



BRIEFING TO THE PORTFOLIO COMMITTEE ON ENVIRONMENTAL AFFAIRS

Financial and Fiscal Commission

16 October 2015

For an Equitable Sharing of National Revenue

PRESENTATION OUTLINE

1. Role and Function of the Financial and Fiscal Commission
2. Environmental Affairs in the Context of the Broader Economy
3. Departmental Analysis
4. Entities Reporting to the Department of Environmental Affairs
5. Concluding Remarks
6. Annexure: Previous FFC Recommendations Relevant to Environmental Affairs



1. ROLE AND FUNCTION OF THE FINANCIAL AND FISCAL COMMISSION

ROLE AND FUNCTION OF THE FFC

- The Financial and Fiscal Commission (FFC)
 - Is an independent, permanent, statutory institution established in terms of Section 220 of Constitution
 - Must function in terms of the FFC Act
 - Mandate of Commission
 - To make recommendations, envisaged in Chapter 13 of the Constitution or in national legislation to Parliament, Provincial Legislatures, and any other organ of state determined by national legislation
 - The Commission's focus is primarily on the equitable division of nationally collected revenue among the three spheres of government and any other financial and fiscal matters
 - Legislative provisions or executive decisions that affect either provincial or local government from a financial and/or fiscal perspective
 - Includes regulations associated with legislation that may amend or extend such legislation
 - Commission must be consulted in terms of the FFC Act
- Current research strategy focuses on developmental impacts of IGFR



2. ENVIRONMENTAL AFFAIRS AND THE BROADER ECONOMY

BACKGROUND

- Environmental issues facing South Africa are multifaceted and effectively addressing them demands integrated approaches.
- The country is currently faced with a number of threats that include climate change, lack of adequate water, destruction of natural habitats, over-fishing, pollution, introduction of exotic species.-
- As the climate changes it is South Africa's poor who will be the hardest hit. Climate change worsens existing vulnerabilities and adds to the pressures on the environment and natural resources on which so many poor households directly rely.
 - Recent FFC research in Limpopo and Eastern Cape shows that climate change will have devastating effects on main staple crops and women-headed households

BACKGROUND [CONT.]

- As the National Development Plan (NDP) envisages, by 2030, South Africa's transition to an environmentally sustainable, climate-change resilient, low-carbon economy and just society will be well under way:
 - The Department of Environmental Affairs (DEA) is envisaged to play a key role towards achieving this vision.
- The NDP identified the following objectives for the sector:
 - Protect the natural environment in all respects, leaving subsequent generations with at least an endowment of at least equal value
 - Enhance the resilience of people and the economy to climate change.
 - Extract mineral wealth to generate the resources to raise living standards, skills and infrastructure in a sustainable manner
 - Reduce greenhouse gas emissions and improve energy efficiency



3. DEPARTMENTAL ANALYSIS

DEPARTMENTAL OVERVIEW

- ***Mandate:***

- To give effect to the right of citizens to an environment that is not harmful to their health or wellbeing, and to have the environment protected for the benefit of present and future generations.

- ***Overall Strategic Goal of DEA:***

- To provide leadership in environmental management, conservation and protection towards sustainability for the benefit of South Africans and the global community.

- ***The DEA consists of 7 Departmental Programmes:***

- Administration; Legal, Authorisations, Compliance and Enforcement; Climate Change and Air Quality; Chemical and Waste Management; Biodiversity and Conservation; Oceans and Coasts; Environmental

Programmes

FUNDING SOURCES FOR DEA

- The DEA relies mainly on allocations from the fiscus in the form of unconditional allocations
- Over the past four years the allocations and spending had been increasing:
 - Allocations increased from R4.2 billion in 2011/12 to R5.6 billion in 2014/15
 - Spending increased from R4.1 billion in 2011/12 to R5.6 billion in 2014/15
 - Under-spending decreased from 4.7% in 2012/13 to 0.1% in 2014/15

