Annual Report
2008/09

FINANCIAL AND FISCAL COMMISSION

For an Equitable Sharing of National Revenue

Our Vision

To enhance the developmental impact of public resources through the financial and fiscal system in South Africa.

Our Mission

To provide proactive and independent advice through cutting-edge research capabilities.

Financial and Fiscal Commission

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For an Equitable Sharing of National Revenue

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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) (as amended) whereof provide among others that the Commission is an independent, objective, impartial and unbiased 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 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, and the Municipal Fiscal Powers and Functions Act No. 12 of 2007.

Chairperson / CE's Review

Chapter 2

The 2008 – 2009 Financial Year has been an eventful one. The Commission faced and still faces a considerable number of challenges. In the same breadth, notable milestones have been achieved and significant strides have been taken in addressing some of the perennial difficulties that have beset the Commission before and since my appointment.

In the period under review the Commission conducted an assessment of the current socio-political environment and the implications that it had for its mandate as well as the South African system of intergovernmental fiscal relations. The results of this evaluation led to the conclusion that there was a need for the Commission to radically revise its approach to delivering on its mandate. There was recognition that although the Commission had made some groundbreaking and useful contributions in the intergovernmental fiscal relations arena especially in the areas of formula development for the equitable allocation of revenues, this had not been achieved within a context of an explicit strategic approach. The 2009 – 2014 Commission Corporate and Research Strategies that were formulated following this realisation constitute a major break from the past and aim firstly to manage Commission effort in a manner that is significantly more structured; secondly to enable the Commission to be forward looking, aspiring to manage change within the system in a consistent and logical way; thirdly to deemphasise first generation issues of the equitable division of national revenue, expenditure assignments and development of relevant research tools shifting focus to second generation issues where the question that is posed is whether financial resources can be translated into service delivery outputs which actually have an impact on the quality of life of the communities that they are intended to benefit.

The terms of office of Commissioners Tania Ajam, Martin Kuscus, Nelisiwe Shezi, Risenga Maluleke and Blake-Mosley-Lefatola expired on June 30 2009. Commissioners Ajam and Shezi have since been reappointed for additional five (5) year terms which expire on June 30 2014. On behalf of the Commission, I would like to extend a word of sincere gratitude to Commissioners Kuscus, Maluleke and Mosley-Lefatola for their contribution and commitment to the work of the Commission and stay certain that they will always remain friends of, take an interest in and where possible make a contribution to the endeavours of the Commission. I would also like to welcome Messrs Bongiwe Kunene and Lucienne Abrahams who have been appointed as Commissioners for the next five (5) years effective July 01 2009. They bring a much needed shift to the Commission gender balance and I am certain that their experience and perspectives can only serve to enrich the work of the Commission.

As part of a 2006 Commission initiative to formalise institutional governance arrangements and in response to the concern raised in the Report of the Parliamentary Ad Hoc Committee on Chapter 9 and Associated Institutions (August 2007) about the absence of a governance framework for the Commission, the first draft of a Corporate Governance Code for the Financial and Fiscal Commission has been finalised and is currently being considered by the Commission. It is hoped that deliberation and adoption of this framework will have been finalised by the close of the current financial year.

The Commission has however in the interim adopted a Code of Ethics that establishes a set of ethical values and standards that are consistent with its vision and objects, with the constitutional and legal framework that is binding on the Commission, on individual Commissioners and all Commission employees.

During the period under review the Commission was given an unqualified audit with no matters of emphasis and the Commission internalised all adverse internal and external audit findings ensuring that interventions were in place to ensure that there were no recurrences. Ever increasing audit fees however remain a matter of major concern to the Commission.

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I would however be failing in my duty if I were not to concede that numerous challenges still remain. These would of necessity include the aggregation, development and management of relevant world class talent in all areas of Commission effort; the high turnover in staff particularly in the Commission's Research function; adequate funding of the Commission's mandate; the improvement of systems and processes particularly the management of risk; resumption of activity in the information technology front which is core to Commission business but has been in a state of paralysis for the past three (3) years; and, most importantly, ensuring that Commission effort has an impact on policy as well as on the communities that give the Commission its license to operate.

On the stakeholder management front, the Commission has engaged with a variety of important stakeholders. Though most of the relationships are still in their infancy and require nurturing, almost all of them show promise.

I wish to thank the outgoing Minister of Finance, Mr. Trevor Manuel MP for the support that he has given to the Commission over the years, and welcome the incoming Minister of Finance Mr. Pravin Gordhan and trust that the relationship between Government and the Commission can only be enhanced under his stewardship.

Dr Bethuel Setai

Chairperson / Chief Executive

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Highlights / Achievements and Challenges

Chapter 3

A. Achievements

- Meeting all constitutionally mandated requirements including the Annual Submission for the Division of Revenue, the Annual Report as well as the Commentary on the DOR Bill without fail. The Commission has thereby contributed to robust debate on the intergovernmental fiscal relations system;
- The Commission has a research portfolio that spans a comprehensive range of concurrent functions ranging from road financing and infrastructure to health, education and social grants;
- 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 and with Provincial legislatures over the reporting period. Stakeholder engagements included presentations to key stakeholders, attendance at hearings, and research seminars to mention but a few;
- In addition to complying with constitutionally mandated obligations, the Commission has also published research reports, made supplementary submissions, provided advisories and detailed technical comments on at least three complex and groundbreaking pieces of legislation. See Appendix C for details;
- Researchers 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. The Commission through the dissemination of its research continues to contribute to the still nascent body of knowledge on developmentally oriented intergovernmental relations;
- 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;
- The Commission has maintained its profile as one of the best practice institutions in the world in the area of fiscal decentralization and intergovernmental fiscal relations. Its newly formulated Research Strategy responds to the changing political, institutional and socio-economic environment by sketching a five-year research trajectory that will extend the Commission's focus from first generation issues relating to revenue sharing formulae to include second generation issues relating to the impact of the intergovernmental system on development outcomes. The Research Strategy will also be the platform for collaborative research in intergovernmental fiscal relations and related.

B. Challenges

Human Resources

- The Commission is a knowledge-based institution that requires unique and extremely scarce skills. The preservation of its institutional memory, the management of its knowledge holdings as well as the attraction and retention of those sources of knowledge are therefore pivotal to its ongoing relevance and long-term sustainability. In a word, its core competence is a function of its human capital holdings;
- In the past eight years, the Commission has experienced unprecedented levels of critical skills f ight and with it the severe drain of its institutional memory and a serious decline in its knowledge holdings. Eleven (11) researchers have been lost to the institution in the past four (4) years with only three (3) being replaced, one during the latter part of 2008, another at the beginning of 2009 and the last in July 2009;

- In the past eight years, the Commission has experienced unprecedented levels of critical skills f ight and with it the severe drain of its institutional memory and a serious decline in its knowledge holdings. In an attempt to arrest the exodus of skills, the Commission has recently adopted progressive remuneration and retention strategies and policies. These include the benchmarking of Commission remuneration practices with among others the public sector, and the introduction of innovative non-financial incentives. These initiatives are interdependent and none is sustainable without the other. The implementation of one will not nuetralise the negative impact that the absence of the other has. In short, for as long as current budget constraints persist, critical skills f ight will remain the reality of the Commission;
- A recent exercise conducted by the Department of Public Service Administration on behalf of the Commission and National Treasury has established that the Commission has been operating at more than 100% below optimal human resource capacity (a current twenty-eight (28) as opposed to the optimal sixty-six (66)). Delivery on its mandate has therefore always been compromised.

Research

- The Commission has had to scale down on certain necessary research projects while others have had to be put on hold because they could not be accommodated in the existing resource envelope. Included among these are:
  - Water Quality and Quantity;
  - Municipal Water Pricing and Finance;
  - Assessing the Performance of Local Government Capacity Building Programs and Grants in South Africa;
  - Infrastructure Backlogs;
  - Spatial Perspective of Poverty and the EPWP Incentive Grant;
  - Monitoring and Evaluation;
  - Quantifying Efficiency and Equity Effects of Social Grants (and Proposed Social Security Reform) in South Africa;
  - Exogenous Oil price Shocks and the Economy.
- The situation has since been compounded by recent changes in legislation such as the resource intensive Money Bills Amendment Procedures and Related Matters Act No. 9 of 2009 being a case in point will put more pressure on the Commissions mandate;
- These changes to the environment have served to inform the Commission's vision and strategy for the coming five years. A pivotal feature of that vision and strategy is a 5 Year Research Strategy that not only calls for the Commission to conduct research into areas previously unexplored because of budget constraints, but to go further and conduct research into others that have become relevant in the context of the ever changing South African socio-political environment and the dynamic nature and scope of the South African intergovernmental fiscal relations environment.

Compliance

- The Commission is, irrespective of size, obliged to comply with several pieces of legislation. Compliance attracts significant budget implications;
- Compliance with legislated auditing requirements requires an ever increasing investment in internal and external audit fees currently standing at in excess of five percent (5%) of the Commission's current 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; and the Broad Based Black Economic Empowerment Act of 2003 requires an investment in both expertise (permanent human resource capacity) and systems CAPEX.

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CAPEX

Information Technology

- In terms of the Commission's Information Technology Asset Management Strategy and Plan, its Information Technology Infrastructure has to be reviewed every three (3) years. The Commission's Information Technology Infrastructure is now four (4) years old, and specialised technical and systems audits have strongly recommended immediate upgrades and/or replacements on both fronts;
- In addition, the Commission requires specialist software applications for the conduct of its research.

Transport

- The Commission requires serviceable motor vehicles but is currently, and again on account of budgetary constraints, employing a thirteen (13) year old vehicle which not only poses a substantial risk to its employees, but also exposes the Commission to legal risk in the event of the death of, or injury to, third parties, or for the damage or destruction of their property that is causally linked to the condition of the vehicle;
- Outsourcing this function has proved to be a far more expensive and unaffordable option.

Premises

- The implementation as of April 01, 2006 of the Framework for the Devolution of Budgets and Associated Accommodation Charges which was approved by Treasury has devolved the maintenance; property rates; municipal services and leasing budgets to user entities such as the Financial and Fiscal Commission from the Department of Public Works where these previously resided. No budgetary provision has to date been made for the assumption of this responsibility by the Commission nor has the Commission been advised of any transitional arrangements that have been put in place.

Administration Costs

Travel

- Non-executive Commissioner involvement in the processes of the Commission has, for reasons that also have their root in budget inadequacy, been limited to formal intermittent interaction with the Secretariat. This has minimised the value-add of Commissioner contribution to Commission output and in a sense undermined the Constitutional ideals that informed the establishment of the institution;
- Ongoing interaction requires travel and accommodation in the majority of instances. These come at a cost that has to date proved to be prohibitive. The result has been that the Commission, in particular its Research function, has been denied the benefit of the knowledge and expertise for which Commissioners were primarily appointed and is the poorer for it;
- With stakeholders located throughout the country and with the responsibility to consult them, account to them and serve all of them alike, travelling and accommodation has been one of the more substantial line items in the Commission budget. Budget constraints and the imposition of austerity measures have however severely limited person to person interaction with them with the result that research, consultation, ongoing interaction, and stakeholder needs assessment has all but been in name only. This undermines the Commission's ability to discharge its mandate and is antithetical to communication excellence and good governance. As stated earlier, the matter has since been further complicated by the onus that the recently promulgated Money Bills Amendment Procedures and Related Matters Act No. 9 of 2009 places on the Commission.

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Chapter 4 The Commission

4.1 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.

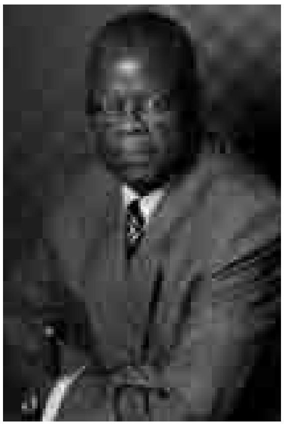
Commissioners are appointed in terms of the Constitution and the Financial and Fiscal Commission Act as amended.

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 currently 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.

4.2 Commissioners



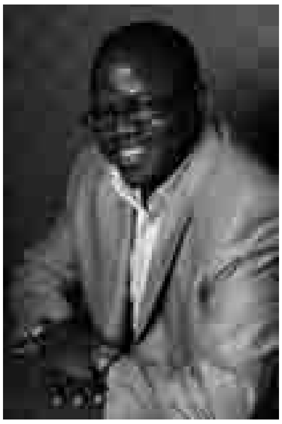
Chairperson/Chief Executive

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 of 01 September 2005 and his term of office expires on August 31 2010.

Deputy Chairperson

Bongani Khumalo



Bongani Khumalo was appointed Deputy Chairperson of the Financial and Fiscal Commission as of 01 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.

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 appointed Commissioner as of 01 July 2004 and her term of office ends on 30 June 2009.

4.2 Commissioners (contd.)

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 will serve on the Commission until 28 February 2011.

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 appointed Commissioner as of 01 December 2006 and her term of office expires on June 30 2009.

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 01 March 2008 and his term ends on 28 February 2011

Commissioner

Martin Kuscus

Martin Kuscus is Chief Executive of the South African Bureau of Standards (SABS). Prior to that, he was MEC of Finance in North West Province for 10 years. In 2004 he was appointed as a Commissioner on the FFC. In 2006, he was elected to the Council for International Standards (ISO). In 2005 he was appointed as Chairperson of the Board of Trustees for the Government Employees Pension Fund (seventh biggest pension fund in the world) and also serves on the Board for UN Principles for Responsible Investment - a United Nations Global Compact initiative. He is a provincial nominee appointed as of 01 July 2004. His term of office expires on June 30 2009.

Commissioner

Risenga Maluleke

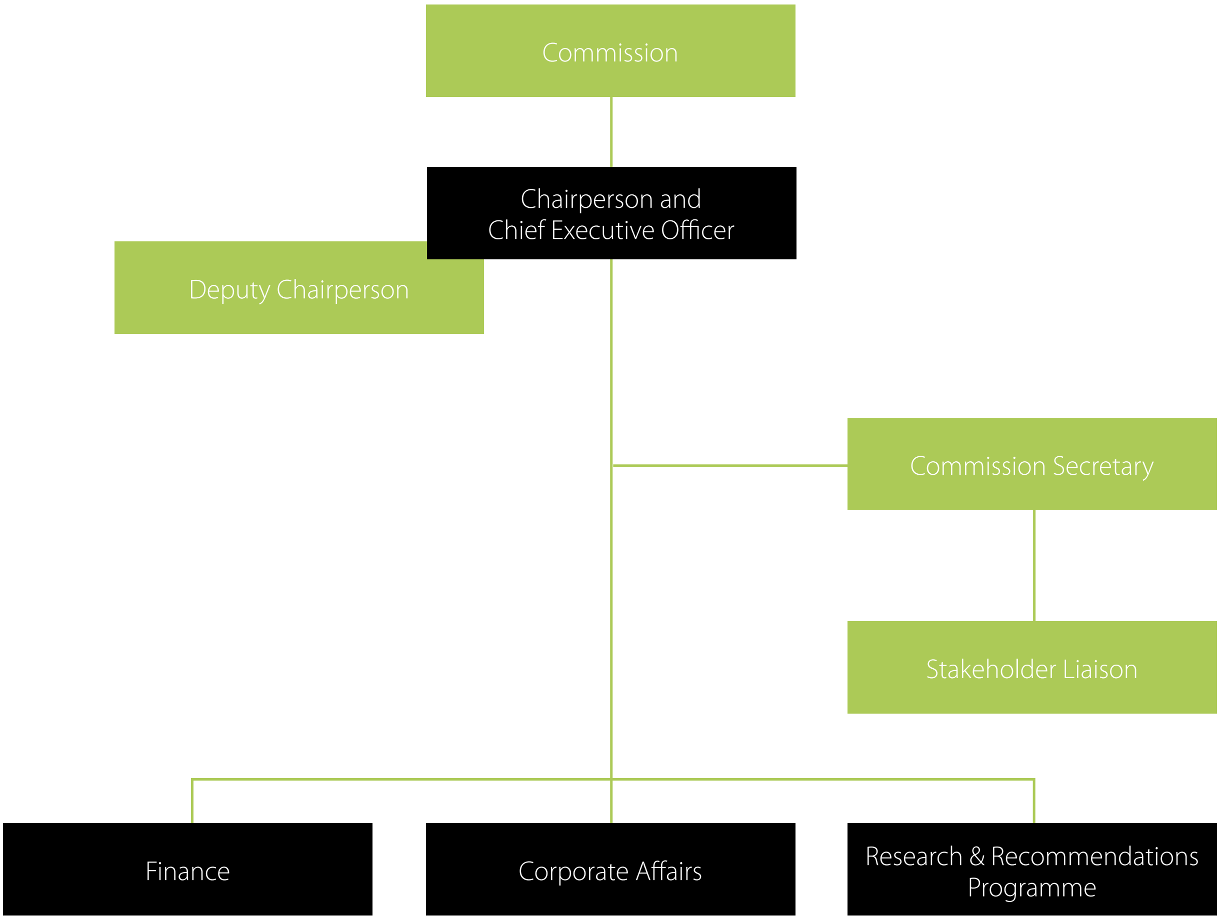
Risenga Maluleke graduated from the University of the North in 1991. Since December 2001 he has been working at Stats SA as an Executive Manager in the office of the Statistician-General, where he provides strategic support to the Statistician-General and the Executive Management Team. He also served as Chairperson of the Advisory Board for Statistics in Africa. He is a provincial nominee appointed as of 01 July 2004 and his term of office ends on 30 June 2009.

Commissioner

Blake Mosley-Lefatola

Blake Mosley-Lefatola is an Honours graduate from Wits University, in Industrial Sociology. He is a local government specialist having worked in and with the Public Sector for 16 years. He is the former Municipal Manager of the City of Tshwane Metropolitan Municipality, and presently the Group Chief Executive of the AKANI Group Holding Company. He is a nominee of SALGA appointed as of 01 July 2004 and will serve on the Commission until 30 June 2009.

4.3 Structure



4.4 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 ref ect national and international good practice.

The Commission endorses the principles of the South African Code of Corporate Practices and Conduct as recommended in the second King Report on Corporate Governance in South Africa (2002)(King II). The Commission will again review and benchmark its governance structures and processes in line with third King Report on Corporate Governance for South Africa which is scheduled to come into effect on March 01 2010. The Commission considers corporate governance as 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.

4.5 Commission Committees

4.5.1 Audit Committee

Membership

Jerry Sithole (Independent Chairperson of Committee)

Tania Ajam (Commissioner retired June 30 2009 and reappointed July 01 2009)

Martin Kuscus (Commissioner retired June 30 2009)

All the 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 attend Audit Committee meetings by invitation.

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

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

The Committee meets the Commission's external and internal auditors and executive management regularly to consider risk assessment and management, review the audit plans of the external and internal auditors and to review accounting, auditing, financial reporting, corporate governance and compliance matters. It approves the external auditors' engagement letter and the terms, nature and scope of the audit function and the audit fee. The internal audit charter, internal audit plan and internal audit conclusions are similarly reviewed and approved by the Audit Committee.

The function of the Committee is therefore to ensure that the Commission's network of risk management, control, and governance processes, as designed and represented by management, is adequate.

4.5.2 Remuneration and Performance Review Committee

Membership

Risenga Maluleke (Retired June 30 2009)

Blake Mosley-Lefatola (Retired June 30 2009)

Nelisiwe Shezi

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 above 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.

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4.5.3 Research Committee

Membership

Professor Bethuel Setai

Tania Ajam

Nelisiwe Shezi

Bongani Khumalo

Krish Kumar

David Savage

The Commission established a Research Committee in 2002. The intention was 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.

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

- Provide guidance to the Commission and oversee the activities of the Secretariat relating to research undertaken and recommendations made by or on behalf of the Commission by the Secretariat ensuring that projects are consistent with overall programme direction of the Commission
- Review and assess all research plans and timeframes to ensure that they are relevant and timeous.
- Through the institution of a quality assurance regime, ensure that research outputs are of a quality and standard commensurate with the high level of rigor expected of/by the Commission, and comparable with international and national standards in terms of best practice.

4.6 Attendance of Meetings

Commissioners	Commission	Research	Audit	REMCO	Strategy
Number of Meeting Days	**8**	**5**	**4**	**4**	**2**
Prof. B Setai[1]	7	4	3	-	-
Bongani Khumalo[2]	8	5	1	-	2
Tania Ajam	8	5	2	-	2
Martin Kuscus	2	-	1	-	-
Risenga Maluleke	7	1	-	4	2
Blake Mosley-Lefatola	2	-	-	1	1
Nelisiwe Shezi	5	4	-	3	2
Krish Kumar	4	5	-	-	-
David Savage	7	5	-	-	2

Non-Commissioner					
Jerry Sithole	-	-	4	-	-

1. Absent for one Commission, One Research, one Audit Committee and two Strategy Meetings on account of ill-health and hospitalisation.
2. Absent for an Audit Committee Meeting on account of prior commitments and two others because not invited.

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4.7 Remuneration of Commissioners

Though both Section 221(3) of the Constitution and Section 8 of the Financial and Fiscal Commission Act deal with the tenure of office of Commissioners (full-time and part-time), and Section 9 of the latter enjoins the President to determine their remuneration, allowances and other benefits after taking due consideration of certain matters, such determination has invariably been made without reference to a framework envisaged in Section 219(5) of the Constitution.

4.8 Sustainability

4.8.1 Funding

The funds of the Financial and Fiscal Commission consist of money

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

4.8.2 Risk Management

The Commission has developed and implemented a comprehensive Risk Management Framework.

4.8.3 Fraud Prevention

The Commission has a Fraud Prevention Plan which is reviewed annually, and which constitutes a significant portion of the Commission's Risk Management Framework.

4.8.4 Performance Budgeting and Management

The Commission has customised and adopted the National Treasury Framework for Managing Programme Performance Information.

4.8.5 Balanced Scorecard Business Planning

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

4.8.6 Code of Ethics

The Commission has developed and adopted a Code of Ethics.

4.8.7 Internal Controls

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

4.8.8 Stakeholder Relations

The Commission has an ongoing formal and informal programme of engaging with stakeholders, identifying concerns, and responding to needs and expectations of its stakeholders. As is customary, the Commission held rigorous consultations over the reporting period with Parliament, provincial legislatures, Government, and local government through the offices of the South African Local Government Association (SALGA).

4.8.9 Research Programme

The major highlight of the year under review has been the development of a long term research strategy for the Commission. This was predicated by a Commission-wide acknowledgement of the changing nature of the questions in the intergovernmental fiscal relations environment and shifts in stakeholder expectations for research products. These complex and f uid developments required the Commission to be creative, rigorous and pragmatic in its approach to research. While research in the past has emphasised first generation issues of equitable division of the provincial and local equitable share, expenditure assignments and development of models, today's resource problems increasingly demand research with a broader scope and scale. Focus is now on second generation issues of how much the quantum of public funds and its allocation can be translated into service delivery outputs which actually have an impact on communities.

