievances lodged	None

Table 11.4 Disputes lodged with councils for the period 01 April 2010 to 31 March 2011

Number of disputes lodged	1

22 After a disciplinary enquiry the employee was dismissed but on appeal the dismissal was converted into a final written warning.

Back to Index

After the expiry of a probation period, the Commission resolved not to confirm but terminate the employment of a probationer. A dispute was then lodged with the Commission for Conciliation Mediation and Arbitration (CCMA) by the said individual and the CCMA resolved not to make an award the finding being that the dismissal was substantively and procedurally fair.

Table 11.5 Strike action for the period 01 April 2010 to 31 March 2011

Strike actions for the period	None

Table 11.6 Precautionary suspensions for the period 01 April 2010 to 31 March 2011

Precautionary suspensions for the period	None

12. Skills Development

Training provided 01 April 2010 to 31 March 2011

Occupational Categories	Gender	No. of employees as at 01 April 2010	Learnerships	Skills programmes and other short courses	Other forms of training	Total
Legislators, senior officials and managers	Female	1	-	-	-	-
	Male	9	-	5	-	5
Professionals	Female	11	-	11	-	11
	Male	7	-	4	1	5
Clerks	Female	5	-	4	2	6
	Male	1	-	1	-	1
Elementary occupations	Female	2	-	-	-	-
	Male	-	-	-	-	-
Total		**36**	**-**	**25**	**3**	**28**

13. Skills Development

Injury on duty, 01 April 2010 to 31 March 2011

Nature of Injury	Number	% of total
Required basic medical attention only	0	0
Temporary total disablement	0	0
Permanent disablement	0	0
Fatal	0	0
Total	**0**	**0**

Appendices

Appendix A: Abbreviations and Acronyms

ABET ..... Adult Basic Education and Training
AES ..... Adult Equivalent Scale
AIDS ..... Acquired immune deficiency syndrome
BAU ..... business as usual'
BMP ..... Basic Minimum Package
BRT ..... Bus Rapid Transit
CBD ..... Central Business District
CCT ..... conditional cash transfer
CDFs ..... cumulative density functions
CEPD ..... Centre for Education Policy, Development, Evaluation and Management
CGE ..... computable general equilibrium
COGTA ..... Department of Cooperative Government and Traditional Affairs
DBSA ..... Development Bank of Southern Africa
DME ..... Department of Minerals and Energy
DoE ..... Department of Education
DORA ..... Division of Revenue Act
DPLG ..... Department of Provincial and Local Government
EDI ..... electricity distribution industry
EPWP ..... Expanded Public Works Programme
ESI ..... electricity supply industry
FBS ..... Free Basic Services
FET ..... Further Education and Training
FGT ..... Foster-Greer-Thorbecke
GDP ..... gross domestic product
GER ..... Gross Enrolment Rate
GHS ..... General Household Survey
HAART ..... Highly Active Anti-retroviral Treatment
HIV ..... Human immunodeficiency virus
IES ..... Incomes and Expenditure Survey
IES ..... Income and expenditure of households
IGFR ..... Intergovernmental Fiscal Relations
IRPTN ..... Integrated Rapid Public Transport Network
KIDS ..... KwaZulu-Natal Income Dynamics Study
LES ..... Local Government Equitable Share
LGTAS ..... Local Government Turnaround Strategy

Back to Index

MDGs .... Millennium Development Goals
MFMA .... Municipal Finance Management Act
MIG .... Municipal Infrastructure Grant
MMSD .... multi-jurisdictional municipal service district
MTEF .... Medium Term Expenditure Framework
NER .... Net Enrolment Rate
NERSA .... National Energy Regulator of South Africa
NIDS .... National Income Dynamics Survey
NIEP .... National Institute for Economic Policy
NLTA .... National Land Transport Act
NLTTA .... National Land Transport Transition Act
OECD .... Organisation for Economic Co-operation and Development
OHS .... October Household Survey
PFMA .... Public Finance Management Act
PIRLS .... Progress in International Reading Literacy Study
PRASA .... Passenger Rail Agency of South Africa
PSLSD .... Project for Statistics on Living Standards and Development
PTOG .... Public Transport Operating Grant
PTS .... Public Transport Strategy
REDS .... Regional Electricity Distributors
RRC .... Revenue Raising Component
RSC .... Regional Services Council
SACMEQ .... Southern African Consortium for Monitoring Educational Quality
SAM .... Social Accounting Matrix
SANRAL .... South African National Roads Agency Limited
SARCC .... South African Rail Commuter Corporation
SCOA .... Standard Chart of Accounts
SETA .... Sector Education and Training Authority
SM .... Siyenza Manje
StatsSA .... Statistics South Africa
TIMMS .... Trends in International Maths and Science Survey
UIF .... Unemployment Insurance Fund
US .... United States