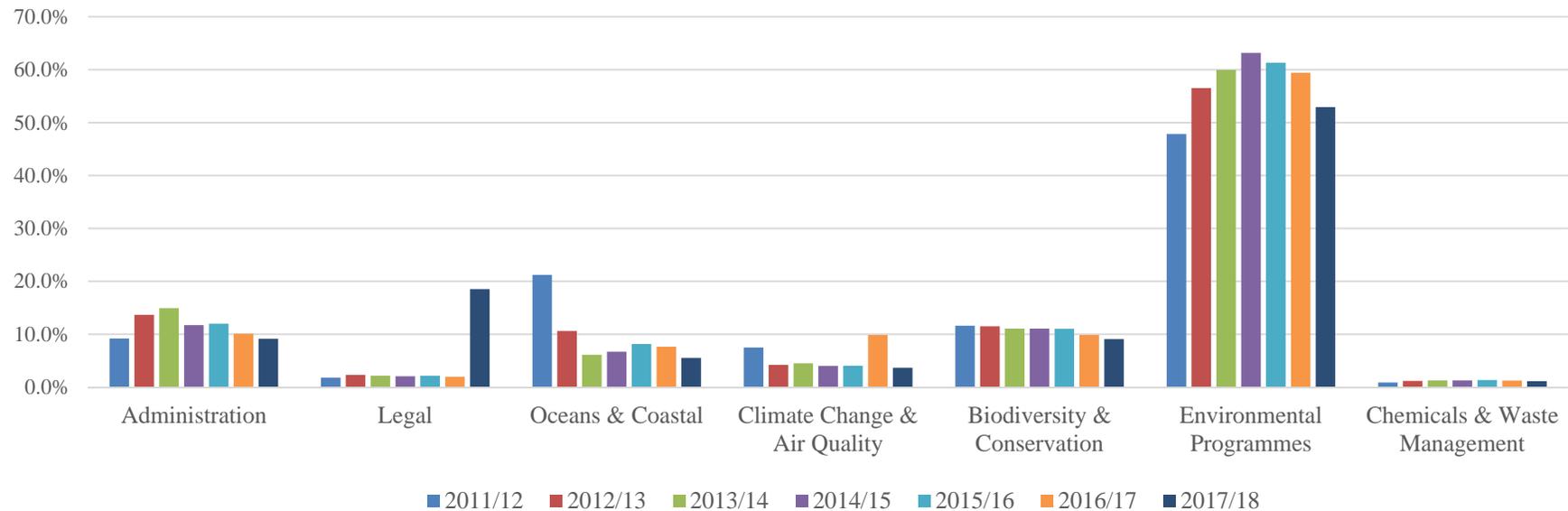
FFC BUDGET ANALYSIS METHODOLOGY OVERVIEW

- The Commission provides a three year backward looking and three year forward looking analysis of departmental budgets
 - compare allocations and performance by: vote/programme/sub-programme/province
- Nominal versus Real growth rates
 - Real figures/growth rates takes inflation into consideration
 - Variances and explanations (investigate reasons /drivers of change)
 - Spending by economic classification

BUDGET AND PROGRAMMES OF DEA

R'million	Audited outcomes R'000			Adj. Appropri.	Medium Term Expenditure Estimates		
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Administration	379 640	675 577	777 314	666 241	714 049	691 084	729 929
Legal, Authorisations, Compliance and Enforcement	73 969	114 452	113 324	117 573	127 517	133 442	148 008
Oceans and Coasts	876 338	524 584	318 176	380 132	484 529	522 114	4440 235
Climate Change and Air Quality Management	309 265	207 531	233 814	227 708	240 149	294 582	292 463
Biodiversity and Conservation	479 527	568 412	576 729	628 997	655 600	674 380	726 109
Environmental Programmes	1,976 912	2,793 573	3,121 778	3,587 525	3,646 864	4,067 804	4,229 035
Chemicals and Waste Management	35 849	58 534	65 707	72 210	79 281	84 073	90 612
Total	4, 131 499	4, 942 661	5, 206 842	5, 680 386	5, 947 789	6, 467 479	6, 656 391
Real Year on Year Growth							
		2011/12-2012/13	2012/13-2013/14	2013/14-2014/15	2014/15-2015/16	2015/16-2016/17	2016/17-2017/18
Administration		67.8%	11.3%	-17.2%	3.8%	-6.0%	2.8%
Legal, Authorisations, Compliance and Enforcement		45.9%	-4.2%	0.2%	5.1%	1.7%	979.3%
Oceans and Coasts		-43.5%	-41.3%	15.4%	23.5%	4.7%	-17.9%
Climate Change and Air Quality Management		-36.7%	9.0%	-5.9%	2.2%	172.8%	-57.8%
Biodiversity and Conservation		11.8%	-1.8%	5.3%	1.0%	-0.1%	4.8%
Environmental Programmes		33.3%	8.1%	11.0%	-1.5%	8.4%	1.2%
Chemicals and Waste Management		54.0%	8.6%	6.1%	6.4%	3.0%	4.9%
Total		12.8%	1.9%	5.4%	1.5%	11.8%	13.5%