Other highlights were in the area of fundamental research particulars whereof are more fully set out in Chapter 5.2 of this Report.

All of this (and much more) was achieved against a backdrop of ever diminishing financial resources, an ever increasing demand for the Commission's services and extremely high turnover in specialist research talent.

4.8.10 Corporate Services

The core responsibility of Corporate Services is to provide the necessary support to the Commission and its research function. In the period under review, support was provided in a climate of budget insufficiency and financial austerity. This was manifested in inter alia a paucity qualified specialist capacity; the inevitability of having to use unqualified personnel; the inability to institute and entrench proper interventions to address issues of talent attraction, retention and reward despite declared strategy and policy; a moratorium on training and further education; the need to maintain the status quo in respect facilities despite their debilitative effect on employee wellness and health; the potential of compromising the quality of Commission output through an inability to upgrade the Commission's legacy Information and Communication Technology platform and bring it to the same level as that of comparable institutions; the ad hoc and often non-compliant measures that the Commission has in place for information management, knowledge management and enterprise content management; limitations on travel and personal interaction with stakeholders - a significant hurdle to communication excellence.

4.8.11 Finance

The Finance Division has, despite the lack in most part of qualified personnel and proper separation of function as required by both the Auditor-General and the internal audit function, been able to consistently produce a set of audited results that are the envy of many. The Auditor-General's audit opinion is again unqualified. But be that as it may, issues around the qualifications, separation of functions and adequacy of personnel which are yet again a function of budget inadequacy remain.

4.8.12 Performance Information

An audit of performance information as prescribed in the National Treasury Framework on Performance Information (May 2007) was conducted by the Auditor-General for the first time and the Commission was not found to be wanting.

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Performance Chapter 5

As earlier mentioned, the Commission has despite all the challenges that it has had to confront during the reporting period made every effort not only to comply with it's constitutional and legislative mandate and obligations strictly interpreted, but has gone beyond and also sought to deliver the kind of sustainable value that has positive impact on the lives of the communities that it seeks to uplift. These are the communities that endorsed its establishment, continue to justify its existence, and ultimately provide it with a license to operate.

What follows in this Chapter is a non-exhaustive summation of the Commission's effort and achievement during the reporting period.

5.1 Performance Information 2008 - 2009

Strategic Objective	Project/Activities (Input)	Output (Deliverable)	Key Performance Measure/ Indicator	Target	Actual	Outcome
Provide research excellence on current issues af ecting IGFR	Efficiency and equity effects of IGFR transfers	Report	Contribution to Submission on the Division of Revenue 2010 - 2011	March 2009	Achieved	Discharge of Constitutional and Legislative Mandate
	Provincial Equitable Share Reform	Report	Contribution to Submission on the Division of Revenue 2010 - 2011	March 2009	Achieved	Discharge of Constitutional and Legislative Mandate
	Proposed social security reforms	Report	Contribution to Submission on the Division of Revenue 2010 - 2011	March 2009	Achieved	Discharge of Constitutional and Legislative Mandate
	Infrastructure investments and output	Report	Contribution to Submission on the Division of Revenue 2010 - 2011	March 2009	Achieved	Discharge of Constitutional and Legislative Mandate
	Management and Financing Road Infrastructure	Report	Contribution to Submission on the Division of Revenue 2010 - 2011	March 2009	Achieved	Discharge of Constitutional and Legislative Mandate
	Education and Growth Dynamics	Report	Publication of Report	March 2009	Achieved	Discharge of Constitutional and Legislative Mandate
	Estimating Infrastructure Backlogs	Level I Paper	Presentation at Stakeholder Seminar	March 2009	• Partially Achieved • Capacity Constraints	Discharge of Constitutional and Legislative Mandate
	Adequate level of school financing	Report	Report on International Literature Review	March 2009	• Partially Achieved • Capacity Constraints	Compromise on Discharge of Constitutional and Legislative Mandate
	Rental Housing	Report	Contribution to Submission on the Division of Revenue 2010 - 2011	March 2009	Achieved	Discharge of Constitutional and Legislative Mandate

Strategic Objective	Project/Activities (Input)	Output (Deliverable)	Key Performance Measure/Indicator	Target	Actual	Outcome
Provide research excellence on current issues af ecting IGFR	Public Hospitals Performance Factors	Report	Contribution to Submission on the Division of Revenue 2010 - 2011	March 2009	Achieved	Discharge of Constitutional and Legislative Mandate
	Financing Emerging Farmers	Level I Paper	Contribution to Submission on the Division of Revenue 2010 - 2011	March 2009	• Partially Achieved • Capacity Constraints	Discharge of Constitutional and Legislative Mandate
	Financing Water Services	Report	Contribution to Submission on the Division of Revenue 2010 - 2011	March 2009	Achieved	Discharge of Constitutional and Legislative Mandate
	Institutional and Fiscal Capacity Support for Local Government	Report	Contribution to Submission on the Division of Revenue 2010 - 2011	March 2009	Achieved	Discharge of Constitutional and Legislative Mandate
	5 Year Research Strategy Development	Paper	Adoption and Implementation	March 2009	Achieved	Discharge of Constitutional and Legislative Mandate
	Review of Research Policy	Policy	Adoption and Implementation	March 2009	• Partially Achieved • Capacity Constraints	Quality Control
	Development of Publications Policy	Paper	Adoption and Implementation	March 2009	• Partially Achieved • Capacity Constraints	Quality Control
	Submission on the Division of Revenue 2009/2010	Submission document	Submission to Parliament	May 2008	Achieved	Discharge of Constitutional and Legislative Mandate

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Strategic Objective	Project/Activities (Input)	Output (Deliverable)	Key Performance Measure/Indicator	Target	Actual	Outcome
Comply with Constitutional and Legislative Mandate and Accountabilities	Submission on the Division of Revenue 2009/2010	Submission document	Submission to Parliament	May 2008	Achieved	Discharge of Constitutional and Legislative Mandate
	Response to Division of Revenue Bill 2010	Response	Submission to Parliament	February 2009	Achieved	Discharge of Constitutional and Legislative Mandate
	Draft Submission on the Division of Revenue 2010/2011	Final Draft	Approval by Commission	March 2009	Achieved	Discharge of Constitutional and Legislative Mandate
	2008/2009 Research	Technical Report	Publication	March 2009	Achieved	Contribution to South African System of IGFR
	Training on Constitutionally Mandated basic Services Model to Free Provincial Treasury	Training	Ability to use Model	May 2008	Achieved	Contribution to the Development of the South African System of IGFR
	Comment on Financial Management of Parliament Bill 2008	Documented Comment	Submission to National Treasury	November 2008	Achieved	Discharge of Constitutional and Legislative Mandate
	Comment on Money Bills Amendment Procedures and Related Matters Bill 2008	Documented Comment	Submission to National Treasury	August 2008	Achieved	Discharge of Constitutional and Legislative Mandate
	Comment on National Policy for an Equitable Provision of an Enabling School Physical Teaching and Learning Environment	Documented Comment	Submission to Department of Education	January 2009	Achieved	Discharge of Constitutional and Legislative Mandate

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Strategic Objective	Project/Activities (Input)	Output (Deliverable)	Key Performance Measure/Indicator	Target	Actual	Outcome
Comply with Constitutional and Legislative Mandate and Accountabilities	Advice to Limpopo Government on Funding for the Traditional Leadership Government Act of 2003	Documented Advice	Submission to Limpopo Provincial Government, National Treasury and Department of Provincial and Local Government	November 2008	Achieved	Discharge of Constitutional and Legislative Mandate
	2008/2009 Internal Audit	Internal Audit Report with Management Comments	• Final Report • Commission Approval	• November 2008 • March 2009	Achieved	Compliance
	2007/2008 External Audit	Submission by due date of Unaudited Annual Financial Statements to Auditor-General	• Due date • Extent of adjustments	• May 31 2008 • Less than 5%	• Achieved • Achieved	Compliant
		Submission by due date of 2007/2008 Performance Information to Auditor to Auditor-General	Due date	May 31 2008	Achieved	Compliance
	2007/2008 External Audit	Cooperation with Auditor-General	Respond to all audit queries	July 31 2008	Achieved	Compliant
		Audited Annual Financial Statements	Audit Opinion	Unqualified Audit	Achieved	Compliant
	Annual Report 2007/2008	Report with Audited AFS	Submission to Parliament	August 2008	Achieved	Compliant
			Adoption by Parliament	November 2008	• Not Achieved. • Parliament as yet to consider Report	Full Compliance Pending

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Strategic Objective	Project/Activities (Input)	Output (Deliverable)	Key Performance Measure/Indicator	Target	Actual	Outcome
Development and implementation of HR Strategy to support the Core Business of the FFC	Human Resource Strategy Development	Documented Human Resource Strategy	Adoption by Commission	March 2009	• Partially Achieved • Resource Constraints	Absence of overall approach to Human Resource Management
	Remuneration Strategy and Policy	Implementation of appropriate Remuneration Strategy and Policy	Formulation and adoption of FFC Remuneration Strategy and Policy	March 2009	• Partially achieved • Proposed Strategy and Policy approved by Commission • Budget sufficiency considerations have curtailed implementation	The challenges regarding the attraction, reward and retention of talent continue
	Retention Strategy and Policy	Implementation of appropriate Retention Strategy and Policy	Formulation and adoption of FFC Retention Strategy and Policy	March 2009	• Partially achieved • Proposed Strategy and Policy approved by Commission • Budget sufficiency considerations have curtailed full implementation	The challenges regarding the attraction, reward and retention of talent continue
	Develop and implement Personal Employee Development Plans [PDPs]	PDPs	Implementation	April 2008	• Partially achieved • PDPs developed but not implemented • Budget sufficiency considerations have curtailed full implementation	No employee personal development

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Strategic Objective	Project/ Activities (Input)	Output (Deliverable)	Key Performance Measure/Indicator	Target	Actual	Outcome
Development and implementation of HR Strategy to support the Core Business of the FFC	Develop and implement Organisational Training, Skills Development and Educational Programme	Organisational Training, Skills Development and Educational Programme	Implementation	April 2008	• Partially achieved • Organisational Training, Skills Development and Educational Programme but not implemented • Budget sufficiency considerations have curtailed full implementation	No training, skills development and education
	Sabbatical Programme	Implementation of approved Programme	Approval and Financing of Applications	April 2008	• Programme not implemented • Budget constraints may constitute an impediment to implementation	Currently none but potential for positive impact on retention of talent and improvement on skills base
	Internship Programme	Implementation of FFC Internship Programme	Minimum of ten (10) interns on April 2007 to February 2008 Programme	April 2008	• Partially achieved • One intern (Library and Knowledge Management) appointed • Budget sufficiency considerations have curtailed full implementation of programme	• No experiential learning for persons with appropriate educational qualifications but no practical experience • Adverse consequences to potential for in-house development of talent

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Strategic Objective	Project/Activities (Input)	Output (Deliverable)	Key Performance Measure/Indicator	Target	Actual	Outcome
Development and implementation of HR Strategy to support the Core Business of the FFC	Alignment of Performance and Remuneration systems with FFC work cycle	Integration of Performance and Remuneration system with FFC Work and Financial Cycle	Performance Assessments, Bonus Payments and Remuneration Reviews (CPIX and other) to be implemented at conclusion of Work and Financial Cycle	March 2009	• Partially achieved • SMS packages partially adjusted • Researcher packages adjusted • No Performance Bonuses and CPIX adjustment implemented • Promotions and notch adjustments not considered and effected • Budget sufficiency considerations have curtailed full implementation of programme	The challenges regarding the attraction, reward and retention of talent continue
	Reorganisation	Review of Organisational Structure in line with October 2008 Revised Strategy	Documented Revised Structure and Implementation	March 2009	• Partially achieved • Work on organisational re-structuring ongoing • Budget sufficiency considerations an impediment to restructuring	Challenges for delivery in terms of the Mandate of the Commission

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Strategic Objective	Project/Activities (Input)	Output (Deliverable)	Key Performance Measure/Indicator	Target	Actual	Outcome
Development and implementation of HR Strategy to support the Core Business of the FFC	Recruitment and Staffing Strategy	Recruitment of properly qualified personnel as per organisational structure	Filling of vacancies	March 2009	• Not achieved • Recruitment for new positions suspended for lack of resources • Recruitment for vacated positions suspended for lack of resources	• Increased workload on current staff • Challenges for delivery in terms of the Mandate of the Commission • Challenges regarding the attraction, reward and retention of talent continue
	Employment Equity	Compliance with targets set in the Employment Equity Plan for Senior Management	Preferential employment of female as opposed to male Senior Management Personnel	Male = 60% Female = 40%	• Not achieved • Prohibition on recruitment for new positions and filling of vacated posts due to budgetary constraints	Non-attainment of Commission Employment Equity targets
		Compliance with targets set in the Employment Equity Plan for Professionals	Preferential employment of female as opposed to male Professionals	Male:60% Female: 40%	• Not Achieved • Prohibition on recruitment for new positions and filling of vacated posts due to budgetary constraints	Result of prohibition on recruitment and non-filling of positions vacated by male incumbents

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Strategic Objective	Project/Activities (Input)	Output (Deliverable)	Key Performance Measure/Indicator	Target	Actual	Outcome
Development and implementation of HR Strategy to support the Core Business of the FFC	Remuneration Project	Alignment with Public Service / Market-related Pay Scales	Assessment of current pay structure and adjustments within DPSA Pay Scale guidelines.	March 2009	• Not achieved • Dependent on due performance of interlocks • Budgetary constraints remain an impediment	• Remuneration levels remain uncompetitive • Inability to attract and remunerate talent remains
	Retention and Turnover	Development and implementation of Programme for retaining key talent	Identification of key talent and implementation of Programme	• Maximum of 25% of key employees • March 2009	• Turnover rate stands at 22.2% • Programme not fully implemented due to budgetary constraints.	Retention of staff and delivery on the Commission's Mandate continue to be a challenge
	Review of Human Resource Policies	Documented Review	Commission and employee approval	March 2009	Achieved	Facilitation of good governance
Access funding to support Commission Business	Develop multi-year Revenue Forecast Estimates	Documented MTEF Submission to National Treasury	Variance between allocation and submission	Less than 5% variance	• Not achieved • More than 5% variance	Inability to fully discharge Commission Mandate in terms of Strategy and Business Planning
	Administer 2007/2008 Budget Process	Documented MTEF Submission to National Treasury	Variance between allocation and submission	Less than 5% variance	• Not achieved • More than 5% variance	Inability to fully discharge Commission Mandate in terms of Strategy and Business Planning
		Documented Adjustment Estimates Submission to National Treasury	Variance between approved budget adjustment and submission	Less than 5% variance	• Not achieved • More than 5% variance	Inability to fully discharge Mandate in terms of Strategy and Business Planning

Strategic Objective	Project/Activities (Input)	Output (Deliverable)	Key Performance Measure/Indicator	Target	Actual	Outcome
Access funding to support Commission Business	Request additional funding in terms of Section 23 (2)(b) of the Financial and Fiscal Commission Act	Documented Submission to National Treasury	Variance between approved budget adjustment and submission	Less than 5% variance	• Not achieved • More than 5% variance	Inability to fully discharge Commission Mandate in terms of Strategy and Business Planning
	Access alternative sources of funding	Donor Funding	Receipt of Donor Funds	10% of Parliamentary Appropriation	Not achieved	Inability to fully discharge Commission Mandate in terms of Strategy and Business Planning
Adopt prudent financial management in line with the PFMA and all other statutory requirements	Financial accounting and reporting	Monitor budgets against actual expenditure	Report on, provide explanations for, and correct variances	Less than 5% variance	Achieved	Facilitate proper plan, prioritisation and spending within budget allocation
			Periodicity of reporting	Monthly and Quarterly - Management @ 90%		
	Financial accounting and reporting	Monitor budgets against actual expenditure	Completeness of information	Quarterly - National Treasury @ 90%	Achieved	Facilitate proper plan, prioritisation and spending within budget allocation
			Spending within 2007/2008 budget allocation	• Less than 5% variance • March 2009	Achieved	Compliant

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Strategic Objective	Project/Activities (Input)	Output (Deliverable)	Key Performance Measure/Indicator	Target	Actual	Outcome
Adopt prudent financial management in line with the PFMA and all other statutory requirements	Financial accounting and reporting	System Upgrade	Implementation	March 2009	Achieved	Facilitates planning, prioritisation and spending with economy and within budget allocation
		Produce Financial and Management Accounts	Periodicity of reporting	Management: Monthly and Quarterly	Achieved	
				National Treasury: Quarterly		
			Completeness of information	Management: 95%		
				National Treasury: 95%		
	Financial Risk Management	Review of Financial Risk Management Framework	Documented Review	October 2008	Achieved	Compliant
		Documented Evaluation	Conduct ongoing evaluation and ensure that any potential financial risks are identified and referred (with recommendations) to the FFC Audit Committee and Accounting Officer	March 2009	Achieved	Compliant
		Record of Implementation	Implement recommendations arising out of the Audit opinion and Internal Audit recommendations	March 2009	Achieved	Compliant

Strategic Objective	Project/Activities (Input)	Output (Deliverable)	Key Performance Measure/Indicator	Target	Actual	Outcome
Adopt prudent financial management in line with the PFMA and all other statutory requirements	Internal Controls	Review of Financial Policies and Procedures	Documented Review	March 2009	Achieved	Compliant
	Performance Based Budgeting	Cost Centres	Monthly Cost Centre Reports tracking budgets against expenditure plans and actual performance	Monthly	• Achieved • Cost Centres in place	Performance Related Budgeting
			Review half-year financial performance, determine specific areas requiring budget adjustment for factoring into MTEF process	August 2008	Achieved	Compliant
Stakeholder Engagements	Develop Protocols to interface with Stakeholders	Documented Protocols	Adoption of Protocols	March 2009	• Partially achieved • End of term of 3rd Parliament and election of 4th Parliament delayed process	Common understanding of responsibilities, relationships, and interfaces and improved relations
	Presentations, Appearances and Hearings before Parliamentary, Provincial Legislature, and SALGA Hearings	As required	Delivery and Performance as per Stakeholder request	As required	Achieved	Discharge of Constitutional and Legislative Mandate
	Executive	As required	Inputs into executive fora and initiatives as required	As required	Achieved	Discharge of Constitutional and Legislative Mandate

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Strategic Objective	Project/Activities (Input)	Output (Deliverable)	Key Performance Measure/Indicator	Target	Actual	Outcome
Develop a Library, ECM, Knowledge Management as well as Data and Information Systems to service the needs of the Organisation	Online Catalogue	Catalogue	Publication	Ongoing	Achieved	Knowledge sharing
	Implementation of Knowledge Management Strategy	Policies and Procedures	Approval and Implementation	March 2009	• Not Achieved • Budget and human resource constraints	Loss of institutional memory
	File Plan Development, Storage and Retrieval of Records, and Destruction of Records as per National Archives Prescripts	File Plan	Acceptance by National Archives and Implementation	January 2009	• Not Achieved • Budget and human resource constraints	• Non-compliance • Institutional Memory loss • Absence of knowledge sharing
	Data Warehouse Development	Warehouse	Value-added data and information to service Commission's Research and Recommendations Programme	March 2009	• Not Achieved • Budget and human resource constraints	• Data and information insufficiency • Compromise in terms of quality control
	Monitoring and Evaluation	Generation of required data sets	Integrity and User satisfaction	March 2009	Achieved	• Research Support

Non-Financial Controls	Non-Financial Risk Management Framework	Documented Revision	Commission Approval	March 2009	Achieved	Facilitates good governance

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5.2 2008 Commission Recommendations for the 2009/2010 Division of Revenue

The proposals contained in the Commission's 2008 Submission for the 2009/2010 Division of Revenue covered all three spheres of government. The following were the key recommendations:

With respect to education

- Government should review the method used to inform the national quintile ranking of schools. Rather than classifying schools according to the ward or neighbourhood in which they are located, the method should take into account the socio-economic circumstances of the learners (with particular reference to inequality and poverty);
- National norms and standards for the provision of learner transport should be established. This will be possible once the location of this function has been clearly demarcated between the national departments of Education and Transport. In this regard, the Commission recommends that the location of the responsibility for the provision of learner transport should be clarified as a matter of urgency;
- In the intervening period, all provinces should implement the statutory provisions that ensure learners are afforded the opportunity of equal access to the right to education irrespective of their province of residence and irrespective of whether they reside in a rural or an urban area. The Commission notes that the problem of learner transport is particularly acute in rural areas.

With respect to health infrastructure and health care

- The requirement of the Division of Revenue Bill for 2008 that indicative allocations to schools and hospitals be gazetted with the tabling of provincial government budgets, should be extended to clinics and other primary health care facilities, as and when they fall under provincial control.
- Greater emphasis should be placed on improving the quality of service provided at clinics and funding the maintenance of existing primary health care facilities. There is still a need for the construction of clinics in poorly serviced rural and urban informal settlements, however.
- The health component of the Infrastructure Grant to Provinces (IGP) should be aligned to the roll-out of infrastructure through municipal infrastructure grants.

With respect to road infrastructure

- The process of classifying roads amongst the national, provincial and municipal spheres of government should be accelerated, in line with the classification framework already established.
- Where provincial roads have been earmarked to be incorporated into the national road network, the premiers of the provinces should apply for such roads to be incorporated into the national road network without further delay.

With respect to housing delivery

- The Commission reiterates its previous recommendation that the accreditation of municipalities with adequate capacity should be accelerated in line with the framework provision of the Integrated Housing and Human Settlement Development Grant (IHHSD) contained in the Division of Revenue Bill for 2008 and the Housing Act of 1997.

With respect to local government revenue sources

- In light of the disestablishment of the RSC Levy which formed a significant source of municipal revenue, the replacement revenue source for municipalities should be a tax that:
    - Enhances the fiscal autonomy and discretion of local governments;
    - Strengthens the accountability of local government regarding the administration and use of the proposed tax base;

- Yields an adequate and buoyant revenue stream for municipalities in the face of cyclical instability; and
- Does not disturb macroeconomic balance.

With respect to electricity

- Government should work with the National Energy Regulator of South Africa to put in place a financing framework that deals effectively with electricity pricing. Such a framework should capture the scarcity of the resource in a pricing environment that reflects costs, efficiency, stability and, eventually, externalities.
- Given that reforms in electricity pricing structure will, in essence, necessitate an increase in electricity prices, such higher electricity prices will adversely impact on poor households with access to electricity as well as raise the cost to government of extending basic access to electricity for poor households. As such, government will need to increase annual funding for the rollout of services under the free basic electricity programme.
- For greater efficiency of resource allocation, technological innovation and increased investment in renewable energy sources, government will need to increase funding resources set aside for such purposes, and incentives that establish and implement a framework that:
    - Encourages new forms of electricity generation technologies to enter the market;
    - Expands opportunities to consumers to access such forms of energy;
    - Allows non-utility developers equal market opportunity to compete with established providers; and
    - Incorporates financial incentives to expand production and distribution capacity, and effect savings through improving end-user efficiency.

