



BRIEFING TO THE PORTFOLIO COMMITTEE ON MINERAL RESOURCES

16 March 2016

For an Equitable Sharing of National Revenue

PRESENTATION OUTLINE

1. Introduction to the Financial and Fiscal Commission
2. Macroeconomic overview of recent developments and challenges
3. Departmental analysis
4. Concluding Remarks

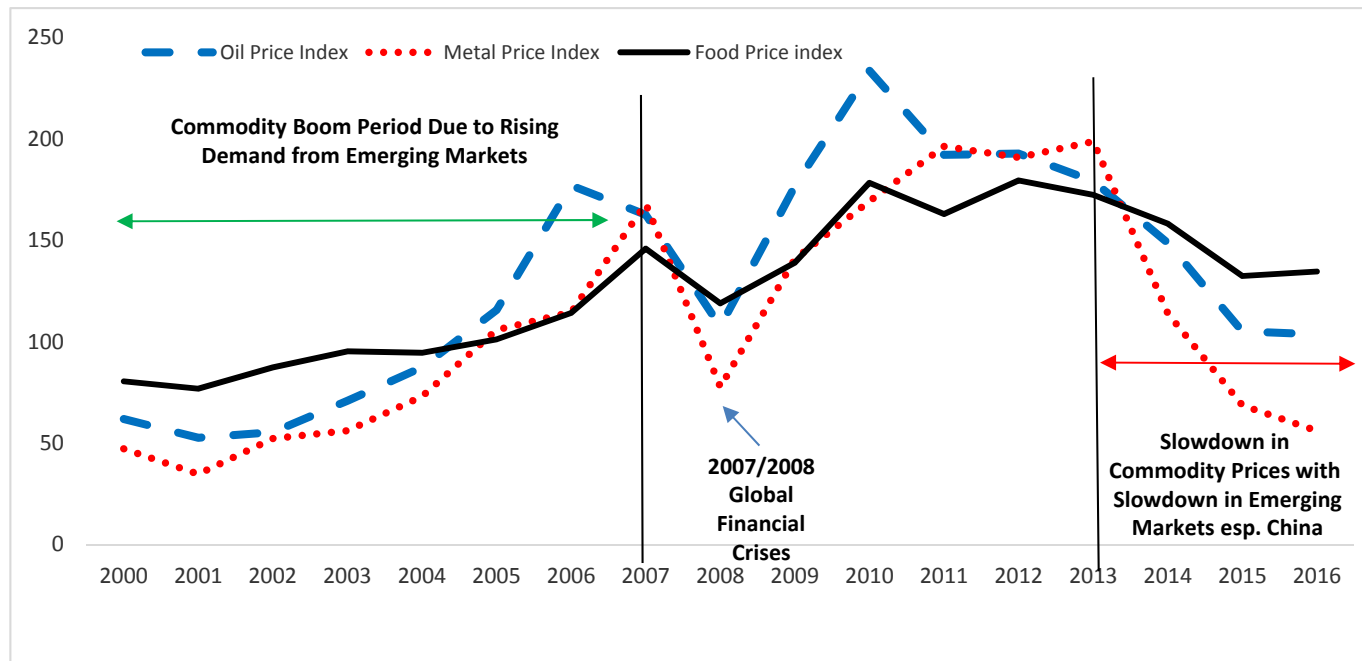
ROLE AND FUNCTION OF THE FFC

- What?
 - Permanent statutory body established in terms of Section 220 of Constitution
 - Independent and subject only to Constitution and the law
 - Must function in terms of the FFC Act
- Mandate of Commission
 - Makes recommendations, envisaged in Chapter 13 of the Constitution or in national legislation to Parliament, Provincial Legislatures, and any other organs of state determined by national legislation
- Commission is concerned with intergovernmental fiscal relations (IGFR)
 - 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