BUDGET COMPOSITION ACROSS PROGRAMMES



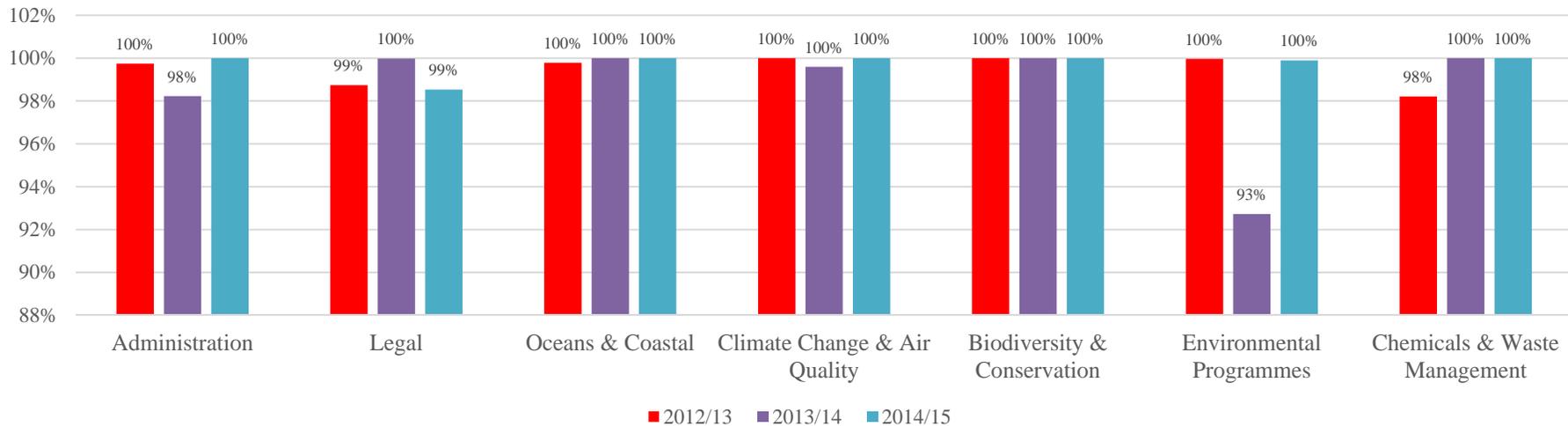
- Environmental Programmes take the largest share of DEA’s budget, whereas Chemicals & Waste Management account for the smallest portion of the budget.
- The budget for the Biodiversity & Conservation Programmes exhibits a declining trend over time.

ECONOMIC CLASSIFICATION

R'million	Audited outcome			Revised estimate	Medium Term Expenditure Estimates		
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Compensation to Employees	469	561	668	799	915.3	978.9	1041.8
Goods and Services	971	825	873	1070.6	1211.7	1253.5	1277.5
Transfers and Subsidies	2002	3082	3446	3677	3662	4091	4062
Payments for Capital Assets	666	474	222	133	158	144	156
<i>Real Year on Year Growth</i>		2011/12- 2012/13	2012/13- 2013/14	2013/14- 2014/15	2014/15- 2015/16	2015/16- 2016/17	2016/17- 2017/18
Compensation to Employees		13%	15%	16%	11%	4%	4%
Goods and Services		-20%	2%	18%	10%	0%	-1%
Transfers and Subsidies		45%	8%	3%	-3%	9%	-3%
Payments for Capital Assets		-33%	-55%	-42%	15%	-11%	5%

- Transfers and subsidies are significant due to the four entities that fall under the department.
- General the real growth of budgets for department is on the decline.