With respect to the FIFA World Cup 2010 public transport infrastructure

- Spending on public transport infrastructure for 2010 should be linked to broader city development plans. A more resourced Public Transport Infrastructure and Systems Grant must continue after the 2010 FIFA World Cup. Projects that are funded under this arrangement should be selected based on full appraisal of economic, environmental and social costs/benefits. Funding mechanisms to cover maintenance costs of constructed 2010 FIFA World Cup facilities should be developed.

With respect to data needs from the sector departments

Education

- In order to assess the pro-poor impact of school funding norms, the Department of Education should make publicly available and accessible the funding norms for no-fee and fee-paying schools, in line with new provisions of the Division of Revenue Bill 2008 requiring indicative allocations by school.
- Provincial Education Departments should be enabled to report on budgets and spending on learner transport, in line with the new economic reporting format (see 2008 MTEF Treasury Guidelines, 22 June 2007, page 24).

Health

- In line with international and national practice and referring to the 2003 National Health Act in Section 2(c)(iv) which makes specific mention of "…protecting, respecting, promoting and fulfilling…" the rights of "…vulnerable groups such as women, children, older persons and persons with disabilities", health data for vulnerable groups such as the proportion of women with access to antenatal care, the availability, affordability and accessibility of health facilities for TB, HIV/AIDS, children, older persons and persons with disabilities, should be collected and improved using the South African Statistical Quality Assurance Framework (SASQAF).

Extended public works programme

- In accordance with the requirements of the Extended Public Works Programme (EPWP), job creation for target groups such as women, youth and people with disabilities, should be included in the reporting requirements for all infrastructure conditional grants to provinces and municipalities.

With respect to housing

- All provincial departments receiving the Integrated Housing and Human Settlement Development Grant should comply with the measurable outputs-related reporting requirements detailed in the Housing Conditional Grant framework and published in the Division of Revenue Act annually.
- To enable measurement of housing delivery, the following should be specified:
  - The number of houses completed should be reported separately from those under construction;
  - The proportion and number of these houses completed that are occupied;
  - The proportion and number of these properties that have been transferred to their occupiers;
  - The value of these houses; and
  - Norms regarding average construction time.
- All provincial departments assigned the housing function should provide financial and non-financial output and impact data to a sub-programme level, such that data can be analyzed for every component of the housing subsidy programme (e.g. project-based, People's Housing Process, social housing, rural housing etc.).

With respect to local government data collection

- National and provincial government departments, agencies and other organs of state should eliminate duplicate data requests submitted to municipalities.
- Uniform definitions should be established between national and provincial organs of state and municipalities with careful consideration given to the purpose of collecting and producing statistics. The interpretation should ref ect the purpose and mandate of the department collecting the data and be concurrent with the legislation which guides those organs of state.
- A national coordinating body should be established to coordinate and rationalize the data collection activities of local governments. The national coordinating body should recommend and implement data collection standards according to the South African Statistical Quality Assessment Framework principle.

5.3 2009 Government Response to the Commission's 2008 Recommendations for the 2009/2010 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 entitled ***Submission for the Division of Revenue 2009/10*** to Parliament in June 2008. This part of the explanatory memorandum complies with the Constitution and section 10 of the Intergovernmental Fiscal Relations Act by setting out how government has taken into account the FFC's recommendations when determining the division of revenue for the 2009 MTEF.

The 2009/10 recommendations are divided into three parts. Part A deals with national-provincial fiscal relations matters relating to financing of basic education and health care, transport and bottlenecks hampering housing delivery. Part B deals with local government fiscal relations matters pertaining to augmenting local government revenue, electricity pricing, generation and distribution and World Cup 2010 transport infrastructure. Part C covers intergovernmental data issues.

Part A: National-provincial fiscal relations

Education: The financing of basic education

FFC proposal on the re-ranking of schools

The FFC recommends that government should review the method used to inform the national quintile ranking of schools. Rather than classifying schools according to the ward or neighbourhood in which they are located, the method should take into account the socioeconomic circumstances of the learners (with particular reference to inequality and poverty).

Government response

Government agrees with the FFC that the socioeconomic circumstances of learners should be taken into account. It is the intention of the Department of Education to, in addition to the two poorest quintiles (1 and 2), phase-in the no-fee schools policy to quintile 3, which will extend coverage to 60 per cent of schools. The department is also working on a policy to provide assistance to schools up to quintile 5 that accommodate very poor learners.

FFC proposal on learner transport

The FFC recommends that national norms and standards for the provision of learner transport should be established. This will be possible once the location of this function has been clearly demarcated between the national departments of Education and Transport. This responsibility should be clarified as a matter of urgency. In the interim, all provinces should implement the statutory provisions that ensure learners are afforded the opportunity of equal access to the right to education, irrespective of their province of residence and irrespective of whether they reside in a rural or urban area.

Government response

Government agrees with the recommendations of the FFC. The functional responsibilities with respect to learner transport are those of the Department of Education, which is responsible for the provision of scholar transport, while the Department of Transport is responsible for regulatory requirements with respect to all public transport. Once the function has been clarified, scholar transport needs are to be included in the integrated transport plans at local government level and aligned with the Public Transport Strategy.

Financing of health care

FFC proposal on fiscal performance of community health clinics sub-programme

The FFC recommends that, just as the 2008 Division of Revenue Act requires that indicative allocations to schools and hospitals be gazetted with the tabling of provincial budgets, this practice be extended to clinics and other public health care facilities, as and when they fall under provincial control.

Government response

Government agrees that allocations per primary health care facility should be published when provincial budgets are tabled. Given the capacity constraints in certain provinces, attention is currently being given to ensuring compliance with existing requirements with respect to indicative allocations for schools and hospitals.

FFC proposal on infrastructure for primary health care and health outcomes

The FFC recommends that greater emphasis be placed on improving the quality of service provided at clinics and funding the maintenance of existing primary health care facilities. A need for the construction of clinics in poorly serviced rural and urban informal settlements still remains.

The FFC also recommends that the health components of the ***infrastructure grant to provinces*** should be aligned to the roll-out of infrastructure through ***municipal infrastructure grants***.

Government response

Government agrees that emphasis should be placed on improving the quality of health services provided at clinics. In this regard, government introduced in the 2008 Budget a special allocation for complementary infrastructure (water, sanitation and electricity) that targets primary health care facilities. In addition, roads expenditure in provinces has increased sharply over the past few years and this trajectory is to be maintained over the MTEF. Part of this expenditure is targeted at not only ensuring access to health facilities but also to ensuring access to other social services and economic opportunities.

Government recognises that it is exceedingly important that other inputs (staffing, equipment, drugs and medicines) be managed in a manner that ensures optimal outcomes. Health maintenance budgets, albeit from a low base, are budgeted to increase sharply over the medium term.

Government agrees that appropriate coordination between provincial and municipal infrastructure grants will result in optimal outcomes from infrastructure investments. In general, municipal infrastructure developments support social infrastructure. To address misalignment where this exists, government introduced the electricity, water and sanitation grants to ensure that municipal infrastructure supports health and the schools infrastructure programme.

Transport

FFC comments on the classification and earmarking of roads

The FFC recommends that the process of classifying roads among the national, provincial and municipal spheres of government should be accelerated in line with the classification framework already established. The premiers of provinces with roads earmarked for incorporation into the national road system should make the necessary applications without further delay.

Government response

Government supports the recommendation that the road classification process be accelerated in line with the established framework. Delays could lead to unintended consequences, such as underinvestment in the function or lack of proper maintenance.

Housing

FFC comments on addressing the bottlenecks hampering housing delivery

The FFC reiterates its previous recommendation that government should address housing delivery bottlenecks to reduce underspending in provinces. In cases where municipalities have the capacity to administer housing programmes, they should be accredited to do so, because delays in such accreditation and transfer of funds are the primary bottlenecks hampering housing service delivery.

The FFC accordingly recommends that the accreditation of municipalities with adequate capacity should be accelerated in line with the ***integrated housing and human settlement development grant*** framework.

Government response

In its quest to streamline and accelerate service delivery, government is reviewing the powers and functions of provinces and local government. The location of the housing function will be addressed as part of this review. In the interim, steps are taken to publish allocations that are transferred to municipalities for housing over the next three years to improve planning and speed up delivery.

Part B: Local fiscal relations

Augmenting local government revenue

FFC comments on replacements for RSC levies

The FFC recommends that, in light of the abolition of the Regional Services Council (RSC) levy, which formed a significant source of municipal revenue, the replacement revenue source for municipalities should be a tax that enhances the fiscal autonomy and discretion of local governments; strengthens the accountability of local government regarding the administration and use of the proposed tax base; yields an adequate and buoyant revenue stream for municipalities in the face of cyclical instability; and maintains macroeconomic balance.

Government response

Government agrees that it is important that reforms to the fiscal framework for local government ensure that the fiscal autonomy of municipalities is not compromised but enhanced and supports the principles proposed to underpin the choice(s) for replacement sources of revenue for the RSC levy.

However, the revenue capacities of individual municipalities need to be taken into account, because a replacement revenue instrument that is purely in the form of a tax is unlikely to achieve the desired goal of enhancing local government fiscal autonomy for poorly resourced and rural municipalities, and will at best reproduce the existing inequalities in local government own-revenue generation.

As part of a package of reforms, the VAT zero-rating of municipal property rates and other VAT reforms were introduced from 1 July 2006. Further reforms under consideration include the sharing of the general fuel levy and/or transfer duty in the medium term, a local business tax in the longer-term, as well as grants as a guaranteed revenue source for municipalities or categories of municipalities.

Electricity pricing generation and distribution

FFC comments on the restructuring of the electricity distribution industry

The slow pace at which the restructuring process is unfolding poses great concerns for stakeholders affected by the process, especially municipalities that are currently distributing electricity. The impact of the potential loss of a crucial revenue source from electricity distribution for municipalities will need to be adequately addressed. To ensure the commitment and full buy-in from all participants involved in the restructuring process, further guidelines on the participation of municipalities and Eskom in the regional electricity distributors (REDs) need to be worked out.

The FFC recommends that government should address the potential loss of a crucial revenue source for local government as a result of the establishment of REDs. The proposed restructuring process needs to factor in current reforms to the fiscal framework and the greater developmental role envisaged for local government. There is a need to review legislation as it concerns the transfer of assets, the national pricing framework and the establishment of the REDs.

Government response

Government acknowledges that the slow pace of the restructuring of the electricity distribution industry is a concern and is currently addressing the outstanding policy and legislative issues, including an asset transfer framework for transferring Eskom's and municipalities' assets to REDs.

The asset transfer framework prescribed in the Municipal Finance Management Act (2003) (MFMA) deals with municipal assets generally. Government will also address any possible financial and other risks for Eskom and municipalities.

Government agrees that the reforms in the electricity distribution industry need to take into consideration reforms in the fiscal framework as well as the role of local government in its developmental capacity.

FFC comments on electricity investments and electricity pricing policy

The FFC recommends that government should work with the National Energy Regulator of South Africa to put in place a financing framework that deals effectively with electricity pricing. Such a framework should capture the scarcity of the resource in a pricing environment that reflects costs, efficiency, stability and eventually, externalities.

Given that reforms in the electricity pricing structure will necessitate an increase in electricity prices, such higher electricity prices will adversely impact on poor households with access to electricity as well as raise the cost to government of extending basic access to electricity for poor households. As such, government will need to increase annual funding for the rollout of services under the free basic electricity programme.

For greater efficiency of resource allocation, technological innovation and increased investment in renewable energy sources, government will need to increase funding resources set aside for such purposes and enhance incentives with a view to establishing and implementing a framework that encourages new forms of electricity generation technologies to enter the market; expands opportunities to consumers to access such forms of energy; allows non-utility developers equal market opportunity to compete with established providers; and incorporates financial incentives to expand production and distribution capacity, and to effect savings through improving end-user efficiency.

Government response

Government agrees that the electricity (generation) price should reflect costs, efficiency, stability and, eventually, externalities – that is, reflect marginal rather than historical costs. The Department of Minerals and Energy recently released a draft electricity pricing policy framework to harmonise electricity pricing. The implications of higher prices for the cost of providing free basic electricity to poor households will be taken into account as part of the division of revenue.

Government has acknowledged the need to promote greater efficiency of resource allocation, technological innovation and increased investment in renewable energy sources. Tax incentives to encourage the uptake and development of renewable energy, such as accelerated depreciation allowances, are already in place. The 2008 ***Budget Review*** proposed the imposition of a 2c/kWh tax on the sale of electricity generated from non-renewable sources, to be collected at source by the producers/generators of electricity. The 2008 ***Medium Term Budget Policy Statement*** pointed out that the electricity levy should be seen as the first step towards the introduction of a more comprehensive emissions-based carbon tax. Implementation of the levy has been postponed to 1 July 2009 to coincide with the commencement of the next municipal financial year.

This measure will serve the dual purpose of helping to manage the current electricity supply shortages and protecting the environment. The 2008 ***Budget Review*** also announced that government would make funds available to support programmes aimed at encouraging the more efficient use of electricity, generation from renewable sources, installation of electricity-saving devices and cogeneration projects. The adjusted appropriation for 2008/09 made available R180 million for electricity demand-side management and R20 million for retrofitting government buildings to improve energy efficiency. The 2008 ***Medium Term Budget Policy Statement*** also points out that funds will be earmarked as part of the 2009 Budget for electricity demand-side management.

World Cup 2010 transport infrastructure

FFC recommendation on the financing of public transport

The FFC recommends that spending on public transport infrastructure for 2010 should be linked to broader city development plans. The FFC proposes a better resourced ***public transport infrastructure and systems grant*** that must continue after the 2010 FIFA World Cup. Projects funded under this arrangement should be selected based on full appraisal of economic, environmental and social costs/benefits; and funding mechanisms to cover maintenance costs of constructed 2010 facilities should be developed.

Government response

Government supports the recommendation that projects funded through the ***public transport infrastructure and systems grant*** should be selected based on full appraisal of economic, environmental and social costs/benefits. Government further supports recommendations that key performance indicators relating to access to public transport, efficiency and effectiveness be developed.

The existing ***public transport infrastructure and systems grant*** will continue beyond 2010 as outlined in the 2008 ***Budget Review***. The grant is aligned to the Public Transport Strategy, which provides guidance on the creation of integrated public transport networks throughout South Africa up to 2020. Moreover, projects funded under this grant are part of the integrated transport plans contained in the integrated development plans of municipalities.

Government is of the view that the costs relating to maintenance of constructed 2010 FIFA World Cup facilities should be provided by municipalities.

Part C: Intergovernmental data issues

Performance monitoring framework

FFC proposal on education

With respect to measuring the costs of basic education, the FFC recommends that to assess the pro-poor impact of school funding norms, the Department of Education should make publicly available and accessible the funding norms of no-fee schools in line with new provisions of the 2008 Division of Revenue Act requiring indicative allocations by school. Provincial education departments should be enabled to report on budgets and spending on learner transport in line with the new economic reporting format.

Government response

Government agrees with the FFC on the recommendation to make public and accessible the funding norms of no-fee schools. Provision is made in the National Norms and Standards for School Funding that provinces must gazette the resource targeting list which includes a list of schools with their Education Management Information System numbers, names, poverty score, school allocation, no-fee status, section 21 status, and the national quintile in which they are situated. The list of no-fee schools per province, per allocation and per location is also published annually, and is available on the Department of Education's website.

Government also supports the recommendation that provincial education departments should report on budget and expenditure in terms of learner transport and that more focus should be placed on non-financial reporting on the programme itself. This will ensure that the performance monitoring framework works effectively.

FFC proposal on health

In line with international and national practice and the specific reference in the National Health Act (2003), Section 2(c)(iv) on the rights of vulnerable groups, the FFC recommends that health statistics for vulnerable groups – such as the proportion of women with access to antenatal care; the availability, affordability and accessibility of health facilities for TB, HIV and Aids; and data concerning children, older persons and persons with disabilities – should be collected and improved using the South African Statistical Quality Assurance Framework.

Government response

Government supports this recommendation and would like to indicate that the Department of Health has proposed that a TB nationwide prevalence survey be conducted. The survey will also incorporate HIV testing and determine the socioeconomic risk factors to ensure interventions implemented are comprehensive. The survey will assist in capturing appropriate data on vulnerable groups affected by TB and also assist government in strengthening the TB programme and/or HIV and Aids interventions.

FFC proposal on public works and transport

The FFC recommends that, in accordance with the prescripts of the expanded public works programme, job-creation target groups such as women, youth and people with disabilities should be included in the reporting of the outcomes measures for all conditional infrastructure grants to provinces and municipalities.

Government response

The recommendation for reporting on targets is supported. Some of these indicators can possibly be reported on as part of the conditional grant frameworks prescribed in terms of the Division of Revenue Act.

FFC proposal on housing

With respect to the performance framework on housing, the FFC recommends that all provincial departments receiving the integrated housing and human settlement development grant should comply with the measurable outputs related to reporting requirements detailed in the housing conditional grant framework and published annually in the Division of Revenue Act. To enable measurement of housing delivery, the following should be reported on: the number of houses completed separate from those under construction; the proportion and number of these houses completed that are occupied; the proportion and number of these properties that have been transferred to their occupiers; and the value of these houses and norms regarding average construction time. The FFC also recommends that all provincial departments assigned the housing function should provide financial and non-financial output and impact data to a sub-programme level, so that data can be analysed for every component of the housing subsidy programme (e.g. project-based, People's Housing Process, social housing, rural housing etc).

Government response

Government agrees with the recommendation that all provincial departments receiving the integrated housing and human settlement development grant should comply with the measurable outputs related to reporting requirements. The Department of Housing annually revises the quarterly reporting template for provinces into sector-specific information relating to delivery on the housing instruments in alignment with the business plans for a specific year.

With regards to the recommendation made on the provision of financial and non-financial output and impact data at sub-programme level, government embarked on a process to review the key deliverables under each of the housing programmes approved for implementation during the 2005/06 financial year. This was to determine the standard key output indicators to be used for business planning by provinces from 2006/07 onwards. The final approved business plan template includes the four major categories of interventions, which are classified as financial interventions, incremental housing programmes, social and rental housing programmes and rural housing programmes, as outlined in the new comprehensive housing plan.

The details of the budget allocation at housing programme level and the expenditure thereof is available through the provincial business plans and the housing subsidy system. This information is accessible to both the national and provincial housing departments.

Local government

FFC proposal on local government data requirements

National and provincial government departments, agencies and other organs of state should eliminate duplicate data requests submitted to municipalities.

Uniform definitions should be established between national and provincial organs of state and municipalities with careful consideration given to the purpose of collecting and producing statistics.

The interpretation should ref ect the purpose and mandate of the department collecting the data and be concurrent with the legislation guiding those organs of state.

A national coordinating body should be established to coordinate and rationalise the data collection activities of local governments. The national body should recommend and implement data collection standards according to the South African Statistical Quality Assessment Framework principles.

Government response

A national coordinating body already exists in the form of the Local Government Data Collection Forum that was established in response to the need to rationalise data collection from local government. The Forum will take the lead as a national coordinator in terms of setting standards, collection and capturing of data, quality assurance and dissemination of data.

In addition, the challenges related to duplication are of a temporary nature, and will decline as the different stakeholders begin to work more closely with each other, and once the mandates of the different role players with regards to the collection of municipal data are worked out and agreed upon. These matters are currently being addressed.

5.4 2009 Commission Response to the 2009/2010 Division of Revenue Bill

1. Introduction

1.1. This Submission is made in terms of Section 214(1) of the Constitution and Section 10 (4) of the Intergovernmental Relations Act (1997).

1.2. The submission takes account of the consultations that have taken place with National Treasury officials during the course of 2008/09 financial year. It also takes into account consultations through the Budget Council and the Budget Forum. Responses to the Financial and Fiscal Commission's recommendations that were submitted by the various government departments through the Public Hearings on its recommendations convened by the Select Committee on Finance in 2009 are also taken into account. Following on these processes, the Commission has identified six key strategic issues that have been raised in its previous Submissions but have not been addressed fully by Government and as a result may be impacting negatively on the evolution of the intergovernmental fiscal relations system in general and the division of revenue in particular.

2. The key strategic issues are

2.1. The Commission is of the view that the Division of Revenue Act (DORA) is increasingly becoming complex, voluminous and too wide on the issues that it covers. It is now a "hold all" document. The problem with this is that this development not only reduces the transparency and accessibility of the DORA to a wider audience but also makes it less coherent. In this regard the Commission calls for a conceptual ref ection on the DORA with a view to simplifying it, streamlining it and making it more cohesive. There are a number of clauses that appear in the DORA that should ideally be in the Public Finance Management Act (PFMA) or Municipal Finance Management Act (MFMA) for instance. Similarly, now that there is the Intergovernmental Government Fiscal Relations (IGFR) Act that deals with disputes, there is no need to put issues of dispute resolution in the DORA. It is important to note that the DORA actually preceded the legislation listed, and has grown incrementally since. The Commission further recommends that the reflection task on the DORA and how it was conceptualized should not just focus on a particular year but look at how it has evolved over time. For its own purposes the Commission will be conducting a review of the DORA and making recommendations during its forthcoming research cycle.

2.2. The Commission notes with concern that there is an increased proliferation of conditional grants (Water Grants, Transport Grants, and Disaster Management). In its recommendations for the 2006 division of revenue, the Commission raised the matter of the proliferation of conditional grants, especially very small ones and government at that time agreed that most of the grants were being reviewed with a view to consolidation and also to incorporation into the equitable share. The Commission is aware of the fact that there have been strong pressures for the proliferation of conditional grants in this year's Division of Revenue Bill. The Commission's view, however, is that the discussion on conditional grants should instead have been focused on consolidation of the grants. The Commission is also of the view that proposals for new grants should be subjected to sufficiently rigorous analysis justifying their introduction. Currently, the Commission is not part of the process of informing decisions on whether grants should be conditional or non-conditional. Issues of when and how a conditional grant is introduced are at the centre of the Commission's concerns. While the Commission notes that a number of the conditional grants introduced are small in value terms and once off, the proliferation is of concern as it may be a signal of some tension between competing objectives between national and sub national governments in the areas of concurrent functions, especially non-social services. There may be perceptions of national priorities being inadequately funded.