Appendix B: Utilisation of Suppliers April 1 2010 to March 31 2011

Name	Historically Disadvantaged Individual (HDI) Status	Value R
Action Training	No	2,952.60
AFReC (Pty) Ltd	Not Applicable	117,234.08
AL's Gas Services cc	No	8,400.00
American Express Card	No	1,361,970.22
American Express Travel	No	768,018.06
Aquazania	No	25,690.64
Astrotech	No	10,180.20
Asyst intelligence	No	2,1930.18
Auditor General	Not Applicable	1,443,292
Autoden	No	1,990.50
Avis Rent A Car	No	280,894.37
Avioniss	No	28,608.75
Avusa Media	Yes	10,176.54
Airport Transfer	Yes	1,550.00
Banathi Catering	Yes	32,055.00
Biddulphs	No	10,973.64
Broll Property Management	No	865,926.52
Butterworth's	No	7,454.77
Bytes Technologies	No	50,938.92
Bytes People Solution	No	20,748.00
Capello's – Matrix	No	26,958.16
Catgraphics	No	27,617.64
Computer Consulting Services	No	10,345.50
CCTV Direct	No	5130
CHM Vuwani	Yes	26207.46
Churchhills International Express	Yes	1,0374.92
Damelin Midrand	Yes	8160
DataPro	No	443,941.28
DHL International (Pty) Ltd	No	26,944.67
Diverso Technology	No	8,770.49
Don Gresswell Library Products	No	2,880.78
Dot Office Stationery	No	41,455.47
Early Worx	No	2000
Ebsco Information Services	No	1,316.52

Name	Historically Disadvantaged Individual (HDI) Status	Value R
Econometrix	No	56,886.00
Ergotheraphy Solutions (Pty) Ltd	No	4,290.00
Fax Fix Automation	Yes	399.00
Fig Technology (Pty) Ltd	No	19,8234.6
Fleet Street Publications	Yes	2,248.10
Flower Spot	No	6,193.95
Forest Technologies	No	29,834.94
The Gaffney Group	No	1,450.00
Gauteng Printing	No	3,245.39
Glenrand M.I.B	Yes	49,343.56
Hencetrade	No	37,916.92
Honeylocust	No	480
House and Home	No	9,502.99
Ikhaya Lodge	No	20,790.00
Imperial Chauffeur Drive	No	32146
Independent Newspaper	Yes	6,919.15
Internet Solutions	Yes	114.00
Isisango Conference Centre	No	53,098.66
Juta and Company	No	1,000.00
Kelly Recruitment	No	65,089.44
Khumbula Media Connexion	Yes	3,547.68
Konitek Training and Development	No	11,843.09
Kristina Davidson	No	1,692.45
Kwanza Communications	Yes	11,255.73
Kyalami Refrigeration	No	595.00
L & B Recordings	No	3,420.00
La Chaumiere Guest House	No	1,4116
Lazer Security Solutions	No	14,887.26
Mangwanani Bashewa	Yes	7,000.00
Master Movers	No	5,318.10
Mc McCarthy Toyota	Yes	236,828.87
Medihelp	Yes	7,4952
Midrand Conference Centre	No	49,569.00
Moments Frame & D Articles	No	3,180.60