DEPARTMENTAL SPENDING PERFORMANCE (FISCAL DISCIPLINE)

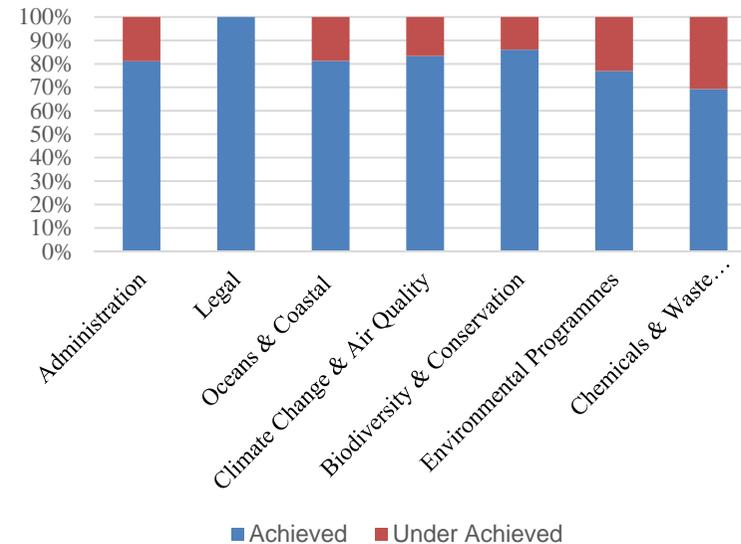
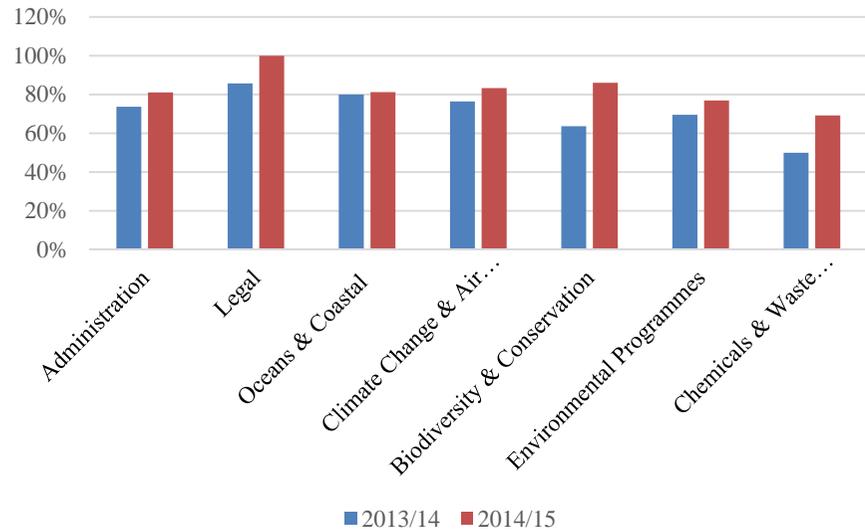


During the 2014/15 financial year, the Department spent R5,67 of the total allocation of R5, 68 billion which presents a 99.9% total spending. The 0.1% not spent during this financial year mainly due to the following:

(i) The underspending on programme 2 and 6 were due to established posts with regards to integrated environmental authorisations and biosecurity services not timely filled (R3,010 million).

(ii) Computer services (R2,217million) not timely rendered and invoices on the Expanded Public Works Programme projects not received on time for payment within the 2014/15 financial year.

DEPARTMENTAL PERFORMANCE AGAINST SET TARGETS



- There has been an improvement in departmental performance from 2013/14 to 2014/15 across all programmes, except for Oceans and Coastal where achievements have remained the same at 80%.
- In 2014/15 most departmental programmes had an achievement rate of 80% and above, with the exception of the Chemicals and Waste programme which achieved close to 70% of their targets.

DEA AND ENTITIES AUDIT OUTCOMES (2013/14)

- Department of Environmental Affairs: CLEAN AUDIT OPINION: UNQUALIFIED WITH NO FINDINGS. This was an improvement from the previous financial year where the Department received an unqualified audit outcome with findings.

South African National Parks: UNQUALIFIED WITH FINDINGS. This was a regression from the previous financial year where the entity received an unqualified audit outcome with no findings. This was due to matters relating to pre-determined objectives and compliance with laws and regulations.

South African Weather Service: UNQUALIFIED WITH FINDINGS. This was the same audit outcome the entity received in the previous financial year. This was due to matters relating to compliance with laws and regulations.

South African National Biodiversity Institute: CLEAN AUDIT OPINION: UNQUALIFIED WITH NO FINDINGS. The entity improved from the previous financial year when it received an unqualified audit with findings.

iSimangaliso Wetland Park Authority: CLEAN AUDIT OPINION: UNQUALIFIED WITH NO FINDINGS. The entity maintained the same audit outcome from the previous financial year.