2.3. The Commission is concerned in relation to a number of instances where policy implementation stalls, resulting in negative impacts on the intergovernmental fiscal system. Delays in implementing agreed policy positions lead to uncertainty and poor service delivery. In this respect the delay in effecting reforms implied by the Regional Electricity Distributors (REDS) and accreditation of municipalities to perform certain housing functions is having negative impacts on the performance of local government. With respect to REDS, the delay in implementation has led to uncertainty among stakeholders involved in the electricity distribution industry. The uncertainties are likely to culminate in challenges such as lack of maintenance of electricity distribution infrastructure by both municipalities and ESKOM. A related area of delays in policy implementation leading to unwanted consequences in the form of poor housing delivery is the slow pace of the accreditation of municipalities with adequate capacity. In it's 2009/10 Annual Submission on the Division of revenue the Commission indicated that there were 18 municipalities that had applied for accreditation. At that stage, none of the municipalities were at a stage where they have been accredited for all three levels of accreditation. According to Department of Housing, none of the municipalities are in a position to apply for Level 3 (allows municipality to undertake full financial administration) or full accreditation. In a nutshell no municipality at this stage has been fully accredited. These issues obviously are stalling in part due to the review process currently being undertaken by the Department of Provincial and Local Government. Government must put timelines to that process so that there can be certainty and movement on the policy implementation that has stalled.

2.4. A decision was taken to extend a loan to the Gauteng Province to fund the Gautrain Rapid Rail Link Project, subject to an agreement being entered into between the Minister of Finance and the Premier of the Gauteng Province, and the Province's continued adherence to the loan agreement. The Commission has in the past raised its concern in respect of the precedent that the decision to extend the loan to Gauteng sets. Due to the fact that there is a standing arrangement whereby provinces agreed not to exercise their powers granted to them in terms of Section 230 of the Constitution as reflected in the Borrowing Powers of Provincial Government Act (1996) a different approach was undertaken for Gauteng's purposes. This arrangement by national government to borrow on behalf of a province potentially poses a high risk for the IGFR system and principles of no bail-outs to which the government subscribes. The Commission can point to the negative experiences of other countries such as India, which have experimented with such arrangements. The Commission has recently received a copy of the Agreement from Government and is in the process of preparing its recommendations on the matter. It is also important to note that the delayed signing of the Agreement can imply that the province has used funding for social services to fund its shortfall in the past two years. This is in line with the Budget Council's decision to have the project funded 50 per cent by national government and 50 per cent by the province, part of which (25 per cent for provinces) was the borrowing. While this was meant to protect social services from being crowded out by the province's preference of the Gautrain, the Commission would like bring to the attention of government the risk of reduced per capita spending within the social services programmes in Gauteng.

2.5. Designing Capacity building grants that do not go through the DORA but through an agency type agreement is viewed with concern by the Commission. This is in specific reference to the Siyenza Manje capacity building programme that is situated at the Development Bank of Southern Africa (DBSA). While the Commission finds some merit in using the DBSA to assist with capacity building at the municipal level in particular, it is concerned that moving capacity building grants to an agency basis means that such initiatives are now out of the direct public scrutiny space and direct evaluation at the opportune time that other government programs are being evaluated. Even though DBSA does report to Parliament, this would be outside discussions of other relevant and related programs. There is thus a compromise in the systematic consolidated reporting on the outcomes of these grants to Parliament.

2.6. A final strategic issue that the Commission is concerned with pertains to the implementation of re-demarcations of provincial and municipal boundaries. The Commission made a supplementary Submission on this matter in 2006 following the 2005 demarcations and further in its submission on the Local Government Laws Amendment Bill in 2007. Commissions re-iterate its proposal for a full account of the fiscal spillovers associated with the transition phase of the demarcation process.

2.7. The rest of the submission is presented in four parts. The first part deals with general observations with respect to the amended clauses of the Bill. The second part provides comments on the allocations to sub national governments. The third part contains an assessment of the various schedules attached to the Bill that deal with different grants and the frameworks for different conditional grants. The fourth section contains the Commission's comments on the Government's response to the recommendations that it tabled in its Submission for the 2009 Division of revenue.

3. General observations on the Bill

The Commission in general welcomes the Division of Revenue Bill as tabled. However, there are specific comments that the Commission raises in relation primarily to changes that have been introduced compared to what was contained in the 2008 Division of Revenue Act. The following are the specific comments of the Commission.

Section 15, Municipal Infrastructure Grant (Cities):

A differentiated approach is being proposed in respect of the Municipal Infrastructure Grant (MIG), with the metropolitan cities now receiving the Municipal Infrastructure Grant (Cities), which will be administered in terms of a separate framework, and have different requirements to those of the Municipal Infrastructure Grant which other municipalities will receive.

While the Commission welcomes this new approach, there are some concerns in respect of the strategic goals of the grant. Section 15 (1) (a) of the Bill indicates that the grant as set out in Schedule 4 supplements the funding of infrastructure programmes funded from the budgets of the municipalities to address municipal infrastructure backlogs as well as other investment requirements and built environment needs. The Commission is of the view that "other investment" be replaced by "support of" as this would tie down the objective towards the relevant investment in the built environment.

Section 23, Expanded Public Works Programme Incentive:

A new type of conditional grant is introduced, which intends to enable and provide an incentive to provinces and municipalities to create additional employment through the Expanded Public Works Programme. The Commission welcomes the government's attempt at addressing employment through government expenditure programs. The availing of resources for purposes of employment creation goes a long way at addressing income poverty.

Indicative allocations are set for eligible provinces and municipalities, and incentive payments will be paid to provinces and municipalities on a quarterly basis, based on an assessment of their performance in comparison to the threshold and performance targets which are set for that province or municipality. While there has been documented evidence of the numbers of jobs that have been created annually, the Commission is concerned that there has never been a comprehensive study to evaluate the sustainability of the jobs created through the Expanded Public Works Program since its inception. Furthermore, the Commission has in the past recommended that government should avoid using conditional grants to fund what can be funded through the equitable share as any sort of intervention impacts (positively or negatively) on incentives. The Commission is of the view that a more cautious approach is required in dealing with incentive issues as contained in this grant in relation to the Expanded Public Works Program. The allocation of this grant will require significant growth in the capacity of the Department of Public Works to manage such a sophisticated conditional grant. The Commission is of the view that the actual skills that are developed with this grant as well as the types of jobs that are created in the expanded public works grant should be monitored and evaluated to ensure sustainability.

Section 30 (c), Conversion of Schedule 7 to Schedule 6 allocation:

A provision has been included to facilitate the conversion of a Schedule 7 allocation into a Schedule 6 allocation during the course of the financial year in order to prevent under-spending on the allocation.

1. This implies the conversion of an allocations-in-kind to municipalities for designated special programmes into specific-purpose allocations to local government.
2. Even though the intention of the clause 30 (1) is plausible in the sense that it is meant to prevent under-spending on the allocation, the Commission would like to suggest that section 30 (3) be amended to read that any conversion done should comply with section 24 (2) (a) which says that "The National Treasury must publish in the Gazette -any revisions of or amendments to the allocations or frameworks published in terms of subsection (1) authorised by an adjustment budget".

Section 39, Implementation of re-demarcations of provincial and municipal boundaries:

A provision has been included to provide for mechanisms to deal with the implementation of re-determinations of provincial and municipal boundaries which come into operation during the 2009/10 financial year. This is to enable the re-incorporation of Merafong Local Municipality into Gauteng to be effectively handled.

1. In its 2008/09 submission the Commission indicated its support that the funding instruments be revised to take account of the impact of demarcation.
2. The Commission also further welcomes the insertion of this clause as it addresses the proposal then that a set of principles be established as a guide for future changes to boundaries. The Commission notes that as it recommended, government is to align the changes with the financial year system of sub-nationals. The phasing-in which is in line with the 2007 recommendation should help reduce the financial burden related to dealing with fiscal implications such as the destabilisation of provincial budgets that arose in the past and that might still arise.
3. The Commission however would like to re-iterate its proposal that there should be a full account of the transaction (spill-over) costs associated with the transition phase of the demarcation process. An assessment of the extent of the cost differences associated with the application of different norms and standards between affected provinces should be accounted for among other things.

Section 42, Duties relating to Category C Municipal Budgets:

Additional provisions have been added in order to ensure the proper f ow of funds from category C municipalities to the category B municipalities. Currently there are no formal agreements between category B and C municipalities, where a function is delegated from one level to another, except through Memorandum of Understandings which are often not adhered to. The new clauses 42 (5) to (7) formalise and legislate the funding arrangements between the two levels. The Commission welcomes such a provision as it will serve to improve transparency and certainty of funding, and the municipalities will be better able to plan their expenditure.

Section 38, Approval of expenditure for emergencies:

The clause in the 2008 Division of Revenue Act to provide for the approval of expenditure for emergencies without first tabling an adjustment budget has been expanded to permit approvals of expenditure prior to tabling an adjustment budget for the types of expenditure specified in section 30(2) (a) – (g) of the Public Finance Management Act, 1999 (Act No. 1 of 1999).

1. The changes implemented in this clause are welcomed by the Commission. The past fiscal year saw xenophobic/ internally displaced persons emergencies and government was extremely slow in its response to those emergencies. Currently provinces are struggling to contain the cholera pandemic.

2. Provinces should be better able to stop these emergencies turning into national crises because of these changes. The annual adjusted estimates are a clear indication that in any given year both the land locked provinces and sea bound ones are likely to have a disaster.

4. Comments on the allocations to sub national governments

The 2009 MTEF division of revenue is premised on five key policy priorities namely,

- Enhancement of the quality of education
- Improving the provision of health care, particularly for the poor, reduce infant, child and maternal mortality rates
- Reduction of levels of crime and enhancing citizen safety
- Expansion of the built environment to improve public transportation and meet universal access targets in housing, water, electricity and sanitation. Social infrastructure investment is prioritized to boost delivery and upgrading of informal settlements.
- Response to sharp increases in world food prices by allocating for food security.

These policy priorities are accommodated through a process of reprioritization and additions to the resource envelope to the three spheres of government over the Medium Term Expenditure Framework (MTEF). The Commission notes that in arriving at the final allocations government had to take drastic steps in trying to respond to the global economic crisis on the one hand, and the need to address social and developmental challenges on the other.

Table 1 provides an analysis of the adjustments to the Fiscal Framework for provinces and local government.

Table 1: National transfers to provincial and local government

			MTEF Baseline Allocations		Average growth for period (Nominal)
R billion	2008/09	2009/10	2010/11	2011/12	08/09 to 11/12
Total tranfers to National	**291204**	340,560	352,769	361,236	7.4%
Total transfers to provinces	**245,646**	**284,519**	**309,704**	**335,925**	**11.0%**
Equitable share	204,010	231,051	253,670	272,934	10.2%
Conditional grants	41,636	53,468	56,034	62,991	14.8%
Total transfers to Local Government	**44,689**	**49,698**	**57,722**	**64,964**	**13.3%**
Equitable share	25,560	23,847	29,268	31,890	7.7%
Conditional grants	19,129	19,052	20,912	24,543	8.7%
Revisions to baseline					
Provinces	**7,570**	**13,293**	**12,842**	**21,650**	**47,785**
Equitable share	**4,633**	5,585	7,364	11,849	**24,798**
Conditional grants	**2,937**	7,708	5,478	9,801	**22,987**
Local Government	**2,834**	**8,832**	**10,392**	**14,943**	**34,168**
Equitable share	671	491	614	1,829	2,934
Conditional grants	2,163	1,541	2,236	4,583	8,360
General Fuel Levy	-	6,800	7,542	8,531	22,874
Percentage shares					
Total transfers to provinces					
Equitable share	83.1%	81.2%	81.9%	81.2%	81.5%
Conditional grants	16.9%	18.8%	18.1%	18.8%	18.5%
Total transfers to Local Government					
Equitable share	57.2%	48.0%	50.7%	49.1%	49.3%
Conditional grants	42.8%	38.3%	36.2%	37.8%	37.4%
Fuel Levy		13.7%	13.1%	13.1%	13.3%
Growth rates					
Total transfers to provinces		**15.8%**	**8.9%**	**8.5%**	**11.0%**
Equitable share		13.3%	9.8%	7.6%	**10.2%**
Conditional grants		28.4%	4.8%	12.4%	**15.2%**
Total transfers to Local Government	-	**11.2%**	**16.1%**	**12.5%**	**13.3%**
Equitable share	-	-6.7%	22.7%	9.0%	**8.3%**
Conditional grants	-	-0.4%	9.8%	17.4%	**8.9%**

Source: National Treasury, 2009

The Commission notes the additions to baselines of R47.8 billion to provinces and R34.2 billion to local government over the MTEF. Revisions to local government include the introduction of a portion of the fuel levy which receives an amount of R22.9 billion (this issue is discussed later on).

Provincial allocations

The national transfer to provinces increases from the revised R246 billion in 2008/09 to R336 billion in 2011/12. This represents an average increase of 11 per cent over the three years. The equitable share to provinces increases from a revised R204 billion in 2008/09 to R273 billion in 2011/12. The Commission notes the reduction of R7.5 billion in the equitable share to provinces compared to what was communicated in the Medium Term Budget Policy Statement (MTBPS). This reduces the addition to the revision on the equitable share to provinces to R47.8 billion over the MTEF.

An addition of R23 billion to the provincial conditional grants revises the adjusted 2008/09 baseline of R41.6 billion to R63 billion in 2011/12. The conditional grants to provinces increase by an average of 15 per cent over the MTEF.

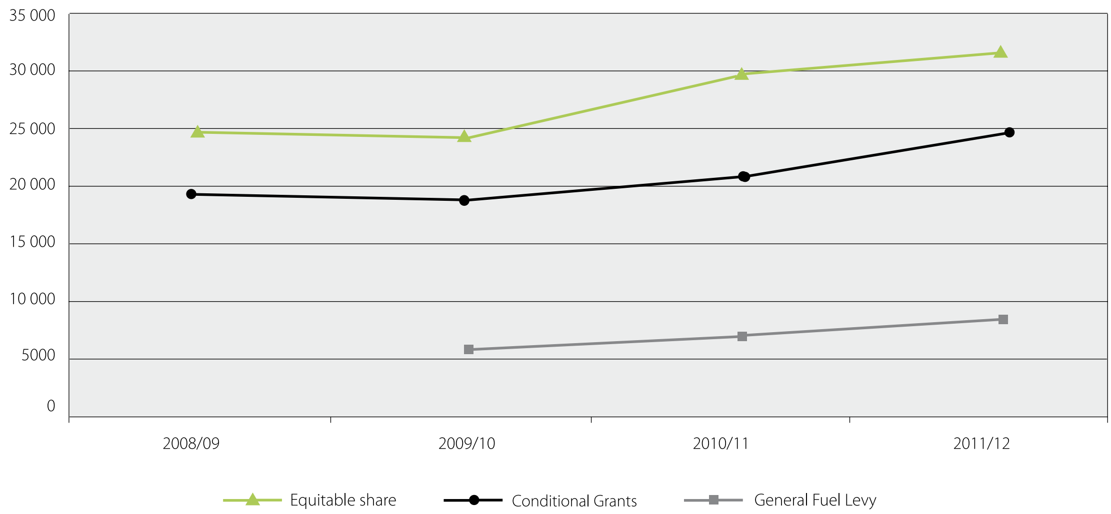
The change in the 2009 MTEF revisions to the provincial allocations baseline is an indication towards a movement to a very tight fiscal framework primarily due to a relatively deteriorating economic outlook.

Local government allocations

The national transfer to local government increases from the revised R44.7 billion in 2008/09 to R56.4 billion in 2011/12, an increase of 8.5 per cent over the MTEF. The equitable share to local government represents a total increase of R2.9 billion over the MTEF.

The local government conditional grants are revised upwards by R8.4 billion over the MTEF. This brings the baselines of the local government to R24.5 billion in 2011/12 from R19 billion in 2009/10. The local government baseline increases by an average of 8.9 per cent over the period. In terms of comparing the two sources of transfer, Figure 1 shows that both the equitable share and conditional grants are declining by 2.9 and 0.4 per cent respectively. They are both projected to marginally increase over the MTEF.

Figure 1: 2009 MTEF Local Government Fiscal Transfers



The Commission notes the introduction of the fuel levy to the local government fiscus. Before the introduction of the fuel levy, the local government equitable share made up 57.2 per cent while the conditional grants made up 42.8 per cent of the national transfers to the local government. The fuel levy makes a significant change to the framework of the local government, contributing 13.3 per cent. As would be expected, this reduces the contribution of the equitable share to 49.3 per cent and 37.4 for conditional grants. The fuel levy increases from R6.8 billion in 2009/10 to R8.5 billion in 2011/2012.

Principles of conditional grants

Even though this year sees the introduction of a number of conditional grants, the amount of money added through these grants to both the provincial and local government add up to only R31 billion. This increase is not significantly higher than the previous years wherein the additional grants added were small in number but large in terms of rand values added. As pointed out in the Commission's 2005 submission, the Commission is opposed to this kind of grant proliferation because it undermines the autonomy and discretion of sub-national governments. This leads to too little sub-national involvement in setting the guidelines on how the funds should be spent. On the other hand, it also ref ects the growing tension between competing objectives of decentralizing control and ensuring national plans for pro-poor spending are followed by sub-national governments.

The Commission is of the view that the choice between conditional and discretionary grant funding must among other things be informed by an objective assessment of the past performance of such grants. According to Table 2, it has recently become apparent that a number of conditional grants had spent below 80 per cent by December 31 in 2008.

Table 2: Selected conditional grants spending rate as at 31 December 2008

	Number of provinces spent less than 60%		Number of provinces spent between 60% and 80% (inclusive)		Number of provinces spent more than 80%	
Agriculture						
Land Care Programme: Poverty Relief and Infrastructure Development	4	KZN, LIM, NC, WC	2	EC, NW	3	FS, GT, MPU
Arts and Culture						
Community Library Services Grant	6	EC, FS, MPU, NC, NW, WC	2	KZN, LIM	1	GT
Education						
Further Education And Training College Sector Recapitalisation	2	EC, NC			7	FS, GT, KZN, LIM, MPU, NW, WC
HIV and Aids (Life Skills Education)	2	LIM, NC	4	EC, GT, MPU, WC	3	FS, KZN, NW
National School Nutrition Programme	4	GT, KZN, NC, WC	5	EC, FS, LIM, MPU, NW		
Health						
Comprehensive HIV and Aids	1	NW	5	FS, GT, KZN, MPU, NC	3	EC, LIM, WC
Forensic Pathology Services	2	NC, WC	5	EC, FS, LIM, MPU, NW	2	GT, KZN
Hospital Revitalisation	6	EC, KZN, LIM, MPU, NC, WC	2	FS, NW	1	GT
Housing						
Integrated Housing and Human Settlement Development	1	EC	4	KZN, LIM, NW, WC	4	FS, GT, MPU, NC
Sport and Recreation South Africa						
Mass Sport and Recreation Participation Programme	4	EC, LIM, NW, WC	4	FS, GT, KZN, NC	1	MPU
Transport						
Gautrain Rapid Rail Link					1	GT

Source: National Treasury 2008

Matters are further worsened by the observation that spending on these grants is only accelerated in the last quarter. Such spending trajectories tend to stifle expenditure in the beginning of the financial year and lead to the infamous March spike in spending where the quality of spending deteriorates or even outright fiscal dumping. This implies poor coordination between grant programs. The Commission is of the view that grants showing such tendencies should ideally be reviewed or discontinued as they are not serving their intended purposes.

5. Introduction of new conditional grants to Sub-national government

The Commission does acknowledge that the extension of infrastructure grant initiatives in the 2009 MTEF will help ensure that the provincial and local spheres of government continue to develop infrastructure in their respective constitutional boundaries. It should be considered that investments in public infrastructure are an inherently long-term proposition sometimes with 50-year time horizons. This must respond to pressures from inflation, and population and economic growth. It is of necessity, therefore, that national transfers to infrastructure funding strategy should not only remain short term and ad hoc but support long term objectives. There is also a need to examine the efficient use of own revenues, infrastructure grant funding and borrowing arrangements. Of relevance for the cities and municipal infrastructure allocations will be the extent to which these various sources of funds complement the financing of municipal infrastructure development plans. There are certain principles that should guide infrastructure allocations that the Commission would wish to emphasise as follows:

1. **Long-term infrastructure planning with funding commitments:** There is need for a long-term approach that provides medium- and long-term objectives, milestones and targets around which each sphere of government can plan, budget and implement infrastructure maintenance, rehabilitation and expansion plans. To drive progress towards these longer term objectives, short- to medium-term national transfer for infrastructure funding must be provided in rolling five-to-seven-year programmes that identify key priority areas, such as resource conservation or climate change adaptation. It is vital that the components of this long-term strategy be designed in consultation with all spheres of government and other important stakeholders responding to certain key principles concomitant with effective infrastructure delivery.

2. **Dif erentiated approach and investment appraisals:** Before any infrastructure funding can be appropriated, appraisal should lie at the interface between technical work (engineering, planning, finance, and economics) and political decision-making. This is a pivotal position which requires not only that appraisal be financially and technically sound, but also that it must be capable of explanation and communication to the decision-makers and map on to their information needs. There is a need therefore to assess the capacity of smaller urban, rural, remote municipalities to absorb additional funding. These municipalities require a separate, specifically designed programme that takes into account their limited staff capacities to manage complex funding requirements; fiscal challenges matching fund requirements; higher construction costs due to geography or climate, lower population densities, and the needs of resource-based industries (for, example, heavy vehicles travelling on municipal roads); and the close connection between municipal infrastructure and economic development.

3. **The need for a comprehensive infrastructure strategy:** In this country there are no comprehensive provincial-wide infrastructure strategies and not even municipal infrastructure strategies. It is therefore confusing what these grants are funding in terms of measurable outcomes. To maximise economic, social and environmental benefits from the provision of infrastructure throughout South Africa, all spheres of government must take a strategic and long-term approach to the determination of priorities that ensure timely supply of appropriate infrastructure capacity. Current and future needs for economic and social infrastructure must be identified and a plan for the optimal delivery of this infrastructure developed. An infrastructure strategy must also provide for appropriate contributions by the private sector and all tiers of government to the development of new and replacement infrastructure that will support economic growth and development. Clear infrastructure strategy, objectives funding estimates and processes, identified in collaboration with all spheres of government will produce a programme that responds best to local needs in each jurisdiction. It will also create greater understanding and commitment and, ultimately, greater infrastructure efficiency.

Now we comment on specific new Grants introduced for each sphere:

New conditional grants to provinces

The South African intergovernmental system has had two types of conditional grants, namely Schedule 4 and Schedule 5. The two types of grants are funding instruments that supplement various programmes partly funded by provinces (Schedule 4) or specific purpose grant (Schedule 5), which are to deal with national priorities through the provincial framework. This year sees the introduction of a different schedule type grant, the Public Works Incentive Grant to Provinces Phase 2.

A total of 9 conditional grants valued at R18 billion have been added to the provincial framework. Three of these are disaster related, namely, Agriculture Disaster Grant (R60 million), Housing Disaster Grant (R150 million) and Health Disaster Grant (R50 million). The Commission is of the view that these grants will bring the much needed relief to the recent (natural) disaster in agriculture across provinces, the housing disaster in KwaZulu-Natal and the recent health outbreak of cholera in Limpopo. The fact that these are introduced as new grants of relatively small amounts indicate that there is a weakness in the way in which the country plans for disasters. There is a need for a more comprehensive disaster management framework that should not depend on the conditional grant mechanism.