Name	Historically Disadvantaged Individual (HDI) Status	Value R
Mondior Manor	No	640.00
Mopping Equipment	No	1,328.00
Mr. Plastic	No	1,388.63
Nashua Mobile	Yes	345,968.25
Nedbank Credit Card	Yes	46,691.18
Odeys	No	9,700.00
Orbit Panelbeaters	No	1,500.00
Parliamentary Monitoring Group	Yes	6,700.00
MA Perrins	No	6,000.00
Pickford's Removals	No	4,417.50
Platinum Car Hire	No	390.00
Presentation & Business Equipment CC	No	1,732.80
Protea Hotel	Yes	12,880.00
Publication Overseas	Yes	2,958.00
Public Investment Corporation	Yes	559,050.86
Rentokil CT	N o	25,409.18
Rentokil JHB	No	150,550.5
Request	No	1,616.67
Rural Maintenance	No	91,422.33
Sabinet	No	48,662.04
SABC	Not Applicable	5,700.00
SAI CA	Not Applicable	326.00
Savila	No	7,860.30
South African Post Office	Not Applicable	980.00
SARS	Not Applicable	3,447,337.5
SA Writers 'College	No	3,795.00
SE Makhubu and Associates	Yes	1,149,077.00
Shaun's Plumbing	No	9,393.00
Shred- it	No	1,415.88
Silva Sale Events and Catering	Yes	66,630.00
SMM Gourmet Catering	Yes	2572.60
Softline Pastel	No	26,449.30
Soho Designs	No	5,130.00
Sowetan	Yes	3,728.00

Name	Historically Disadvantaged Individual (HDI) Status	Value R
Standard Bank	Yes	4,152.00
Steiner CT	No	22,730.88
Steiner Midrand	No	33,096.48
University of Stellenbosch	Not Applicable	90,800.00
Tenaka's Tribe Interactive	Yes	21,159.88
The Document Warehouse	Yes	11,834.91
Telkom	Not Applicable	110,702.66
Tenaka's Tribe Production (Pty)Ltd	Yes	330,928.35
TNA Media (Pty) Ltd	Yes	792.00
Trisha Delisha	Yes	11,923.00
Unibind Systems(Pty)Ltd	No	5,621.91
University of Pretoria	Not Applicable	5,000.00
University of the Western Cape	Not Applicable	165.00
Vagaar Indian Cuisine	Yes	2,586.00
Venditor International (Pty) Ltd	No	43,612.65
Waltons Stationery Midrand	No	22,381.87
Waltons Cape Town	No	12,303.68

Back to Index

Appendix C: Utilisation of Consultants

Name	Historically Disadvantaged Individual (HDI) Status	Value R
Hoosen Wadiwala Inc	Yes	9,690.00
Hunter Van Ryneveld (Pty) LTD	No	15,000.00
Candid Colour	Yes	10,400.00
Deloitte Consulting	Yes	5,319.24
Edward Nathan Sonnenbergs Inc	Yes	69,612.90
Evo Consulting Services	No	5,666.9
Ismael Fofana	Not Applicable	203,040.00
Maurice Kerrigan Africa (Pty) LTD	No	13,953.60
Monde Boyce & Associates	Yes	10,530.00
Leshiretse Mphahlele	Yes	R26,193.75
Mthente Research and Consulting Services	Yes	98,927.50
iParadigms	No	23,100.03
Prof Nico Steytler	No	59,700.00
Palmer Development Group	Yes	350,397.69
Price Water Coopers	Yes	119,452.62
Veronique Robichaud	Not Applicable	39,0500
Andre Michaux	No	284,200.00

Appendix D: Publications and Output of Research and Recommendations Programme

Commission Papers

- Abrahams, L., Ajam, T., Khumalo, B., Mabugu, R., Ncube, M., (2010) (eds.), *Technical Submission for the Annual Submission on the Division of Revenue 2011/12*, Financial and Fiscal Commission.

- Mabugu, R., Chitiga, M., Decaluwé, B., Maisonnave, H., Robichaud, V., Shepherd, D., van der Berg, S. and von Fintel, D. (2010). *The impact of the international economic crisis on child poverty in South Africa,* Unicef, New York, USA.

- *Financial and Fiscal Commission Submission for the Division of Revenue 2011/12,* a 73 page report submitted in terms of Section 214 (2) and Section 229 (5) of the Constitution, and Section 9 of the Intergovernmental Fiscal relations Act 1999.

- *Financial and Fiscal Commission Technical Report to support Submission for the Division of Revenue 2011/12*.

- *Financial and Fiscal Commission: Submission on the Medium Term Budget Policy Statement 2010*, made in terms of Part 1 (3) {1} of the Financial and Fiscal Commission (FFC) Act (2003) as amended, and Section 4 (4c) of the Money Bills Amendment Procedure and Related Matters Act (MBAPRMA)(2009).

- *Financial and Fiscal Commission: Response to the 2011 Division of Revenue Bill* made in terms Section 214 (1) of the Constitution of the Republic of South Africa (1996) and Section 9 of the Intergovernmental Fiscal Relations (IGFR) Act (1998).