DEA AUDIT OUTCOMES (2013/14)

- The table below provide details on matters raised and reported by the Auditor General(AGSA) in previous years and the progress made in resolving them (from 2014/15 report)

Nature of qualification, disclaimer, adverse, opinion and matters of non-compliance compliance	Financial Year in which it first arose	Progress made in clearing/resolving the matter
Remunerative Work Performed Without Approval	2013/14	In progress of resolving
Deviation not reported within 10 working days	2013/14	Resolved
Possible Fraud	2013/14	Resolved
Fruitless and Wasteful incorrectly classified as accrued departmental revenue	2013/14	In progress of resolving
Transfer payments/work in progress	2013/14	In progress of resolving
Security management	2013/14	Resolved
User access control	2013/14	Resolved
Service continuity	2013/14	Resolved



4. ENTITIES REPORTING TO THE DEA

STATUTORY BODIES SUPPORTING THE WORK OF THE DEA

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Name of Entity	Nature of Operations	Financial Relationship
South African National Biodiversity Institute (SANBI)	The mandate of SANBI is to play a leading role in South Africa's national commitment to biodiversity management. In partnership with the Department of Environmental Affairs and the biodiversity sector, SANBI is tasked to lead the biodiversity research agenda; provide knowledge and information; give policy support and advice; manage gardens as windows to our biodiversity for leisure, enjoyment, spiritual upliftment and education; and engage in ecosystem restoration and rehabilitation programmes and best-practice models to manage biodiversity better.	Transfer Payment
South African Weather Service (SAWS)	The mandate of SAWS is to provide useful and innovative weather, climate and related products and services for all South African and the African Continent.	Transfer Payment
South African National Parks (SANParks)	The mandate of SANParks is to oversee the conservation of South Africa's biodiversity, landscapes and associated heritage assets through a system of national parks. The core areas which provide a fundamental basis of the SANParks' mandate are; conservation management through the national parks system, constituency building and people focused eco-tourism management	Transfer Payment
iSimangaliso Wetland Park	The iSimangaliso Wetland Park was listed as South Africa's first World Heritage Site in December 1999 in recognition of its exceptional natural beauty and unique global values. The 332 000 hectare Park contains three major lake systems, eight interlinking ecosystems, 700 year old fishing traditions, most of South Africa's remaining swamp forests, Africa's largest estuarine system, 526 bird species and 25 000 year-old coastal dunes – among the highest in the world.	Transfer Payment

TRANSFERS TO ENTITIES, 2013/14 AND 2014/15

Entity	2013/14 (R'000)			2014/15 (R'000)		
	Allocated	Spent	%	Allocated	Spent	%
South African National Biodiversity Institute (SANBI)	264254	264254	100%	289951	289951	100%
South African Weather Service (SAWS)	182943	182943	100%	182489	182489	100%
South African National Parks (SANParks)	544264	544264	100%	590922	590922	100%
iSimangaliso Wetland Park	125580	125580	100%	132007	132007	100%

- The South African National Parks receives the bulk of transfer payments disbursed to entities receiving just over R590 million in 2014/15. some spinoffs are:
 - 1 355 207 temporary jobs were created through the Expanded Public Works Programme (EPWP)
 - 701 SMMEs were supported, and a total amount of R173.9 million was spent toward this initiatives.
- All the entities have consistently spent 100% of their budgets between the period 2013/14 and 2014/15.



5. CONCLUSION

CONCLUDING REMARKS

- The Portfolio Committee to note that some misalignments between set targets and achievements on some programmes especially the Chemicals and Waste Programme
- The Committee should note that DEA and entities in its ambit spending and audit performance are generally very good
- The Committee should look at the DEA's work in light of the FFC's recommendations that have been accepted by Government.
- The Committee should see to it that recommendations that have been accepted by Government and relevant to DEA's mandate, are taken through and mainstreamed in the DEA's programmes