The other six grants include the Public Transport Operations Grant (R11.5 billion), Expanded Public Works Programme Grant (R1.4 billion), Agriculture's ILima Letsema Grant (R650 million), Technical Secondary Schools Recapitalization Grant (R280 million), Sani Pass Grant (R34 million) and Overload Control Grant (R21 million).

The Public Transport Operations Grant is aimed at assisting provinces to subsidise commuters using the public transport mode. The EPWP Incentive Grant incentivises provinces and municipalities for their increased spending on labour intensive programmes. The ILima Letsema Projects Grant aims to assist vulnerable South African farming communities with food production. The other two grants under the Transport Vote (Overload Control Grant and the

Sani Pass Grant) are to assist provinces to reduce overloading practices and the promotion of regional integration with neighbouring countries.

The Commission notes that 8 out of the 9 new grants are schedule 5 grants. This means that even though more allocations are added to the provincial fiscus, provinces do not have discretion as to how and where these should be spent. Another important factor in line with the Commission's previous recommendation is that there is a risk in introducing a plethora of grants. This is especially so in this MTEF as they only contribute R18 billion of the total additions.

New conditional grants to municipalities

There are five new grants introduced in the 2009 Division of Revenue Bill, namely.

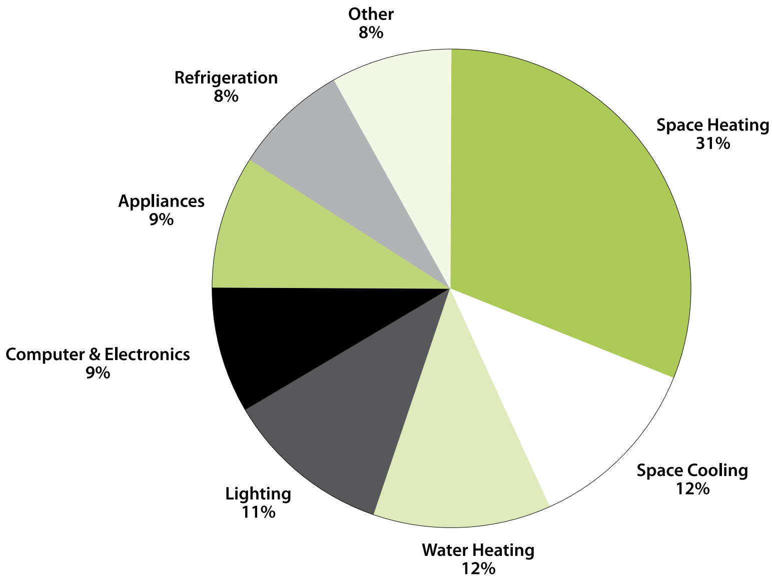
- Rural Transport Services and Infrastructure Grant;
- Expanded Public Works Programme Incentive Grant for Local Government;
- National Energy Efficiency and Demand Side Management (EEDSM) (Municipal);
- Municipal Infrastructure Grant (Cities);
- 2010 World Cup Host City Operating Grant.

The Rural Transport Services and Infrastructure Grant is intended to improve mobility and access in rural municipalities in support of Integrated Development Plans. Projects must be in line with the Rural Transport Strategy for South Africa. The rural population in South Africa resides in villages and dense rural settlements. Investment on rural roads can assist a great deal to open up rural areas for economic development (corroborating evidence from elsewhere of the positive impact of such infrastructure can be found in Kilkenny (1995), Akee (2006) Shenggen and Chan-Kang (2005), Eskola (2005) and Warr (2005)). The ability to provide adequate access roads is limited by resources. This relates to technical issues such as lack of planning, funding and the lack of information on the state of the rural road network, including ownership. Most of the rural roads are not even proclaimed, and as such they are neglected. This grant can be used as a pilot to invest in rural and poor municipalities. The spill-over effects will be job creation and local economic development. Rural municipalities must be supported to absorb this grant.

The Expanded Public Works Programme Incentive Grant for Local Government aims to incentivise municipalities to increase labour intensive employment through programmes that maximise job creation and skills development as encapsulated in the EPWP guidelines. According to the existing EPWP guidelines, provinces and municipalities must institutionalise a process of identifying the EPWP projects and a recruitment procedure. Local municipalities can also, using their capital budgets, decide to construct their infrastructure and other projects in a labour intensive manner. They can then apply for guidance from the National Public Works Programme, and link up with the Department of Labour on training for participants. Where new plans are being made in terms of Integrated Development Plans (IDP) or Local Economic Development (LED) programmes, projects that use local labour and skills of unemployed people should be prioritized. There is a need therefore for an alignment between this grant and EPWP guidelines. The role of the Department of Public Works in this regard is to find out plans and projects that will be implemented and this should be done before the financial year starts. The other challenge is to link the financial year and reporting cycles of municipalities with those of national government.

The National Energy Efficiency and Demand Side Management (EEDSM) aims to implement the EEDSM programme by providing capital subsidies to licensed distributors to address the EEDSM in residential dwellings, community and commercial buildings in order to mitigate the risk of load shedding and supply interruptions. The Grant also aims to assist municipalities with the development of capacity to deliver on EEDSM. Initiatives aimed at enhancing energy efficiency are to be commended. The first step to taking an energy efficiency approach though is to find out which parts of the energy-utilising 'instruments' are consuming most energy. Usually heating accounts for the biggest chunk of a typical utility bill (Figure 2).

Figure 2: Energy Demand Components



Source: Building Energy Data Book, 2007

Before any financial instruments are used as incentives to encourage energy efficiency, it is therefore, important first to identify areas wasting energy, and then assign priorities by asking a few important questions such as (i) where are the greatest energy losses? and (ii) How long will it take for an investment in energy efficiency to pay for itself in energy cost savings The Commission submits that investment in energy efficient equipment and operational behaviour is recognised as an important element in achieving energy efficiency targets. The grant framework as it stands needs to be reworked in the following areas:

- There is a need to clarify the role of resellers of electricity to multi-tenanted premises where municipalities only provide a bulk electricity supply to the perimeter;
- The role of consumers is very unclear and needs further clarification;
- Other measurable outputs such as EPWP jobs created and carbon emission replaced by Megawatt hours saved overload the grant framework unnecessarily.

The Municipal Infrastructure Grant (Cities) aims to supplement the capital revenues of selected large urban municipalities in order to support their infrastructure investment programmes. The framework postulate that "…the IGC differs from other infrastructure grants in that it seeks to regulate all outputs and outcomes of municipal capital expenditure programmes, through multi-year IGC Performance Agreements that allow municipalities to allocate grant resources in an integrated manner across their capital budgets." It is commendable that a differentiated approach to supplement Metropolitan Councils' funding for cities infrastructure has been budgeted for. This will assist cities to deal with an increasing need for infrastructure services. In as much as the grant does not prioritise sectoral investments in its framework, it is important that the money is spent on infrastructure that enhances access to constitutionally mandated basic services. Both financial and non-financial data on the performance of the grant needs to be institutionalised and reported on a regular basis.

The 2010 World Cup Host City Operating Grant aims to assist host cities with the operational response associated with the hosting of the 2009 Confederations Cup and the 2010 FIFA World Cup (operations of the Confederations Cup and 2010 FIFA World Cup competitions, recruitment and installation of appropriate signage for the competition). The Commission's view is that performance indicators for this grant need to be developed on achievability and outcomes.

The Capacity Development Grants in Local Government (Local Government Financial Management Grant) managed by National Treasury and Municipal Systems Improvement Grant managed by the Department of Provincial and Local Government) are aimed at improving the capacity and ability of municipalities to plan, budget and manage their finances properly as well as to perform their functions and stabilise institutional and governance systems as required in the Local Government Municipal Systems Act of 2000 and related legislation and policies. The Commission submits that section 154(1) of the Constitution obliges national and provincial governments to build the capacity of local government. There is a need, therefore, to tailor-make capacity interventions to focus on diagnosed delivery constraints and strengthening the delivery capacity of local government by:

- Assessing the impact of these grants against improvements suggested in the Auditor-General's report for municipalities;
- Aggressively expand these grants to poorer and weaker municipalities with need;
- Mainstreaming practical hands-on support to local government to improve municipal governance, performance and accountability;
- Focus on institutional and human capacity needs, including broad-based civic engagement;
- Strengthening capacity for planning, implementation, monitoring and evaluation.

6. Comments on government's response to the Commission's recommendations

The Financial and Fiscal Commission tabled its submission for the Division of Revenue 2009/10 to Parliament in May 2008. The submission covered a wide range of issues affecting provincial and local government. Section 10(5) of the Intergovernmental Fiscal Relations Act provides for an explanatory memorandum outlining government's response to the Commission's recommendations to be set out in the Division of Revenue Bill when determining the division of revenue for the 2009 MTEF. This section gives the Commission's response to government's response to its recommendations.

The Commission in general welcomes the in-depth response to its recommendations by government. It is also pleasing that Government has responded to everything that the Commission proposed. While the Commission welcomes that most of the recommendations have been appropriately responded to and accepted by Government, there would be more value added to the process if Government would in future provide details around implementation of recommendations both for the previous year and progress over the medium term expenditure period. The rest of the discussion in this section dwells only on those responses to its recommendations by the Government where the Commission feels there is a need for follow up.

1. Learner transport

The Commission recommended that national norms and standards for the provision of learner transport should be established. At the stage when it was recommended the location of this function had not been clearly demarcated between the national Departments of Education and of Transport. The responsibility had to be clarified as a matter of urgency.

Government agreed with the recommendation of the Commission and stipulated that the Department of Education is responsible for the functional provision of scholar transport while the Department of Transport is responsible for regulatory requirements with respect to such transport. The Commission welcomes the Council of Education Ministers decision during 2008 that the function of the provision of scholar transport should stay with the Department of Education. It is important, however, that the matter of learner transport is adequately addressed in the provincial budgets. The Commission will continue to evaluate the program in this regard.

2. Augmenting Local Government Revenue

The Commission recommended that in light of the disestablishment of the Regional Services Council (RSC) Levy, which formed a significant source of municipal revenue, the replacement revenue source for municipalities should be a tax that (a) enhances the fiscal autonomy and discretion of local governments; (b) strengthens the accountability of local government regarding the administration and use of the proposed tax base; (c) yields an adequate and buoyant revenue stream for municipalities in the face of cyclical instability; and (d) does not disturb macroeconomic balance.

Government agreed that it is important that reforms to the fiscal framework for local government should ensure that the fiscal autonomy of municipalities is not compromised but enhanced and supports the principles proposed to underpin the choice(s) for replacement sources of revenue for the RSC levy.

Government proposed as part of a package of reforms, the VAT zero-rating of municipal property rates and other VAT reforms from 1 July 2006. Further reforms contained in the 2009 Division of Revenue Bill include the sharing of the general fuel levy. While the sharing of the fuel levy is a stop-gap measure which improves revenue adequacy, the Commission notes that it falls far short of the criteria of a good local tax delineated above, and agreed to by government. The Commission is of the view that municipalities should continue the pursuit of appropriate revenue sources. The proposed fuel levy tax sharing package does not comply with all of the proposed criteria since municipalities have no discretion over the base and rate of the tax. Furthermore, the link between the agents who bear the incidence of the fuel levy and the beneficiaries of the services funded by fuel levy revenue sharing is tenuous. This means that accountability is not thereby enhanced.

More importantly, in terms of Section 229(5) of the Constitution, national legislation on municipal fiscal powers and functions may be enacted only after local government and the Financial and Fiscal Commission have been consulted, and any recommendations of the Commission have been considered. The Financial and Fiscal Commission has not yet had access to documentation about the proposed fuel levy reform package and yet it is already in the Bill. The Commission would therefore require the necessary documentation about the package of reforms planned.

3. Electricity Sector Investments

The Commission had made a recommendation with regard to investments in the electricity sector. It recommended that for greater efficiency of resource allocation, technological innovation and increased investment in renewable energy sources, Government would need to increase funding resources set aside for such purposes and incentives with a view to establishing and implementing a framework that:

- Encourages new forms of electricity generation technologies to enter the market;
- Expands opportunities to consumers to access such forms of energy;
- Allows non-utility developers equal market opportunity to compete with established providers; and
- Incorporates financial incentives to expand production and distribution capacity, and effect savings through improving end-user efficiency.

In its response, Government has acknowledged the need to promote greater efficiency of resource allocation, technological innovation and increased investment in renewable energy sources. Government also responded that tax incentives to encourage the uptake and development of renewable energy, such as accelerated depreciation allowances, are already in place. Government has in the 2008 Budget Review proposed the imposition of a 2c/kWh tax on the sale of electricity generated from non-renewable sources, to be collected at source by the producers/ generators of electricity. The 2008 Medium Term Budget Policy Statement pointed out that the electricity levy should be seen as the first step towards the introduction of a more comprehensive emissions-based carbon tax. Implementation of the levy has been postponed to 1 July 2009 to coincide with the commencement of the next municipal financial year.

From the Commission's perspective, diversifying electricity supply towards sustainable development is encouraging. However, there must be creation of an enabling environment through the introduction of further fiscal and regulatory instruments to allow renewable energy technologies to compete with fossil based technologies. Government must set proper boundaries with time limits within which the renewable energy industry can operate and develop.

Municipalities have a constitutional right to the reticulation of electricity distribution. The fact of the matter is that not all municipalities however have the capacity to provide the service. Some are not financially viable because of diseconomies of scale issues. Infrastructure in most municipalities is in dire need of rehabilitation and this leads to distribution losses. Government must still commit itself to rationalizing and restructuring of the electricity distribution sector as a matter of priority.

4. World Cup 2010 Transport Infrastructure

The Commission recommended that spending on public transport infrastructure for 2010 should be linked to broader city development plans. A more resourced Public Transport Infrastructure and Systems (PTIS) Grant must continue after the 2010 FIFA World Cup. Projects that are funded under this arrangement should be selected based on full appraisal of economic, environmental and social costs/benefits. Funding mechanisms to cover maintenance costs of constructed 2010 FIFA World Cup facilities should be developed.

Government responded that the PTIS funded projects should be selected based on full appraisal of economic, environment and social costs/ benefits. The existing PTIS will continue post 2010 as outlined in the 2008 Budget Review. PTIS is aligned to the Public Transport Strategy which provides guidance on the creation of integrated public transport networks for the whole country up to 2020. Moreover, PTIS projects are part of the integrated transport plans contained in integrated development plans (IDPs) of municipalities. As concerns maintenance of built infrastructure, Government is of the view that the costs relating to maintenance of constructed 2010 FIFA World Cup facilities should be covered by municipalities.

The Commission welcomes this response by Government. Even though this grant is targeted at municipalities, the focus should be inter-modal in nature, inclusive of rail and minibus taxis as well. For equity purposes, this grant should be extended to other municipalities that are not host cities but provide valuable public transport. The Commission notes Government's suggestion for maintenance of built facilities for the event and will reserve comment on the matter until after researching it further.

7. Conclusion

The Financial and Fiscal Commission notes and welcomes most of the changes that have been introduced through the 2009 Division of Revenue Bill. Unlike in previous submissions, this year the Commission has raised broader strategic issues critical for future evolution of the Division of Revenue Bill. The issues raised pertain to (a) simplifying and refocusing the Division of Revenue Bill to its core essence (ii) refraining from proliferation of CG, (iii) Intergovernmental Loan Agreements, (iv) guarding against dangers of delays in policy implementation, (v) ensuring that capacity building grants remain part of DORA and (vi) re-demarcations and addressing the fiscal and financial impacts of it. These issues do not pertain only to this year's Division of Revenue Bill but are issues that the Commission would wish to see addressed in the future.

As in previous years, the Commission's submission makes observations on certain clauses of the Bill with a view at enhancing clarity and transparency in the Bill. It recommends the streamlining of certain specific frameworks. The submission then focuses on changes to conditional grants for provinces and local government. It calls for a move away from proliferation of conditional grants and towards more consolidation. It points out that financing of disaster management requires detailed work to come up with a long term and f exible financing arrangement. The Commission agrees with the basic principles behind most of the new conditional grants but raises problematic areas to do with implementation and how the grants will be rolled out. In this regard it recommends that certain of the grants be run on a pilot basis. Finally the submission assesses government's response to the Commission's recommendations on the 2009 Division of Revenue. Generally the Commission welcomes the in-depth response to its recommendations by government and notes that there is agreement between itself and Government on most of the recommendations. The Commission suggests that Government should in future provide details around implementation of recommendations and progress over the medium term expenditure period.

5.5 Additional 2009 Commission Submissions

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

5.5.1 Comment on the Financial Management of Parliament Bill 2008;

5.5.2 Comment on the Money Bills Amendment Procedures and Related Matters Bill 2008;

5.5.3 Comment on the National Policy for an Equitable Provision of an Enabling School Physical Teaching and Learning Environment Notice No. 1438 Gazette No. 31616 dated 21 November 2008.

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Financial Statements for the Year Ended 31 March 2009

Chapter 6

6.1 Approval of the Financial Statements

The annual financial statements, which appear on pages 59 to 72 have been approved and authorised for issue on date of signature by the Commission and is signed on its behalf by:

Dr Bethuel Setai

Chairperson /Chief Executive

On behalf the Financial and Fiscal Commission

31 May 2009

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6.2 Report of the Accounting Officer for the year ended 31 March 2009

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 af airs

The Commission has been an integral part of the effort to improve financial accountability and implement prudent financial management as required by the Public Management Act. This has been evidenced by consistent unqualified audits.

This however has been achieved at a price. The socio-economic challenges that are facing the country have placed an ever increasing burden on the Commission's resources and its ability to deliver fully on its mandate. The scaling-down and/or suspension of a number of essential research projects during the reporting period, the Commission's inability to attract and retain key talent for the past eight (8) years, as well the restrictions that it has had to impose on all capital projects and the filling of some key vacancies are all evidence of such fact. This circumstance can only reversed through a substantial increase to the Commission's baseline allocation.

2. Services rendered by the department

Not applicable.

3. Trading activities

Not applicable.

4. Trading entities

Not applicable.

5. Public entities

Not applicable.

6. Public/private partnerships

Not applicable.

7. Risk management and fraud prevention

This matter is more fully dealt with in Annexure A hereto.

8. Discontinued activities/activities to be discontinued

Not applicable.

9. New/proposed new activities

The Commission will be resuscitating activities that have been placed on hold, expanding those that, because of budgetary constraints, have been down-scaled, and embarking on new ones as dictated by the changed socio-economic environment and its second generation impact focused 2009 – 2014 Research Strategy.

10. Events after the accounting date

See sections 7 and 9.

11. Other

Kindly find the attached statements on foreign donations.

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Approval

Dr Bethuel Setai

Chairperson/Chief Executive

31 July 2009

6.3 Report of the Auditor-General to Parliament on the Financial Statements and Performance Information of the Financial and Fiscal Commission for the year ended 31 March 2009

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Financial and Fiscal Commission (FFC) which comprise the statement of financial position as at 31 March 2009, and the statement of financial performance, the statement of changes in net assets and the cash f ow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 63 to 72.

The 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 the basis of accounting determined by the National Treasury, as set out in accounting policy note 1, and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA), and the Financial and Fiscal Commission Act, 1997 (Act No. 99 of 1997) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Auditor-General's responsibility

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

4. I conducted my audit in accordance with the International Standards on Auditing read with General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008. 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 2009 and its financial performance and its cash f ows for the year then ended, in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 and in the manner required by the PFMA.

Basis of accounting

8. Without qualifying my opinion, I draw attention to note 1 to the financial statements, which describes the basis of accounting. The constitutional institution's policy is to prepare financial statements on the basis of accounting determined by the National Treasury.

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Other matters

9. Without qualifying my opinion, I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Governance framework

10. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are ref ected in the key governance responsibilities addressed below:

Key governance responsibilities

11. The PFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
Clear trail of supporting documentation that is easily available and provided in a timely manner			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	✓	
Quality of financial statements and related management information			
2.	The financial statements were not subject to any material amendments resulting from the audit.	✓	
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.	✓	
Timeliness of financial statements and management information			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines in section 40 of the PFMA	✓	
Availability of key officials during audit			
5.	Key officials were available throughout the audit process.	✓	
Development and compliance with risk management, ef ective internal control and governance practices			
6.	Audit committee		
	The constitutional institution had an audit committee in operation throughout the financial year.	✓	
	The audit committee operates in accordance with approved, written terms of reference.	✓	
	The audit committee substantially fulfilled its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulation 3.1.10.	✓	
7.	Internal audit		
	The constitutional institution had an internal audit function in operation throughout the financial year.	✓	
	The internal audit function operates in terms of an approved internal audit plan.	✓	
	The internal audit function substantially fulfilled its responsibilities for the year, as set out in Treasury Regulation 3.2.	✓	
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.	✓	
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.	✓	
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	✓	
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in Treasury Regulation 3.2.	✓	

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No.	Matter	Y	N
12.	Powers and duties have been assigned, as set out in section 44 of the PFMA.	✓	
Follow-up of audit findings			
13.	The prior year audit findings have been substantially addressed.	✓	
14.	SCOPA resolutions have been substantially implemented.	N/A	
Issues relating to the reporting of performance information			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.	✓	
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.	✓	
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the FFC against its mandate, predetermined objectives, outputs, indicators and targets per Treasury Regulations 5.1, 5.2 and 6.1.	✓	
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	✓	

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

12. I have reviewed the performance information as set out on pages 16 to 50.

The accounting officer's responsibility for the performance information

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

The Auditor-General's responsibility

14. I conducted my engagement in accordance with section 13 of the PAA read with General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008.

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

16. I believe that the evidence I have obtained is sufficient and appropriate to report that no significant findings have been identified as a result of my review.

APPRECIATION

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

Auditor-General

Pretoria
31 July 2009

AUDITOR-GENERAL

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6.4 Report of the Audit Committee

Year ended 31 March 2009

We are pleased to present our report for the financial year ended 31 March 2009.

Audit Committee responsibility

The Audit Committee's responsibilities are in compliance with Section 38 (1)(a) of the Public Finance Management Act (PFMA) and Treasury Regulation 3.1.13. During the reporting period, the Audit Committee adopted appropriate formal terms of reference, and regulated its affairs in compliance with these guidelines, discharging its responsibilities as contained therein. The Committee was responsible for the financial oversight of the external and internal audits, the internal audit three-year plan, fraud prevention plan, supply chain management policies, risk management processes and approved financial statements, ending 31 March 2009.

The Ef ectiveness of Internal Control

In the 2008/2009 Financial the integrity of this system and the internal audit process was placed under threat by ever escalating audit fees and the finite nature of the Commission budget allocation, This was however preempted by the introduction and entrenchment of austerity measures with the result that threat was averted.