- *Briefing to the Standing and Select Committees on Finance on the Fiscal Frameworks and Revenue Proposals* made in terms of Section 4 (4c) of the Money Bills Amendment Procedure and Related Matters Act (Act 9 of 2009) and the FFC Act.

Journal Articles

- Mabugu, R., Chitiga, M., Cockburn, J., Decaluwé, B. and Fofana, I. (2010). “Case Study: A Gender-focused Macro-Micro Analysis of the Poverty Impacts of Trade Liberalization in South Africa” *International Journal of Microsimulation* (2010) 3(1), 104-108, International Microsimulation Association: ISSN 1747-5864.

Chapters

- Mabugu, R. et Chitiga, M. (2010). “La Protection du secteur textiles, et la pauvreté en Afrique du sud: une analyse en équilibre générale calculable dynamique micro-simulé”, Ch 8 dans Cockburn, J., Decaluwé, B. et Fofana, I. (eds) Liberalisation commerciale et pauvreté en Afrique, Presse de l’Universite Laval, Canada, pp. 259-280.

- Mabugu, R. et Chitiga, M. (2010). “La libéralisation entraine-t-elle un allégment de la pauvrete? Une microsimulation en équilibre général calculable pour le Zimbabwe”, Ch 6 dans Cockburn, J., Decaluwé, B. et Fofana, I. (eds) Liberalisation commerciale et pauvreté en Afrique, Presse de l’Universite Laval, Canada, pp. 209-251

Working Papers

- Chitiga, M., Fofana, I. and Mabugu, R. (2010). "Analysing Alternative Policy Response to High Oil Prices, Using an Energy Integrated CGE Microsimulation Approach for South Africa," Working Papers 196, Economic Research Southern Africa.

- Maisonnave, H., Mahabir, J., Mabugu, R. and Chitiga, M. (2010). "The Impact of the Global Economic Crisis on Sub-National Government – Lessons from the Free State Province in South Africa," Working Papers 201012, University of Pretoria, Department of Economics.

- Chitiga, M., Decaluwé, B., Mabugu, R., Maisonnave, H., Robichaud, V., Shepherd, D., van der Berg, S. and von Fintel, D. (2010). "The impact of the international economic crisis on child poverty in South Africa," Working Papers 13/2010, Stellenbosch University, Department of Economics.

- Marinkov, M. and Fedderke, J.W. (2011). "Diagnosing the source of financial market shocks: an application to the Asian financial crisis" (March 28, 2011). Available at SSRN: http://ssrn.com/abstract=1809868

Workshops / Conference Papers Presented

- Rakabe, E. (2010). "The Role of Revenue Enhancement Programs in Addressing Municipal Fiscal Stress", ***ERSA Workshop in Public Economics,*** Bloemfontein, South Africa.

- Chitiga, M, Fofana, I and Mabugu, R. (2010). "Intergovernmental Fiscal Transfers and Fiscal Consolidation: Equity and Efficiency Considerations," ***ERSA Workshop in Public Economics***, University of Pretoria, South Africa.

- Jooste, C. and Marinkov, M. (2010). "South Africa's Transition to a Consolidated Budget", ERSA Workshop in Public Economics, University of Pretoria, South Africa.

- Mabugu, R., Chitiga, M., Decaluwé, B., Maisonnave, H., Robichaud, V., Shepherd, D., van der Berg, S. and von Fintel, D. (2010). "The impact of the international economic crisis on child poverty in South Africa," ***DPRU***-EPP-***TIPS,*** Johannesburg, South Africa.

- Mahabir, J. (2011). "Measuring the Efficiency of Local Government Expenditures – An FDH Approach to a Sample of South African Municipalities", University of Pretoria School of Management and Administration Fourth International Conference.

- Makube, T. 2010. "Regulating energy demand and consumption in South Africa: Is carbon pricing sufficient?" In: Winkler, H., Marquard, A. and Jooste, M. (eds) *Putting a price on carbon: Economic instruments to mitigate climate change in South Africa and other developing countries: Proceedings of the conference held at the University of Cape Town,* 23-24 March 2010. P 166-180

- Makube, T. (2011). "Rethinking the planning, financing and delivery of provincial and local governments' infrastructure in South Africa", University of Pretoria School of Management and Administration Fourth International Conference.

NOTES

Back to Index

NOTES

Back to Index

Back to Index

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