6. PREVIOUS FFC RECOMMENDATIONS (ENVIRONMENTAL ISSUES)

FFC RECOMMENDATIONS

FFC recommendations	Government responses	
<p>Government should consider providing municipalities with a performance-based conditional grant, which rewards or incentivizes actions that are environmentally efficient and responsive to the adaptation and mitigation challenges of climate change. The design of the proposed grant should pay attention to municipality specific factors, such as the area, topography, coastal/or otherwise, and vulnerability to climate change. Specific focus areas for this grant should include:</p> <ul style="list-style-type: none"> • Efficient water management practices, including the minimization of water losses, effective asset management or rehabilitation programmes, and demand management • Efficient energy management practices, including the minimization of electricity losses (unaccounted for electricity), the elimination of illegal connections and energy savings by both households and industry and • The implementation of green procurement principles 	<p>The poor uptake of existing incentive grants shows that incentive grants are not the most efficient way to influence the behavior of municipalities. There may be merit in a specific conditional grant to address major climate change related infrastructure requirements, e.g. coastal breakwaters or storm water management systems. However more research needs to be done as to how such a grant should be structured.</p>	<p>The issue incentives has been factored into infrastructure grants reviews. Incentives are proposed for asset management and rehabilitation of infrastructure. On the other hand National Treasury and the Department of Environmental Affairs have agreed that a package of measures is needed to address climate change and to reduce emissions. This will include the proposed carbon tax (2016) , environmental regulations, renewable energy projects and other targeted support programmes...</p>

FFC RECOMMENDATIONS

FFC recommendations	Government responses	
<p>Government should ensure that municipalities develop their own climate change mitigation and adaptation strategies and plans for climate change as part of the Integrated Development Planning process. Government should provide support in this respect to municipalities over the next three years, distinguishing between different types of municipalities by both location and capacity in terms of the mandatory requirements placed on them</p>	<p>Government agrees that municipalities should develop their own climate change mitigation and adaptation strategies and plans so that adequate contingency plans for risks associated with climate change are developed.</p> <p>Government is undertaking a number of initiatives that will assist municipalities in planning for the impacts of climate change. For example, the Department of Cooperative Governance and Traditional Affairs, in partnership with the Department of Environmental Affairs and SALGA, is developing an integrated planning toolkit for climate change. The toolkit will guide municipalities through the process of integrating climate responses into all phases of planning, from problem analysis to operations and review</p>	<p>Some municipalities have mainstreamed climate change into their IDPs, e.g. Metros.</p> <p>The initiative by DEA, SALGA and Cogta of an integrated planning toolkit for climate change indicates progress</p>

FFC RECOMMENDATIONS CONT....

National Treasury should require that environmental management and vulnerability objectives are explicitly incorporated into the design of existing key municipal grant programmes. These objectives should promote disaster risk-reduction methods (ex ante approach) and enhance municipal resilience to climate change through mitigation and adaptation methods.

They should:

- Include the integrated housing and human settlement development grant, the urban settlements development grant, the municipal infrastructure grant, the national electrification grant, the public transport infrastructure and systems grant and the regional bulk infrastructure grant;
- Incorporate a statement of environmental and climate-change resilience objectives in each grant programme, together with measurable indicators
- Prioritise the most vulnerable municipalities when determining the horizontal division of available resources in each programme
- Provide for beneficiary municipalities to conduct appropriate climate-resilience evaluations on existing infrastructure over the medium term, subject to disaster risk-reduction methods being incorporated in respective integrated development plans; and
- Be accompanied by capacity support to and engagement with the most vulnerable municipalities to ensure that they are able to identify and address disaster risk comprehensively

Government has developed a planning toolkit for climate-change response to help municipalities incorporate mitigation, adaptation and response strategies into their integrated development plans and other planning processes. In the horizontal division of available resources, several factors are considered to promote equity, including the fiscal capacity and efficiency of municipalities. Vulnerability to climate change impacts does not necessarily translate into a lack of fiscal capacity. As a result, using climate change vulnerability as a key indicator of determining the municipalities' equitable share or other grant allocations may compromise the principle of equity

As noted before the planning toolkit for climate change to guide municipalities has been developed, but no progress in other sub-recommendations.

FFC RECOMMENDATIONS CONT....

The Department of Cooperative Governance should adjust the objectives, terms and conditions, and procedures of the municipal infrastructure grant to:

- Permit municipalities to use grant funds for climate adaptation and mitigation investments that involve creating, rehabilitating or modifying municipal infrastructure
- Ensure that these investments prioritise and directly address the vulnerabilities faced by poor households



Government, through the Department of Cooperative Governance and the National Treasury, is reviewing the local government functional and fiscal framework, including local government conditional grants.

The FFC's concerns will be taken into account during this review. Possible reforms to the grants could include ensuring that infrastructure development (energy, water and transport sectors) is aligned with South Africa's broader sustainable development and climate-change objectives

The infrastructure reviews are still underway and FFC is participating in this.

FFC'S WEBSITE: WWW.FFC.CO.ZA



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