The internal and external audits conducted during the 2008/2009 financial year, established that though appropriate and effective internal controls were in largely in place, there was still room for improvement and further that there were certain administrative matters that required attention. The risk management process initiated by the Commission (which is more fully set out in Annexure B to this Report), has already been implemented and the areas of concern that have been identified will be addressed during the forthcoming financial year.

Quarterly reports were prepared and issued by the Accounting Officer and the Commission, during the period under review. The Audit Committee will continue to monitor the Executive Management processes, procedures and measures, to enhance compliance and rectify these shortcomings.

On the whole, the Committee is satisfied that the systems of internal control are efficient and effective.

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

The Audit Committee is satisfied with the content and quality of the quarterly reports prepared and issued by the Accounting Officer and the Commission during the 2008/2009 financial year.

Evaluation of Financial Statements

The Audit Committee has:

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

Mr. Jerry Sithole
Chairperson of the Audit Committee
31 July 2009

6.5 Statement of Financial Position as at 31 March 2009

	Notes	2009 R	2008 R
ASSETS			
Non-current assets		1,474,135	2,363,218
Plant and equipment	2	1,444,902	2,257,785
Intangible Assets	3	29,233	105,433
Current assets		705,543	323,274
Trade and other receivables	4	116,539	151,191
Cash and cash equivalents	12	589,004	172,083
Total assets		2,179,678	2,686,492
CAPITAL, RESERVES AND LIABILITIES			
Capital and reserves		(199,613)	651,832
Capital contribution	5	918,752	918,752
Accumulated (deficit)		(1,118,365)	(266,920)
Current liabilities		2,176,449	1,919,888
Trade and other payables	6	1,842,565	1,716,168
Provisions	7	333,885	203,720
Non current liabilities		202,841	114,773
Accrual for straight line lease	8	202,841	114,773
Total capital reserves and liabilities		2,179,678	2,686,492
		0	0

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6.6 Statement of Financial Performance for the year ended 31 March 2009

	Notes	2009 R	2008 R
Operating revenue	9	26,125,000	27,496,241
Government Grant		26,125,000	27,496,241
Other revenue		239,966	499,743
Interest received	10	218,557	50,301
Foreign donations received		-	354,675
Gain on sale of plant and equipment		-	94,317
Sundry income		21,409	450
Total revenue		26,364,966	27,995,984
Operating expenses			
Staff costs		(15,189,205)	(16,123,249)
Depreciation and amortisation		(976,687)	(1,078,658)
Professional services		(3,913,251)	(1,004,009)
Other operating expenses		(6,992,718)	(8,248,222)
Loss on sale of plant and equipment		(3,548)	-
Total operating expenses		(27,075,409)	(26,454,138)
Surplus/(deficit) before interest and finance charges	11	(710,443)	1,541,846
Interest paid		(141,002)	(57,020)
Net (deficit) / surplus for the year		(851,445)	1,484,826

6.7 Statement of Changes in Net Assets for the year ended 31 March 2009

	Notes	Capital contribution R	Accumulated surplus/(deficit) R	Total R
At 1 April 2007		918,752	(1,652,301)	(733,549)
Surplus for the year 2008			1,484,826	1,484,826
Balance at 1 April 2008		918,752	(167,475)	751,277
Prior year adjustment	19		(99,445)	(99,445)
Balance at 1 April 2009		918,752	(266,920)	651,832
Deficit for the year 2009			(851,445)	(851,445)
Balance at 31 March 2009		918,752	(1,118,365)	(199,613)

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6.8 Cash Flow Statement for the year ended 31 March 2009

	Notes	2009 R	2008 R
Cash f ow from operating activities			
Receipts		26,364,966	27,901,667
Grants		26,125,000	27,496,241
Interest Received		218,557	50,301
Donations		-	354,675
Other Receipts		21,409	450
Payments		25,856,893	25,511,190
Employee Costs		15,158,487	16,123,249
Suppliers		10,557,405	9,330,922
Interest paid		141,002	57,020
Net Cash f ows from operating activities	12	**508,073**	**2,390,476**
Cash f ows form Investing Activities			
Purchase of plant and equipment	2	(58,094)	(281,201)
Proceeds from sale of plant and equipment		3,210	119,651
Purchase of Intangible assets	3	(36,268)	(53,799)
Net Cash f ows from investing activities		**(91,152)**	**(215,349)**
Net increase/(decrease) in cash and cash equivalents		416,920	2,175,127
Cash and cash equivalents at beginning of year		172,083	(2,003,044)
Cash and cash equivalents at end of year		**589,004**	**172,083**

6.9 Statement of Accounting Policies for the year ended 31 March 2009

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 Accepted Accounting Practice (GAAP) including any interpretations of such statements issued by the Accounting Practices Board, with the effective Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board replacing the equivalent GAAP statement as follows:

Standard of GRAP

GRAP 1: Presentation of financial statements

GRAP 2: Cash f ow statements

GRAP 3: Accounting policies. Changes in accounting estimates and errors

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

1. Terminology differences

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

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

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

(a) receivables from non-exchange transactions, including taxes and transfers;

(b) taxes and transfers payable

(c) trade and other payables from non-exchange transactions must be presented separately on the statement of financial position.

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6.10 Notes to Financial Statements for the year ended 31 March 2009

1.1 Revenue recognition

Revenue is recognised when it is probable that future economic benefits will f ow to the Commission and these benefits can be measured reliably. Revenue comprises of government grants, interest received and donations.

Government grants are recognised in the statement of financial performance over the period necessary to match them with the costs for which they are intended to compensate. Grants that do not meet this criterion are deferred and recognised in the statement of financial position.

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.

Donation income is recognised to the extent that is has been expended for specific purpose. The unexpended portion is rolled over into the following financial year as deferred income.

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

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 ref ect 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 commission has a present legal or constructive obligation as a result of past events, it is probable that an outf ow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

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

1.8 Foreign currencies

Transactions

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

1.9 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:

Trade and other receivables

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

Cash and cash equivalents

Cash and cash equivalents are carried at cost.

Financial liabilities

The Commissions' principal financial liabilities are accounts payables stated at fair value.

1.10 Cash and cash equivalents

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

2. Property, plant and equipment

2009	Paintings R	Computer Equipment R	Motor Vehicle R	Furniture & Fittings R	Leasehold Improvement R	Total R
Opening Balance						
Cost	38,806	2,844,085	72,044	2,883,226	351,443	6,189,604
Accumulated depreciation	-	(2,253,911)	(65,494)	(1,436,698)	(175,716)	(3,931,819)
Net Book Value	**38,806**	**590,174**	**6,550**	**1,446,528**	**175,727**	**2,257,785**
Movement for the year:						
Additions	-	31,296	-	26,798	-	58,094
Disposals	-	(949,164)	-	(9,870)	-	(959,034)
Changes in Estimates		6,711		43,714		
Depreciation on disposed asset	-	942,406	-	9,870	-	952,275
Depreciation	-	(362,976)	-	(384,095)	(117,148)	(864,219)
	-	**(331,727)**	**-**	**(313,583)**	**(117,148)**	**(762,458)**
Closing Balance						
Cost	38,806	1,932,929	72,044	2,875,814	351,443	5,271,036
Accumulated depreciation	-	(1,681,193)	(65,494)	(1,786,582)	(292,864)	(3,826,134)
Net Book Value	**38,806**	**251,736**	**6,550**	**1,089,232**	**58,579**	**1,444,902**

2008	Paintings R	Computer Equipment R	Motor Vehicle R	Furniture & Fittings R	Leasehold Improvement R	Total R
Opening Balance						
Cost	38,806	2,689,033	255,491	2,709,761	351,443	6,044,533
Accumulated depreciation	-	(1,911,543)	(220,662)	(1,002,901)	(58,568)	(3,193,673)
Net Book Value	**38,806**	**777,490**	**34,829**	**1,706,860**	**292,875**	**2,850,861**
Movement for the year:						
Additions	-	195,529		85,672	-	281,201
Changes in Estimates		77,552	6,550	87,793	-	-
Disposals	-	(118,028)	(189,997)	-	-	(308,025)
Depreciation on disposed asset	-	118,028	164,664	-	-	282,692
Depreciation	-	(382,845)	(2,946)	(346,004)	(117,148)	(848,943)
	-	**(109,764)**	**(21,729)**	**(172,539)**	**(117,148)**	**(421,180)**
Closing Balance						
Cost	38,806	2,844,085	72,044	2,883,226	351,443	6,189,604
Accumulated depreciation	-	(2,253,911)	(65,494)	(1,436,698)	(175,716)	(3,931,819)
Net Book Value	**38,806**	**590,174**	**6,550**	**1,446,528**	**175,727**	**2,257,785**

During the year the Commission changed the estimated useful values in relation to plant, property and equipment as useful and economic values are higher than what the Commission had historically estimated.

	2009 R	2008 R
3. Intangible assets		
Computer software		
Opening Balance		
Cost	771,977	747,041
Accumulated amortisation	(666,544)	(465,693)
Net Book Value	105,433	281,348
Movement for the year:		
Additions	36,268	53,799
Disposals	(12,554)	(28,863)
Amortisation on disposed assets	12,554	28,863
Amortisation	(112,469)	(229,714)
	(76,200)	(175,915)
Closing Balance		
Cost	795,691	771,977
Accumulated amortisation	(766,458)	(666,544)
Net Book Value	29,233	105,433
4. Trade and other receivables		
Deposit in relation to rented premises	52,154	52,154
Other receivables	64,385	99,037
	116,539	151,191
5. Capital contribution		
Value of assets acquired from National Treasury	918,752	918,752
6. Trade and other payables		
Trade creditors	1,842,565	679,982
Accruals	-	1,036,186
	1,842,565	1,716,168

7. Provisions

	Opening balance R	Utilised during the year R	Additions R	Closing balance R
Reconciliation of the provisions - 2009				
Leave pay benefits	203,720	180,691	(50,527)	333,885
Reconciliation of the provisions - 2008				
Leave pay benefits	397,167	(71,020)	(122,427)	203,720

	Opening balance R	Utilised during the year R	Additions R	Closing balance R

8. Accruals

	2009 R	2008 R
Accrual in respect of straight line lease	202,841	114,773

9. Revenue

Revenue comprises grants received from National Treasury	26,125,000	27,496,241

10. Interest received

This is interest on available funds held in current accounts with financial institutions	218,557	50,301

	2009 R	2008 R
11. Deficit		
Net deficit has been arrived at after debiting		
Auditors remuneration	584,278	367,839
Current year fee	584,278	367,839
Prior year fee	-	-
Professional services	3,913,251	1,004,009
Commissioners' expenses	51,439	82,839
Operating leases:		
Office premises/equipment	676,936	1,179,971
Depreciation and amortisation	976,687	1,078,658
Staff costs	13,801,734	14,670,330
Included in staff costs are:		
Defined contribution plan expense	1,387,470	1,452,919
See note 17		
And after crediting:		
Interest received:		
Current account	217,921	49,475
Staff loans	636	826
	218,557	50,301
Number of employees at year end	30	35

6

	2009 R	2008 R

12. Notes to the Cash f ow statement

(a) Cash and cash equivalents

Cash and cash equivalents included in the cash f ow statement comprise the following:		
Cash on hand	4,124	3,921
Bank balance	584,880	168,162
	589,004	172,083

(b) Property, plant and equipment

During the period, the Commission acquired property, plant and equipment with an aggregate cost of R94 361 which was acquired by means of operational grant by National Treasury. Cash payment of R58 094 and R36 268 were used to purchase plant and equipment and software respectively.

(c) Reconciliation of net cash f ows from operating activities to surplus/(deficit)

(Deficit)/Surplus	(851,445)	1,484,826
Non-cash Movements	1,359,518	905,650
Depreciation	864,218	848,944
Amortisation	112,469	229,714
Increase in accounts payable	126,397	263,110
Increase/(decrease) in provisions relating to employee costs	130,167	(193,447)
Gain on sale of plant and equipment	-	(94,317)
Straight line of lease	88,068	-
Loss on sale of asset	3,548	-
Decrease/(increase) in accounts receivable	34,652	(148,353)
Net cash f ows from operating activities	508,073	2 ,390,476

13. Related parties transactions

All National Departments of Government and State-controlled entities are regarded as related parties in accordance with Circular 4 of 2005.The Financial and Fiscal Commission is a constitutional institution reporting to Parliament and National Treasury 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.

	2009 R	2008 R
Grants Received		
National Treasury	26,125,000	27,496,241
Service provided by related parties		
South African Broadcasting Corporation	450	-
South African Revenue Services	3,741,462	3,146,268
Telkom	199,620	274,602
	3,941,532	3,420,870

14. Financial Risk Management

Credit risk

Financial assets which potentially subject the Commission to concentrations of credit risk is principally of receivables. 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 and management has taken a decision not to implement any sensitivity analysis.

Interest rate risk

The Commission has cash and cash equivalents placed with financial institutions and is therefore exposed to interest rate f uctuations 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.

Fair Values

At 31 March 2009 the carrying amounts of cash and cash equivalents, accounts payable and accounts receivable approximated their fair value due to the short term maturities of these assets and liabilities.

15. Foreign donations

Foreign donations comprised amounts received during 2007/2008 from the Australian High Commission.

16. Deficit

Deficit of R571 452 has been partly financed by accumulated surplus from the previous year. The deficit is mainly due to non-cash items such as depreciation and increase in the commission's research and support activities. The Commission has not incurred any bank overdraft in 2008/09.

17. Retirement benefits information

During the year, the FFC 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 1, 387, 470 (2008: R1, 452 919) 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.

18. Operating lease commitments

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

	2009 R	2008 R
Not later than 1 year	849,949	797,026
Later than 1 year but not later than 5 years	1,557,831	2,941,497
	2,407,780	**3,738,524**

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

19. Prior Year Adjustment

During the 2008/9 Financial year management made a decision to back-pay the salary increases for senior managers to January 2008. Such increases were initially recorded in the 2008/9 financial year as it was the date on which the decision was made. During the audit it was agreed that the amount for the period January 2008 - March 2008 should be accounted for in the financial year 2007/8. As this error pertains to the previous financial year, statement of financial position figures are restated as follows:

CAPITAL, RESERVES AND LIABILITIES

Balance Sheet Extract

	Actual 2007/8	Correction	Corrected Actual 2007/8
Capital and reserves			
Accumulated deficit	-167,475	(99,445)	-266,920
Current liabilities	1,616,723		1,716,168
Trade and other payables	1,616,723	99,445	1,716,168

The net effect of a correction of error has resulted in an increase in the accumulated deficit.

20. Remuneration for Commission Members

Year ended 31 March 2009	Salary R	Pension contributions R	Other contributions R	Total R
Executive Commissioners				
B Setai - Chairperson	882,342	103,485	2,762	988,589
B Khumalo- Deputy Chairperson	660,385	76,679	7,724	744,788
	1,542,727	**180,164**	**10,486**	**1,733,377**
Non Executive Commissioners				
T Ajam	24,840	-	-	24,840
M Kuscus	2,484	-	-	2,484
B Mosley-Lefatola	2,311	-	-	2,311
K Kumar	3920	-	-	3,920
N Shezi	14,904	-	-	14,904
D Savage	8,694	-	-	8,694
	57,153	**-**	**-**	**57,153**
TOTAL	**1,599,880**	**180,164**	**10,486**	**1,790,530**

Year ended 31 March 2009	Salary R	Pension contributions R	Other contributions R	Total R
Executive Commissioners				
B Setai - Chairperson	772,328	96,541	42,390	911,260
J Josie (Term expired Dec 2007)	463,512	57,939	17,109	538,561
B Khumalo (w.e.f. 1 Mar 2008)	43,388	5,424	3,927	52,738
	1,279,229	**159,904**	**63,426**	**1,502,558**
Non Executive Commissioners				
T Ajam	23,623	-	-	23,623
M Kuscus	17,650	-	-	17,650
A Melck	6,673	-	-	6,673
B Mosley-Lefatola	9,834	-	-	9,834
	57,780	**-**	**-**	**57,780**
TOTAL	**1,337,009**	**159,904**	**63,426**	**1,560,339**

21. Going Concern

The Financial and Fiscal Commission is a constitutional institution established under section 220 and 214 of the constitution. Cessation of operations would be as a result of government policy decision to wind up and dissolve the entity. At the balance sheet date the Commission has followed all required processes to ensure the continuity of its operations as the Commission cannot sustain itself financially without government intervention.

6.11 Statement of Application of Foreign Donations for the year ended 31 March 2009

No donor funding was received by the Commission during the period under review.

Chapter 7 Human Resources Management

7.1 Overview of HR Activities

Financial constraints for the 2008/2009 reporting period impacted on key aspects of the Human Resource Strategy implementation rollout at the Financial and Fiscal Commission.

Key Human Resource areas affected by this situation were the interim moratoriums implemented on recruitment and staff skills development initiatives during the period.

The Financial and Fiscal Commission has, however, utilised this period to focus on the development of key Human Resource Strategy and Policy areas and the formulation of staffing plans to meet the requirements of the 2009 to 2014 Strategic Plan that was approved by the Commission during the reporting period.

Financial and Fiscal Commission Human Resource Strategy and Policy development has addressed the following:

- Recruitment Strategy and Processes;
- Developmental Posts and Internships;
- Job Evaluation and Remuneration Structuring;
- Performance Management;
- Employee Development;
- Employment Equity;
- Human Resource Information Management;
- Commission Vision and Values.

Staff turnover for the 2008/09 reporting period was 7 employees – 2 from support services and 5 from the Recommendations Research Program. Ongoing staff turnover remains a key challenge for the Financial and Fiscal Commission and will be addressed through the various initiatives contained in the 2009/2014 Strategy.

The prevailing financial circumstances for the first two quarters of the reporting period required that vacated posts were not replaced and an internal job restructuring exercise was implemented to ensure that key task and project deliverables were maintained. From October 2008 an interim recruitment strategy was implemented and four additional staff members were employed through to the end of the financial year.

These developments have resulted in an overall decrease of the secretariat staff complement over the reporting period.

Since April 2009 a revised organisational structure and recruitment strategy has been implemented and the Financial and Fiscal Commission is currently staffing up core business functions in line with the approved strategic objectives and deliverables.

Employee Job Profiles and Performance Contracts for the 2008/2009 period were reviewed and updated in accordance with the transformation of job roles and deliverables contained in the revised organisational structure and in response to staff turnover challenges.

The Commission'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 ration of 60% / 40% for both these occupational categories. During the 2007/2008 reporting period this target was achieved for the Professional Occupational Category – currently at 38.5% Male and 61.5% Female.

In the Senior Management Occupational Category the ration is currently 86% Male and 14% Female. For the SMS category the FFC will need to implement a targeted selection strategy for future appointments (once recruitment activities have been resumed) to meet the gender ratio. Posts identified in the revised organisational structure and recruitment strategy provide opportunity for this to be achieved.

The September 2007 Employment Equity DG Review from the Department of Labour identified two key focus areas for future FFC equity planning – appointment of women at the SMS Level and the appointment of disabled persons into the organisation. Overall the FFC was rated as "Making Reasonable Progress" in respect of employment equity activities and representivity.

In October 2008 the FFC submitted its Employment Equity Report to the Department of Labour. The next FFC Employment Equity report is due on the first working day of October 2010.

Investment in employee skills development for the 2008/2009 reporting period was restricted by budget constraints. As a result of the moratorium on training expenses no individual or team-based training was implemented for the period. The 2009/2014 Strategy and Budget makes provision for a refocused employee skills development program.

The statistical tables and information that follows provides further data applicable to the Financial and Fiscal Commission's Human Resources Management. All Human Resource information published can be verified with the Commission.

7.2 Expenditure

Table 7.2.1 Personnel costs by salary bands, 2008/2009

Salary Bands	Personnel Expenditure	% of Total Personnel Cost	Average Personnel Cost Per Employee
Salary levels 1 - 2	84 269.87	0.6	84 269.87
Salary levels 3 - 5	686 834.26	5.2	171 708.57
Salary levels 6 - 8	421 421.89	3.2	140 473.96
Salary levels 9 - 12	6 704 630.28	50.3	352 875.28
Salary levels 13 - 16	5 427 027.24	40.7	542 702.72
Total	**13 324 183.54**	**100.0**	**360 113.07**

Table 7.2.2 Salaries, Overtime and Medical Assistance by salary bands, 2008/09

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	54 037.19	64.1	-	-	23 478	27.9
Salary levels 3 - 5	480 666.02	70.0	-	-	146 204	21.3
Salary levels 6 - 8	328 101.22	77.9	-	-	40 308	9.6
Salary levels 9 - 12	5 454 897.07	81.4	-	-	445 113	6.6
Salary levels 13 - 16	4 570 810.32	84.2	-	-	280 625	5.2
Total	**10 888 511.82**	**81.7**	**-**	**-**	**935 728**	**7.0**

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

7.3 Employment and Vacancies

Table 7.3.1 Employment and Vacancies by Salary Bands, 31 March 2009

Salary Band	Number of Posts	Number of Posts Filled	Vacancy Rate %	Additional to the Establishment
Salary levels 1 - 2	1	1	0	0
Salary levels 3 - 5	5	4	20%	0
Salary levels 6 - 8	5	3	40%	0
Salary levels 9 - 12	27	13	52%	0
Salary levels 13 – 16	10	9	10%	0
Programme Total	**48**	**30**	**37.5%**	**0**

7.4 Job Evaluation

No Job Evaluation was conducted at the Financial and Fiscal Commission for the reporting period 2008/09.

Table 7.4.1 Employees with Salary Level that Exceed the Grade Determined by Job Evaluation, 01 April 2008 to 31 March 2009

Occupation	Number of Employees	Job Evaluation Level	Remuneration Level	Reason for deviation
Facilities Manager	1	11	12	Post previously benchmarked against Private Sector rates
Accounts Officer	1	09	10	Post previously benchmarked against Private Sector rates
Driver	1	05	06	Post previously benchmarked against Private Sector rates
Receptionist	1	04	07	Post previously benchmarked against Private Sector rates
General Office Assistant	2	03	05	Post previously benchmarked against Private Sector rates
Cleaner	1	01	02	Post previously benchmarked against Private Sector rates

Table 7.4.2 Profile of Employees with Salary Levels that Exceed the Grade Determined by Job Evaluation – 01 April 2008 to 31 March 2009

Beneficiaries	African	Indian	Coloured	White	Total
Female	4	-	2	-	6
Male	1	-	-	-	1
Total	**5**	**-**	**2**	**-**	**7**

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7.5 Employment Changes

Table 7.5.1 Annual turnover rates by salary bands for the period 01 April 2008 to 31 March 2009

Salary Band	Number of employees per Level as at 01 April 2008	Appointments and Transfers In	Terminations and Transfers Out	Turnover rate
Salary levels 1 - 2	1	-	-	-
Salary levels 3 - 5	4	-	-	-
Salary levels 6 - 8	2	1	-	+1
Salary levels 9 - 12	18	1	6	-5
Salary levels 13 - 16	8	2	1	+1
Total	**33**	**4**	**7**	**-3**

Table 7.5.2 Reasons why staf is leaving the FFC

Termination Type	Number	% of total turnover
Death	0	0
Resignation	**7**	**100**
Expiry of Contract	0	0
Dismissal - organisational changes	0	0
Dismissal - misconduct	0	0
Dismissal - inefficiency	0	0
Discharge due to ill-health	0	0
Retirement	0	0
Other	0	0
Total	**7**	**100**

Table 7.5.3 Promotions by Salary Band

Salary Band	Employees 01 April 2008	Promotions to Another Salary Level	Salary Band Promotions as a % of Employees by Salary Level
Salary levels 1 - 2	1	-	-
Salary levels 3 - 5	4	-	-
Salary levels 6 - 8	2	-	-
Salary levels 9 - 12	18	-	-
Salary levels 13 – 16	8	1	12.5
Total	**33**	**1**	**3.03**

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7.6 Employment Equity

Table 7.6.1 **Total number of employees (FFC secretariat staf) in each of the following Occupational Categories as at 31 March 2009:**

Occupational Categories	Male				Female				TOTAL
	African	Coloured	Indian	White	African	Coloured	Indian	White	
Legislators, senior officials and managers	5	-	-	1	-	-	-	1	7
Professionals	3	2	-	-	5	1	-	2	13
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	-	-	-	-	1	-	-	-	1
Total Permanent	**9**	**2**	**-**	**1**	**9**	**3**	**-**	**3**	**27**
Non-permanent employees	-	-	-	-	1	-	-	-	1
Total	**9**	**2**	**-**	**1**	**10**	**3**	**-**	**3**	**28**
Persons with disabilities	-	-	-	-	-	-	-	-	0

Note – Non-permanent employees include interns and fixed-term contracts

Table 7.6.2 Total number of employees (FFC secretariat staf) in each of the following Occupational Levels as at 31 March 2009

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	3	2	-	-	1	1	-	1	8
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	-	-	-	-	4	-	-	1	5
Semi-skilled and discretionary decision making	1	-	-	-	3	2	-	-	6
Unskilled and defined decision making	-	-	-	-	1	-	-	-	1
Total Permanent	**9**	**2**	**-**	**1**	**9**	**3**	**-**	**3**	**27**
Non-permanent employees	-	-	-	-	1	-	-	-	1
Total	**9**	**2**	**-**	**1**	**10**	**3**	**-**	**3**	**28**

Persons with disabilities	-	-	-	-	-	-	-	-	0

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Table 7.6.3 **Recruitment for the Period 01 April 2008 to 31 March 2009**

Occupational Bands	Male				Female				TOTAL
	African	Coloured	Indian	White	African	Coloured	Indian	White	
Top Management	-	-	-	-	-	-	-	-	-
Senior Management	2	-	-	-	-	-	-	-	2
Professionally qualified and experienced specialists and mid-management	-	-	-	-	1	-	-	-	1
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	**2**	**-**	**-**	**-**	**1**	**-**	**-**	**-**	**3**
Non-permanent employees	-	-	-	-	1	-	-	-	-
Total	**2**	**-**	**-**	**-**	**2**	**-**	**-**	**-**	**4**

Table 7.6.4 Promotions for the Period 01 April 2008 to 31 March 2009

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**

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Table 7.6.5 **Terminations for the Period 01 April 2008 to 31 March 2009**

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	-	-	-	-	1	-	-	1	2
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	-	-	1	-	2	1	-	-	4
Semi-skilled and discretionary decision making	-	-	-	-	-	-	-	-	-
Unskilled and defined decision making	-	-	-	-	-	-	-	-	-
Total Permanent	**-**	**1**	**1**	**-**	**3**	**1**	**-**	**1**	**7**
Non-permanent employees	-	-	-	-	-	-	-	-	-
Total	**-**	**1**	**1**	**-**	**3**	**1**	**-**	**1**	**7**

Table 6.6 **Disciplinary Action for the period 01 April 2008 to 31 March 2009**

	Male				Female				TOTAL
	African	Coloured	Indian	White	African	Coloured	Indian	White	
Disciplinary Action	0	0	0	0	0	0	0	0	0

Table 7.6.7 **Skills Development for the period 01 April 2008 to 31 March 2009**

Occupational Categories	Male				Female				TOTAL
	African	Coloured	Indian	White	African	Coloured	Indian	White	
Legislators, senior officials and managers	-	-	-	-	-	-	-	-	-
Professionals	-	-	-	-	-	-	-	-	-
Technicians and associate professionals	-	-	-	-	-	-	-	-	-
Clerks	-	-	-	-	-	-	-	-	-
Service and sales workers	-	-	-	-	-	-	-	-	-
Skilled agricultural and fishery workers	-	-	-	-	-	-	-	-	-
Craft and related trades workers	-	-	-	-	-	-	-	-	-
Plant and machine operators and assemblers	-	-	-	-	-	-	-	-	-
Elementary occupations	-	-	-	-	-	-	-	-	-
Total Permanent	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Non-permanent employees	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**0**

Persons with disabilities	-	-	-	-	-	-	-	-	0

7.7 Performance Rewards

Table 7.7.1 Performance Rewards, by Race, Gender and Disability, 01 April 2008 to 31 March 2009

	Number of Beneficiaries	Total Number of Employees in Group	% of Total in Group	Cost (R'000)	Average Cost per Employee
African					
Male	7	11	63.6	299 647	42 807
Female	8	13	61.5	166 283	20 785
Indian					
Male	0	1	0	-	-
Female	-	-	-	-	-
Coloured					
Male	2	3	66.7	56 913	28 457
Female	3	4	75.0	45 737	15 246
White					
Male	1	1	100.0	30 868	30 868
Female	2	4	50.0	67 004	33 502
Total	**23**	**37**	**62.2**	**666 452**	**28 976**
Employees with disability	**-**	**-**	**-**	**-**	**-**

Table 7.7.2 Performance Reward by salary band for personnel below senior management service, 01 April 2008 to 31 March 2009

Salary Band	Number of beneficiaries	Number of employees	% of total within group	Cost	Average cost per employee	Total cost as % of total personnel cost
Salary levels 1 - 2	1	1	100.0	7 013	7 013	8.3
Salary levels 3 - 5	4	4	100.0	45 188	11 297	6.6
Salary levels 6 - 8	2	3	66.7	32 299	16 150	7.7
Salary levels 9 - 12	12	19	63.2	393 492	32 791	5.9
Total	**19**	**27**	**70.4**	**477 992**	**25 157**	**6.1**

Table 7.7.3 Performance related rewards by salary band, for Senior Management Service

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	4	10	40.0	188 460	47 115	3.5
Total	**4**	**10**	**40.0**	**188 460**	**47 115**	3.5

7.8 Foreign Workers

Table 7.8.1 Foreign workers by salary band, 01 April 2008 to 31 March 2009

Salary Levels	01 April 2008		31 March 2009		Change	
	Number	% of total	Number	% of total	Number	% of total
Salary levels 1 - 2	0	0	0	0	0	0
Salary levels 3 - 5	0	0	0	0	0	0
Salary levels 6 - 8	0	0	0	0	0	0
Salary levels 9 - 12	2	67	0	0	-2	67
Salary levels 13 – 16	1	33	0	0	-1	33
Total	**3**	**100**	**0**	**0**	**-3**	**100**

Table 7.8.2 Foreign workers by major occupation, 01 April 2008 to 31 March 2009

Major Occupation	01 April 2008		31 March 2009		Change	
	Number	% of Total	Number	% of total	Number	% of total
Senior Management	1	33.2	0	0	-1	33.3
Research Specialists	2	66.6	0	0	-2	66.6
Total	**3**	**100**	**0**	**0**	**-3**	**100**

7.9 Leave Utilisation for the Period 01 April 2008 – 31 March 2009

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Table 7.9.1 Sick Leave Utilisation for the Period 01 April 2008 to 31 March 2009

Salary Band	Total days	% Certification	No. of employees using sick leave	% of total employees using sick leave	Average per employee	Estimated cost	Total days with medical certification
Salary levels 1 - 2	-	-	-	-	-	-	-
Salary levels 3 - 5	36	86.0	4	100%	9.00	22 141	31
Salary levels 6 - 8	51.5	95.2	2	66.7%	25.75	40 275	49
Salary levels 9 - 12	112	74.1	17	89.5%	6.59	174 207	83
Salary levels 13 - 16	121	90.1	6	60%	20.17	367 923	109
Total	**320.5**	**85%**	**29**	**78.4%**	**11.05**	**604 546**	**272**

Table 7.9.2 Disability Leave (temporary and permanent), 01 January 2008 to 31 December 2008

No Disability Leave for the reporting period

Table 7.9.3 Annual Leave, 01 April 2008 to 31 March 2009

Salary Band	Total days taken	Number of employees in grade	Average per employee
Salary levels 1 - 2	15	1	15
Salary levels 3 - 5	79	4	20
Salary levels 6 - 8	33.5	3	11
Salary levels 9 - 12	300	19	16
Salary levels 13 - 16	129	10	13
Total	**556.5**	**37**	**15**

Table 7.9.4 Leave payouts for the period 01 April 2008 to 31 March 2009

Reason	Total Amount (R'000)	Number of employees	Average payment per employee
Leave payout for 2008/09 due to non-utilisation	-	-	-
Current leave payout on termination of service	50 526	6	8 421
Total	**50 526**	**6**	**8 421**

7.10 HIV/Aids and Health Promotion Programs

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

The HIV/Aids Policy makes 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 – 14 HR Strategy includes the implementation of staff HIV / Aids Awareness and Health Promotion Programs. The organisation will be installing a first aid station on site and an official will trained in all aspects of first aid support. This resource will cover 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.

7.11 Labour Relations

Table 7.11.1 Collective Agreements, 01 April 2008 to 31 March 2009

Total Collective Agreements	None

Table 7.11.2 Misconduct and Disciplinary Hearings Finalised, 01 April 2008 to 31 March 2009

Outcomes of disciplinary hearings	Number	% of total
Correctional Counseling	-	-
Verbal Warning	-	-
Written Warning	-	-
Final Written Warning	-	-
Suspended without Pay	-	-
Fine	-	-
Demotion	-	-
Dismissal	-	-
Case withdrawn	-	-
Total	**-**	**-**

Table 7.11.3 Grievances Lodged for the Period 01 April 2008 to 31 March 2009

Number of grievances lodged	None

Table 7.11.4 Disputes Lodged with Councils for the Period 01 April 2008 to 31 March 2009

Number of disputes lodged	None

Table 7.11.5 Strike Action for the Period 01 April 2008 to 31 March 2009

Strike actions for the period	None

Table 7.11.6 Precautionary suspensions for the period 01 April 2008 to 31 March 2009

Precautionary suspensions for the period	None

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7.12 Skills Development

Table 7.12.1 Training provided 01 April 2008 to 31 March 2009

Occupational Categories	Gender	No. of employees as at 01 April 2008	Learnerships	Skills programmes and other short courses	Other forms of training	Total
Legislators, senior officials and managers	Female	1	-	-	-	-
	Male	6	-	-	-	-
Professionals	Female	12	-	-	-	-
	Male	7	-	-	-	-
Clerks	Female	5	-	-	-	-
	Male	1	-	-	-	-
Elementary occupations	Female	1	-	-	-	-
	Male	-	-	-	-	-
Total		**33**	**-**	**-**	**-**	**-**

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7.13 Injury on Duty

Table 7.13.1 Injury on duty, 01 April 2008 to 31 March 2009

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

7.14 Utilisation of Consultants

Table 7.14.1 Report on Consultant Appointments using Appropriated Funds: April 2008 to March 2009

Name/Project	Commission Research Total Value	Professional Services Total Value	Historically Disadvantaged Individual (HDI) Status
Adeolu Akinboade	25,500.00		Yes
Associes Pour le Development Economique International	322,284.00		N/A
Machethe - Machethe C L		71,100.00	Yes
NAF Business Consultancy		58,020.00	Yes
University of Stellenosch	150,000.00		N/A
University of Cape Town	331,968.00		N/A
Alex van den Heever	28,000.00		No
University of Witwatersrand	22,000.00		N/A
James Robert Alm	64,457.40		N/A
André Michaux		339,951.40	No
Jorge Martinez Vazquez and James Alm	219,080.31		N/A
Ismael Fofana	282,950.00		N/A
Andy Reschosky	29,376.20		N/A
Curtain University	45,188.42		N/A
MPL		485,640.00	Yes
Evo Solutions		42,875.40	No
Casewell Mthombeni		52,263.00	Yes
Caisse Centrale Desjardins Montreal	322,284.00		N/A
Pegasys	285,000.00		No
Sizanange	35,840.00		Yes
Jonathan Crush	163,678.88		N/A

Table 7.14.2 Report on Service Provider/External Supplier Appointments: April 2008 March 2009

Name/Project	Total Value	Historically Disadvantaged Individual (HDI) Status
Adcorp Talent Resourcing	17,214.91	Yes
American Express Card	1,085,586.84	No
Andrews Carpet Cleaners	4,600.00	Yes
Aquazania Premium Water	9,301.95	No
ASG Consulting	34,852.08	No
Asyst Intelligence	28,329.00	No
Auditor General	200,562.97	N/A
Avis Rent A Car	72,391.85	No
B C Rens - Airport Transfer	4,600.00	No
Baker Hendia	2,487.20	No
Banathi Catering	30,624.00	Yes
Broll Property Management	398,943.74	No
Business Bay	3,174.98	Yes
Butterworths Publishers	2,459.44	Yes
Bytes Technologies	1,060.60	Yes
Capello's - Matrix	13,020.00	No
Cape Argus	936.03	Yes
Computer Consulting Services	11,970.00	No
Chelly B	4,919.67	Yes
Churchills International	6,388.83	No
Data Deal	1,053.91	Yes
Datapro	137,157.79	Yes
Dex Security Solutions (PTY)	1,113.21	No
DHL International (Pty) Ltd	2,833.11	No
Digital Voice Processing	19,898.70	No
Dilightfull	3,249.00	Yes
Diverso Technology	4,573.62	No
Dot Office Stationery	35,498.57	No
Early Worx	1,963.65	No
Econometrix	48,450.00	No
EVO Consulting Services	37,893.60	No
Exclusive Books	500.00	Yes
Fax Fix Automotion	399.00	Yes
Flower Spot	1,660.00	No
Flick Pest Control	1,145.70	No
Formax	2,902.21	No
Gauteng Printing	3,360.02	Yes
Hybrid Systems	30,084.60	Yes
Imbasa Consulting & General Trading CC	18,021.12	Yes
Imperial Chauffeur Drive	5,766.00	Yes
Cape Times	936.03	Yes
Internet Solutions	70,347.65	Yes
IS Fax	8,266.71	Yes

Name/Project	Total Value	Historically Disadvantaged Individual (HDI) Status
Jade Lee Electrical	2,657.66	No
Ken Malherbe	2,421.00	No
Kirstan Furniture Removals	2,399.70	Yes
Magic Builder Centre	320.00	No
Makgamatha M W F	3,500.00	Yes
Malnor	255.00	No
Masebelanga Nobantu	5,200.00	Yes
Midway Glass	5,592.01	No
Minit Print /Wenceslas No.1 cc	11,657.53	No
Moments Frames & D' Articles	1,504.80	N/A
Nashua MBL	283,556.95	Yes
Nashua Kopano	11,970.00	Yes
National Library of SA	110.00	N/A
Nedbank Credit Card	22,682.69	Yes
Nedf eet	10,091.84	Yes
New Generation Solutions	120,375.26	No
Nino's	781.50	No
Norman M V	10,000.00	No
OPTIPLAN	3,306.00	No
Price Waterhouse Coopers	304,698.06	Yes
Publications Overseas	3,570.00	Yes
Rentokil Initial - Plant Rental CT	8,006.82	No
Rentokil - Midrand	96,852.88	No
Scrap and Stamp Inn	1,034.95	No
DJ Sam Karaoke and Entertainment	4,500.00	Yes
Sekunjalo Electrical	3,503.56	Yes
SE Makhubu and Associates	167,886.00	Yes
South African Post Office	873.00	N/A
South African Reserve Bank	260.00	N/A
Sowetan	2,061.75	Yes
SPSS-SA Statiscal Products and Service	19,300.20	N/A
Steiner Cape Town	12,154.76	Yes
Steiner Midrand	15,892.96	Yes
Telkom	85,985.07	Yes
Tenaka's Tribe	629,544.87	Yes
Trisha Delisha	2,953.00	Yes
UNISA	5,120.00	N/A
Unwembi Communications	6,748.80	Yes
UPS SCS South Africa	762.27	No
Venditor International (Pty) Ltd	16,956.18	No
Walton's Stationery Midrand	20,285.59	Yes
Walton's Stationery Cape Town	4,366.16	Yes
Zenprop Property Holdings	258,985.43	No
University of Western Cape	325.00	N/A

Appendices

Appendix A: Glossary

Backward linkage

The connection between an industry and its suppliers.

Bitumen

A by-product of crude oil which is used in the construction of waterproof surface layers.

Computable general equilibrium

A class of economic model that use economy wide data to estimate the reaction of the economy to changes in policy, technology or other external factors.

End user efficiency

The savings, usually energy related, achieved at the end of the energy supply chain.

Externality

A spill over from economic activity, it occurs when a decision result in usually unintended benefits or costs to the third party.

Equivalent variation

Equivalent variation in the context of this report, is the change in income that would be required without electricity tariff reform to make people as well-off economically as they would be with the electricity tariff reform.

Fiscal autonomy

The degree to which sub-national governments have complete independence and discretion (with minimum or no central government control) in setting of priorities, determining expenditure and setting the tax rates.

Fiscal dumping

The transfer of funds by the transferring department at a rate faster than the receiving agency, e.g. a municipality, is able to spend them. It commonly leads to a build-up of unspent money and requests for massive rollovers by receiving municipalities.

Forward linkages

The distribution chain connecting a producer or supplier with its customers.

Multiplier

The cumulative sum of the endogenous effects following an exogenous intervention.

It is inversely related to the exogenous portion of economic activity.

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Opportunity cost

The cost of an economic activity foregone by the choice of another activity; OR, the cost (sacrifice) incurred by choosing one option over an alternative one that may be equally desired.

RSC levy

A levy paid by business to metropolitan and district municipalities based on gross remuneration, including fringe benefits as well as gross income generated from sales of products and services.

Quintile

A proportion of a set of data that has been ranked and divided into have equal groups (or bands), where each group contains an equal number of data items.

Social Accounting Matrix (SAM)

Flows of all economic transactions that take place within an economy (regional or national).

Surcharge

Charge, fee or amount added on top of another charge, fee or amount.

VAT

Value-added tax: tax on the final value of certain goods and services.

VAT zero rating

Tax relief on payment of certain products or services.

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Appendix B: Abbreviations and Acronyms

ABS	Australian Bureau of Statistics
AIDS	Acquired Immune Deficiency Syndrome
AsgiSA	Accelerated and Shared Growth Initiative for South Africa
ASB	Accounting Standards Board
BNG	Breaking New Ground
CD	Cobb-Douglas
CES	Constant Elasticity of Substitution
CFO	Chief Financial Officer
CGE	Computable general equilibrium
CGT	Capital Gains Tax
CMBS	Constitutionally Mandated Basic Services
DBSA	Development Bank of South Africa
DHS	District Health Services Programme
DME	Department of Minerals and Energy
DoE	Department of Education
DoRB	Division of Revenue Bill
DoRA	Division of Revenue Act
DoT	Department of Transport
DPE	Department of Public Enterprise
DPLG	Department of Provincial and Local Government
DWAF	Department of Water Affairs
EC	Eastern Cape
EDI	Electricity Distribution Industry
EMS	Emergency Medical Services Programme
EPWP	Expanded Public Works Programme
ERIC	Electricity Restructuring Inter-departmental Committee
FBS	Free Basic Services
FFC	Financial and Fiscal Commission
FIFA	Fédération Internationale de Football Association
FS	Free State Province
GAU	Gauteng
GDP	Gross domestic product
GFS	Government Financial Statistics
GP	Gauteng Province
HHD	Households
HIS	Health Information System
HIV	Human Immunodeficiency Virus
IDIP	Infrastructure Development Improvement Programme
IDPs	Integrated Development Plans
IES	Incomes and Expenditure Survey
IGP	Infrastructure Grant for Provinces
IHHSDG	Integrated Housing and Human Settlement Development Grant
IMF	International Monetary Fund
INEP	Integrated National Electrification Programme
I-O	Input–output
IPP	Independent Power Producer
IT	Information Technology
JSB	Joint Services Board levies
JIPSA	Joint Initiative on Priority Skills and Acquisition
KWh	Kilowatt-hour
KZN	KwaZulu-Natal Province
LES	Linear Expenditure System
LES	Local Government Equitable Share
LG	Local Government

LGDC	Local Government Data Collection
LIM	Limpopo
LP	Limpopo Province
LSM	Learner Support Material
MDB	Municipal Demarcation Board
MEC	Member of the Executive Council
MIG	Municipal Infrastructure Grant
MM	Municipal Manager
MINMEC	A forum consisting of the Minister of Housing and nine Members of the Executive for housing from the nine provinces
MP	Mpumalanga Province
MPU	Mpumalanga
MTBPS	Medium-Term Budget Policy Statement
MTEF	Medium Term Expenditure Framework
NC	Northern Cape Province
nDoE	National Department of Education
nDoH	National Department of Housing
NDoH	National Department of Health
nDoT	National Department of Transport
NERSA	National Energy Regulator of South Africa
NLTA	National Land Transition Act (Act No. 22 of 2000)
NLTSF	National Land Transport Strategic Framework
NQ	National Quintile
NSS	National Statistics System
NT	National Treasury
NW	North West Province
OECD	Organisation for Economic Cooperation and Development
ONS	Office of National Statistics
PBER	Provincial Budget and Expenditure Review
pDoH	Provincial Department of Housing
pDoT	Provincial Department of Transport
PDoTRPW	Provincial Department of Transport, Roads and Public Works
PED	Provincial Education Department
PIT	Personal Income Tax
PTIF	Public Transport Infrastructure Grant
RED	Regional Electricity Distributor
RIFSA	Road Infrastructure Strategic Framework for South Africa
RSA	Republic of South Africa
RSC	Regional Services Council levies
RTT	Resource Targeting Table
SABS	South African Bureau of Standards
SALGA	South African Local Government Association
SAM	Social Accounting Matrix
SANRAL	South African National Roads Agency Limited
SARB	South Africa Reserve Bank
SARS	South Africa Revenue Services
SASA	South African Schools Act
SASQAF	South African Statistical Quality Assessment Framework
SCoF	Select Committee on Finance
SDDS	Special Data Dissemination Standard
SNA	System of National Accounts
StatsSA	Statistics South Africa
TB	Tuberculosis
TWh	Terawatt hour
VAT	Value Added Tax
WC	Western Cape Province

Appendix C: Publications and Research Output

Commission Papers

- Financial and Fiscal Commission Submission for the Division of Revenue 2009/10, 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 Submission on Draft Money Bills Amendment Procedure and Related Matters Bill, 2008 for Portfolio Committee of Finance Hearings, 6th August 2008;
- Money Bills Amendment Procedure and Related Matters Bill 2008, the Commission's Submission had been welcomed by Parliament. The deputy Chairperson attended a follow up meeting in January 2009;
- Financial Management of Parliament Bill 2008, Commission has made a submission to Parliament;
- Norms and Standards for Schools Infrastructure, Final Submission sent to Department of Education.

Journal Articles

- Amusa, H., Mabunda, R., and Mabugu, R., (2008) "Fiscal illusion at the local sphere: An empirical test of the f ypaper effect using South African Municipal data". South African Journal of Economics, 76(3); 443-465, Blackwell Publishers;
- Mabugu, R., and Chitiga-Mabugu, M. (2009) "Is Agricultural protection beneficial for South Africa: An applied modelling illustration from South Africa", Economic Modelling, 26: 256-265, Elsevier Publishers, DOI: 10.1016/j.econmod.2008.07.001;
- Mabugu, R., and Chitiga, M. (2008) "Evaluating the impact of land redistribution: A CGE microsimulation application to Zimbabwe", Journal of African Economies, 17: 527-549; doi:10.1093/jae/ejm039.

Peer reviewed external working papers

- Amusa, H., Wabiri, N., and Chetty, K., (2008). 'Application of a Multi-Criteria Integrated Portfolio Model for Quantifying South Africa's Crude Oil Import Risk". Economics Research Southern Africa Working Paper Number 108, University of Cape Town;
- Amusa, H., Mabunda, R., and Mabugu, R., (2008) "Fiscal illusion at the local sphere: An empirical test of the f ypaper effect using South African Municipal data". Economics Research Southern Africa Working Paper Number 72, University of Cape Town;
- Mabugu, R. and Mohamed, A., (2008) "The Economic Impacts of Government Financing of the 2010 FIFA World Cup". Stellenbosch Economic Working Papers: 08/08;

Workshops/Conference Papers Presented

- Ramos Mabugu (2008), Analysing impacts of alternative policy responses to high oil prices using an energy-focused CGE model for South Africa, 13th Annual Conference of the African Econometrics Society, 9-11 July 2008, The University of Pretoria, South Africa;
- Ramos Mabugu invited to be a main speaker at the ARTNeT-PEP Policy Forum on Trade, Investment and Domestic Policy Coherence for Inclusive Growth, Dusit Thani Hotel, Manila, Philippines, Tuesday, December 9, 2008.

Appendix D: Research Strategy

Executive Summary

The Five Year Research Strategy sets out in broad terms how the Financial and Fiscal Commission will attain its stated 2008 vision of becoming a "pre-eminent and leading institution influencing the Intergovernmental Fiscal Relations System in South Africa". How the Research Strategy is to be converted into practice will be set out in a separate document called the Operational Plan.

To be "pre-eminent and leading institution" implies the following outputs and outcomes from the Commission:

1. Better policy advice and recommendations which are more responsive to emerging issues of development to Parliament, provincial legislatures and to organised local government through the development of new as well as tailored and sharpened concepts and methodologies that better capture the nature, extent, and depth of the Commission's legislative mandate;

2. Enhanced capacity of researchers and practitioners in the modelling, measurement, analysis, and monitoring of the developmental impact of public resources;

3. Wider dissemination and greater policy influence of supported initiatives; and

4. Enhanced collaboration among researchers, experts, policymakers, and other stakeholders in achieving fiscal sustainability and related development agenda at the national and international level through its joint research initiatives.

Four **goals or thematic areas** have been determined to take the Plan forward. These are:

1. Policy Outcomes

This theme explores the contribution of government spheres in supporting developmental outcomes of government interventions within and across various government spheres. Monitoring and evaluation would play a key role in measuring expenditure outcomes.

2. Accountable Institutions

This theme centres on having accountable institutions in South Africa's IGFR. This refers to accountability in (i) service delivery and (ii) policy making and planning. Accountability is a constitutional requirement for good governance. Transparency (for example in terms of section 215 and section 216 as well as constitutional provisions relating to procurement) is an important enabler of accountability.

3. Equitable Growth and Distribution of Resources

Under this theme the Commission wishes to see whether there is equitable growth and distribution of resources. There is a renewed need in respect of balancing the focus between equitable share transfers (allocations) and the efficiency with which such allocations are being spent (absorptive capacity/underspending etc). An important conceptual issue is the balance that needs to be struck on the trade-off between interventions that contribute to consolidating the progress to date in the fiscal arena and those that build pressure for additional changes.

4. Flexible Response

This thematic area involves anticipating political and economic changes that will significantly impact on the IGFR. This is also the area where the Commission deal with those submissions and reports on which it has no control over any period of time. Some areas are already known where the commission will have to respond to. The Commission needs to factor these in and do background position papers. Other issues cannot be anticipated but the Commission will have to accept that it may be called upon to do high quality work at short notice in order to meet these stakeholder needs.

In line with the "Tinbergen Rule", four areas of intervention or instruments have been identified to make an impact in the 4 thematic areas identified above as follows:

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1. Expanding Public Services

This refers to assessments of how attempts by government to increase the quantum of public services are faring in attaining the goals set out in the key thematic areas identified. It also includes infrastructure financing.

2. Public Expenditure Management Systems

Public expenditure management refers to the ways in which public resources are allocated and managed in pursuit of fiscal discipline, strategic prioritisation and value for money. This analysis must take the budget process, policy process and institutional arrangements into account.

3. Macro management and DOR

This refers to the institutions of economic and fiscal policy coordination within and among the three spheres of government that have impacts on service delivery.

4. Sustaining Public Service Delivery

A key and topical issue here is not expansion of public service but rather sustaining service delivery and holding public servants accountable. Key issues are job creation, improving the efficacy of government programmes and resuscitating/reviving existing ones.

Certain **core principles** must be in place to underpin this strategy. These are:

a) Research excellence and professionalism;

b) Integrity;

c) Creativity and Innovation;

d) Independent and Objective;

e) Impartial;

f) Focus;

g) Collaboration and engagement;

Dissemination strategies are convened with local constituents and research partners to review the studies and research methods proposed to address each thematic area. The communication and dissemination strategy is organised around:

a) Direct contact (by regular mail, email, telephone, seminars or meetings (institutionalized (TCF, Budget Council, 10x10, Headcom, Emis etc) or at personal level or at Financial and Fiscal Commission corporate meetings);

b) Specific events such as national workshop/launch;

c) Publication and media, including internet;

d) Public hearings and other participatory activities.

A

Section 1: Overview

The Financial and Fiscal Commission makes recommendations and gives advice to organs of the state in the national, provincial and local spheres of government on financial and fiscal matters. The Vision of the Commission is to be a pre-eminent and leading institution influencing the Intergovernmental Fiscal Relations System in South Africa. Its mission is to enhance South Africa's development by providing independent, impartial advice and recommendations on Intergovernmental Fiscal Relations to legislative authorities and organs of state. This vision and mission is pursued by the Commission through its support and promotion of high quality and policy relevant research resulting in:

1. Better policy advice and recommendations which are more responsive to emerging issues of development to Parliament, provincial legislatures and to organised local government through the development of new as well

as tailored and sharpened concepts and methodologies that better capture the nature, extent, and depth of the Commission's legislative mandate;

2. Enhanced capacity of researchers and practitioners in the modelling, measurement, analysis, and monitoring of the developmental impact of public resources;

3. Wider dissemination and greater policy influence of supported initiatives; and

4. Enhanced collaboration among researchers, experts, policymakers, and other stakeholders in achieving fiscal sustainability and related development agenda at the national and international level through its joint research initiatives.

The Commission has played a central role in the development of the intergovernmental fiscal relations (IGFR) system in South Africa since it was established in 1994. It has played this role through a long-standing and broad-based research program focused on the many challenges of equitably distributing nationally raised revenue. It is recognized as one of the foremost contributors to the provincial equitable share formulae used by government. It has also made notable contributions on issues of expenditure assignments and financing issues with respect to local government, developed a "costed norms approach" and carried out a comprehensive review of the intergovernmental fiscal relations system and conditional grants. The capacity of the Financial and Fiscal Commission to continue its productive history is now challenged by many of the forces faced by many other public institutions including declining real budgets, the changing nature of important research questions, and shifts in stakeholders and their expectations for research products. This document presents a five year research strategy for the Financial and Fiscal Commission that prepares the organisation to address today's questions and positions the organisation for research leadership into the next five years.

Section 2: The Context

South Africa has a reputation for sound fiscal management, financial markets that are opening progressively over time, and prudent regulatory regime. However, there is a growing awareness of the big challenges that lie ahead. These include, at the macroeconomic level; maintaining a reasonable deficit to gross domestic product ratio, an inflation rate that is within acceptable targeted limits, an economic growth rate sufficient to make inroads into high unemployment and poverty levels as well as an acceptable balance of payments deficit. At a sub-national level, the challenges include sub national borrowing and poverty alleviation, and improved access to basic services.

The necessity for the Financial and Fiscal Commission to transform its research performance has national and international drivers. At the national level, the Constitution clearly sets the expectation that the Commission must contribute more significantly to the Intergovernmental Fiscal Relations (IGFR) system and revenue sharing among spheres of government. The emergent Intergovernmental Fiscal Relations (IGFR) system is a relatively new initiative in South Africa and is enshrined in the Constitution. In this regard, the system continues to have issues that must still be addressed in the course of its evolution and implementation. While it has been relatively straight forward to deal with funding of own responsibilities at national, provincial and local government levels, the challenge for devising effective approaches for funding concurrent functions (education, health, social development, and housing) remains. A misalignment between national priorities and provincial budgets has been often identified that compromises service delivery. This problem continues to persist despite the establishment of technical and intergovernmental forums tasked with the responsibility to improve intergovernmental coordination in the spirit of cooperative governance stated in Chapter Three of the Constitution.

At the international level, global trends show the growing importance of decentralisation, at least amongst democratising African countries. Global shocks such as the recent sub-prime crisis, rising oil and food prices and volatile commodity prices also have important consequences for South Africa that the Commission must be able to anticipate through its research and work out consequences for the country's IGFR system. For instance, the poorest people will be hit the hardest by the oil and food price crisis and the Financial and Fiscal Commission's research should help the country manage this downturn through research that assists government in designing supportive policies to help minimize the negative effects of oil and food price crisis on poor households. International experience also highlights increasing importance of collaboration between institutions for the processes of research in order to obtain synergies of expertise, facilities, data access, and knowledge generalization in the field. For the Commission to be respected and its advice taken seriously, it is essential to have a research profile that is nationally and internationally recognized and competitive and takes cognizance of developments in IGFR taking place nationally and internationally. Such research needs to be relevant and right at the forefront and cutting edge of what government is implementing. Currently government seems to only serve to comply with the requirement to respond to the Commission's recommendations without immediate or high impact on the work they do. This should position the Commission as an automatic reference body of knowledge for various government departments. It is within this context that a new long term research strategy needs to be couched.

Section 3: The Strategy

The Financial and Fiscal Commission has not used an explicit strategic approach to research in the past. Although very useful contributions have been made especially in the areas of development of formulas for equitable allocation of revenues, the implications of not having an explicit research strategy have been that research projects have tended to be ad hoc and severely affected whenever there is staff turnover. An explicit strategic approach to research will be adopted to tackle these imposing issues and this constitutes a major break from the past where there was no explicit strategic approach to research.

In terms of content, research in the past has emphasised first generation issues of equitable division of the provincial and local equitable share, expenditure assignments and development of relevant research tools. Recently, research work has become more forward looking, seeking to manage change within the system in a consistent, logical and managed fashion. Most of the work in this period has been developmental, focusing on building credible tools (e.g., costed norms approach, CAPEX model, CGE Models, Econometric Models). Emphasis on indicators and relevant data has been increasingly becoming the means through which the Commission informed the intergovernmental fiscal decision-making process. Despite these important contributions, it has become increasingly clear that the issue at stake is no longer so much about the quantum of public funds and its allocation only, but rather whether these financial resources can be translated into service delivery outputs which actually have an impact on communities.

The main focus of the new research strategy is therefore on these second generation issues of how much the quantum of public funds and its allocation can be translated into service delivery outputs which actually have an impact on communities. The focus will be on outcomes and impact of government interventions, premised on seeking to identify a broader set of institutional and governing arrangements that are capable of achieving positive public expenditure outcomes. This is a significant realignment from the thrust of research in the past.

Section 4: Research Themes and Interventions

The ultimate objective of the 5 year research strategy is thus to contribute to coherent government policy and effective participation of institutions and communities in the IGFR system. The strategy seeks to achieve this objective through targeting 4 themes or areas of impact that are listed below and followed by a description.

a) Expenditure Outcomes

b) Accountable Institutions

c) Equitable Growth and Redistribution of Resources

d) Flexible Response

1. Expenditure Outcomes

This theme addresses whether the government policies are contributing to the intended outcomes. As pointed out in Schick (1998), these outcomes pertain to (a) total revenue and expenditure, (b) the allocation of resources among sectors and programs, and (c) the efficiency with which government institutions operate. Specifically, the theme is to explore:

- The contribution of government spheres in supporting developmental outcomes. There is a clear focus on what the outcomes and impact of policy interventions are. A number of questions become pertinent such as whether national and sub-national budgets are allocating funds in line with agreed development priorities. Are municipalities for instance playing their role with regards to encouraging economic growth and poverty reduction?

- The extent to which service targets are being met. Research should show where government spheres have allocated and spent public money and answer whether budgets are buying the planned outputs.

Monitoring and evaluation would play a key role in measuring expenditure outcomes. With a shift in focus towards outcomes evaluation, emphasis will be placed on the national spheres to not only provide policy direction, but to have increased monitoring capability. In itself an outcome based approach will imply that there is a need to increase reporting on non-financial data.

2. Accountable Institutions

Accountability is a constitutional requirement for good governance. Transparency (for example in terms of section 215 and section 216 as well as constitutional provisions relating to procurement) is an important enabler of accountability. Accountable institutions can be analysed within Schick (1998)'s broad paradigm of rules, roles and incentives. Relevant questions to address for example would be whether there are any laws or regulations which undermine accountability of public sector institutions (for example separating policy, budgeting and implementation across spheres of government)? Are roles clarified or does uncertainty create a lack of accountability (e.g. accountability by whom, for what to whom)? Are perverse incentives being created? The concept of perverse incentives can be expanded to capture moral hazard, where diffuse accountability can result in choices being made without reference to their ultimate consequences, because incentives are poorly aligned. This reinforces the importance of clear delineation of responsibilities. Additionally, accountability is made more complex in intergovernmental systems as central oversight often attempts to replace rather than complement citizen oversight (or direct accountability), despite the information asymmetry facing national actors. Strengthening direct citizen oversight would be a critical challenge for the Financial and Fiscal Commission. Information relates to the ability to monitor and evaluate decisions and actions taken, to enforce accountability and responsiveness in public institutions. There is also the need for managing both formal and informal institutions as well as linkages between public and private sectors. In the face of an outcomes based approach a need exists for a more regular reporting on progress made against set targets, using means most accessible to the constituencies/citizens.

3. Equitable Growth and Distribution of Resources

This theme arises out of ongoing work and the Commission would wish to see equitable growth and distribution of resources following implementation of its recommendations. There is a renewed need in respect of balancing the focus between equitable share transfers (allocations) and the efficiency with which such allocations are being spent (absorptive capacity/underspending etc). An important conceptual issue is the balance that the Commission's recommendations would need to strike between its research objectives in (a) deepening the understanding (interpretation) of the implications of expenditure assignments across spheres, and (b) reviewing fiscal performance within and across spheres within existing interpretations of assignments. The balancing act implies that there may be a trade-off between recommendations that contribute to consolidating the progress to date in the fiscal arena rather than building pressure for additional changes. The challenge in the South African context is a need to be vigilant about accumulated backlogs overtime. In an equalizing system, how does one ensure that one does not only set a long term policy, but one subsets it per province such that under achievement by one province (due to accrued absorptive capacity) does not lead to reduced funding for progressive provinces. The more there is under spending in one province the more their backlogs increases and thus claiming a bigger share of the finite national pool of resources.

Specific research topics will provide a survey of the governance structure and fiscal relationships between and among spheres of government. They will detail the macro distribution of revenue and expenditure responsibilities/authority between spheres as required by the Constitution. Major revenue issues to be considered include: (i) adequacy of revenue assignment and discretion over own source revenue; (ii) obstacles to effective revenue administration/ mobilization; (iii) internal revenue allocation, including issues of adequacy, dependency and effectiveness in achieving vertical and horizontal fiscal balance; and (iv) local political will in revenue mobilization and collection. Expenditure issues include: (i) range of effective local budgetary autonomy; (ii) adequacy of compensating transfers for devolved functions; (iii) central government budgetary mandates without compensating fiscal transfers; (iv) nationally raised revenue sharing mechanisms and their reforms. Finally, there would be analysis of fiscal transfers – impact on efficiency and equity of service delivery and inter-governmental equity.

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4. Flexible Response

This is the area where the Commission deal with those submissions and reports on which it has no control over any period of time. The Commission needs to meet its legislative mandate in terms of the Division Of Revenue Act for instance as well as pursuing its own proactive research which asks whether the Intergovernmental Relations system is a support or an impediment to the use of public funds to achieve policy impact. At the same time, the Commission needs to realise that it will on occasion have to respond rapidly to stakeholder requests which it may not be able to predict in advance. Some areas that are already known where the commission will have to respond to sometime include engaging in the appropriation process after the Money Bills Amendment Act and relationship with the Parliamentary Budget Office, Department of Provincial and Local Government's process to restructure provinces and local government, complying with legislative requirements in such legislation as the MFMA, FFC Act, PTRPA, MSA. The Commission needs to start factoring these in and do background position papers. Other issues cannot be anticipated but the Commission will have to accept that it may be called upon to do high quality work at short notice in order to meet these stakeholder needs.

We need a f exible, coordinated and fast response to these issues. A more f exible and broadly representative research team will be needed to coordinate the rapid response. The critical challenges here are related to (a) capacity and process of anticipating demand; and (b) management of the delivery process within firm timelines and budgets, with an emphasis on a rapid and coherent response.

The basic components of the programme to assist the Commission make an impact in the 4 thematic areas identified above are listed next, followed by a general explanation of the main features of each component/intervention:

i. Expanding Public Services;

ii. Public Expenditure Management Systems;

iii. Macro management and Division of Revenue;

iv. Sustaining Public Service Delivery.

5. Expanding Public Services

This refers to assessments of how attempts by government to increase the quantum of public services are faring in attaining the goals set out in the key thematic areas identified. It also includes infrastructure financing. The key issues in the assessment boil down to how capital is financed, what the dominant mode is and why issues surrounding the credit market access such as rules, restraints and assistance from higher order government, rules and restraints on foreign borrowing and bond financing will be tackled.

6. Public Expenditure Management Systems

Public expenditure management (PEM) refers to the ways in which public resources are allocated and managed in pursuit of fiscal discipline, strategic prioritisation and value for money. Any analysis of a PEM system must take the budget process, policy process and institutional arrangements into account

The outcomes of the PEM system will depend on the institutional environment in which the budget and policy process operates. (See Schick (1998) for a discussion for the institutional rules, roles and information that contribute to the achievement of the three PEM objectives). The "institutional structure" is the framework of rules, customs, and incentives, which inf uence how expenditure decisions are made and people behave. Some of the rules are contained in formal laws or regulations. A well-performing public sector will have a clearly defined system of authority delegation. However, there are also usually many unwritten customs and habits that may, for example, dictate the extent to which the written rules are actually enforced. Assessing a public expenditure management system, and developing solutions, should be informed by a good understanding of the informal rules by which the system actually operates, as well as the formal regulations that are supposed to apply.

A number of institutions mediate government's abilities to turn budget allocations into the necessary inputs for service delivery (personnel policies, supply chain management processes, central bargaining issues). A further set of institutions relating to PEM also come into play when converting inputs into service delivery outputs through a range of service delivery modalities and funding instruments. Effective PEM requires articulation between the policy making, strategic planning, operational planning for programmes and projects, budgeting, implementation, financial management in executing the appropriate budget, the control environment, in year reporting and annual reporting. A breakdown in any of these linkages undermines a public sector institutions ability to achieve its policy objectives. So for instance looking at performance budgeting in the public sector would be relevant here, looking at immoveable asset management and budgeting for maintenance, looking at measuring government outputs in national accounts and so on. The centrality of citizen oversight and the difficulty in achieving it are important research areas.

7. Macro management and DOR

This refers to macroeconomic management institutions that have impacts on service delivery. We will wish to identify the institutions of economic and fiscal policy coordination within and among the three spheres. Another important aspect will be the institutional framework for monetary policy (and relations to the government). Issues of central bank independence, its mandate and concerns regarding monetary policy will be studied. The institutional setting for fiscal policy will also come to the fore, including the coordination of fiscal policy, issues of fiscal rules for fiscal discipline and coordination, framework for debt management and other concerns regarding fiscal discipline and fiscal policy coordination.

8. Sustaining Public Service Delivery

Key and topical issues here are job creation, improving the efficacy of government programmes and resuscitating/ reviving existing ones. There is a need to develop norms and standards and enforcement of such .e.g. a road constructed in one province should be equal in quality to the one done by the other province. Once such road is constructed, how often it is maintained should be made part of such norms. If this is not done, government may be creating more backlogs in the process of dealing with the current new ones (there are more rural areas with non-functional taps even though these worked once before). Therefore the issue here is not expansion of public service but rather improvement in service delivery and holding public servants accountable.

Section 5: Core Research Principles

The Commission holds itself to certain **core principles** that underpin this strategy. These are:

1) Research excellence and professionalism;
2) Integrity;
3) Creativity and Innovation;
4) Independent and Objective;
5) Impartial;
6) Focus;
7) Collaboration and engagement.

Section 6: Dissemination Strategy

Dissemination strategies are convened with local constituents and research partners to review the studies and research methods proposed to address each thematic area. The communication and dissemination strategy is organised around:

1. Direct contact (by regular mail, email, telephone, seminars or meetings (institutionalized (TCF, Budget Council, 10x10, Headcom, Emis etc) or at personal level or at Financial and Fiscal Commission corporate meetings);
2. Specific events such as national workshop/launch;
3. Publication and media, including internet;
4. Public hearings and other participatory activities.

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Copies of FFC Submission for the Division of Revenue Reports can be obtained by visiting the Commission's website at: www.ffc.co.za

Alternatively, e-mail the FFC at info@ffc.co.za to learn more about the FFC and its work.

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For an Equitable Sharing of National Revenue

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