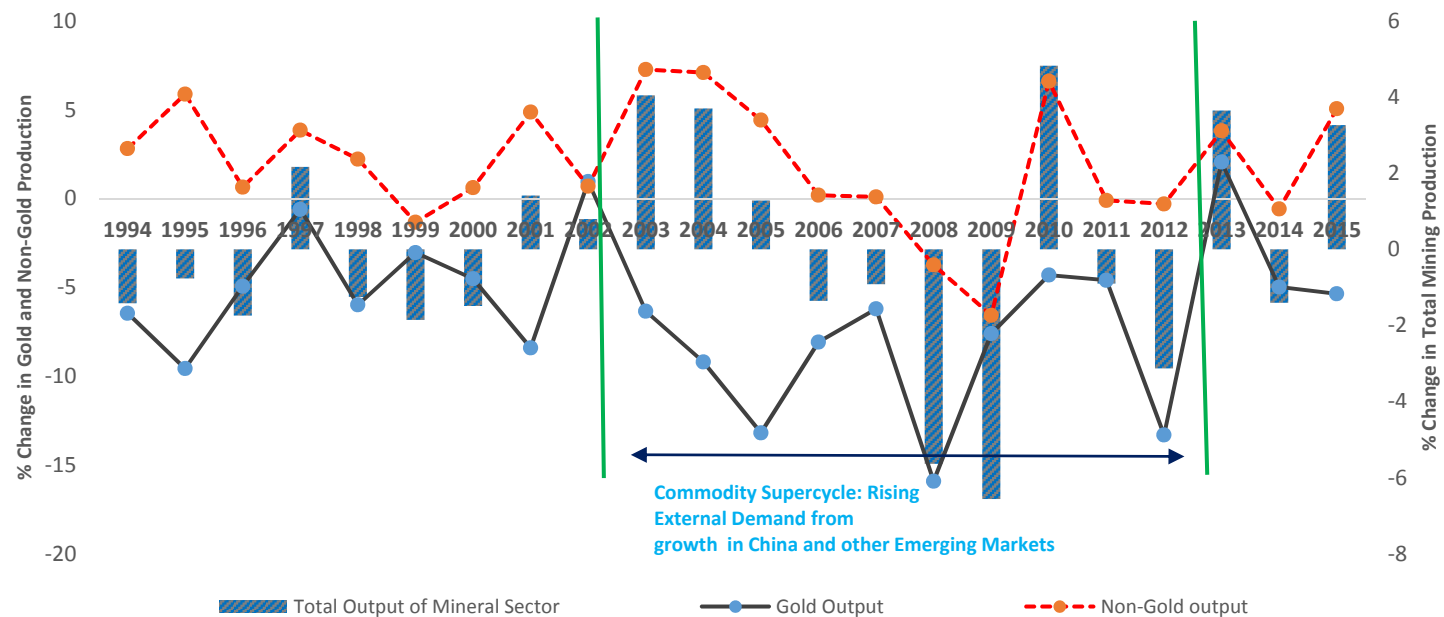
MACRO OVERVIEW OF RECENT SECTORAL DEVELOPMENTS AND CHALLENGES

MINERAL SECTOR FACING GLOBAL HEADWINDS



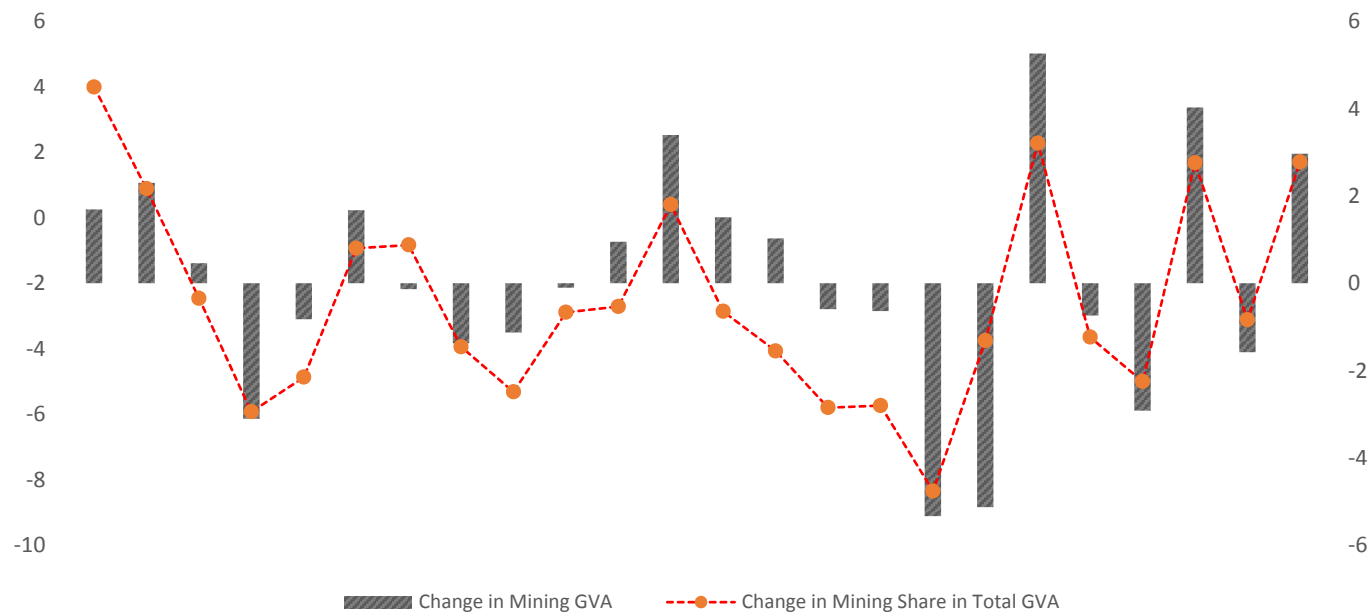
- Rebalancing of Chinese economy has placed substantial downward pressure on global commodity prices:
 - Particularly key for mining sector which relies on Chinese market for over 80% of its exported output..

TRENDS IN MINING SECTOR OUTPUT/PRODUCTION



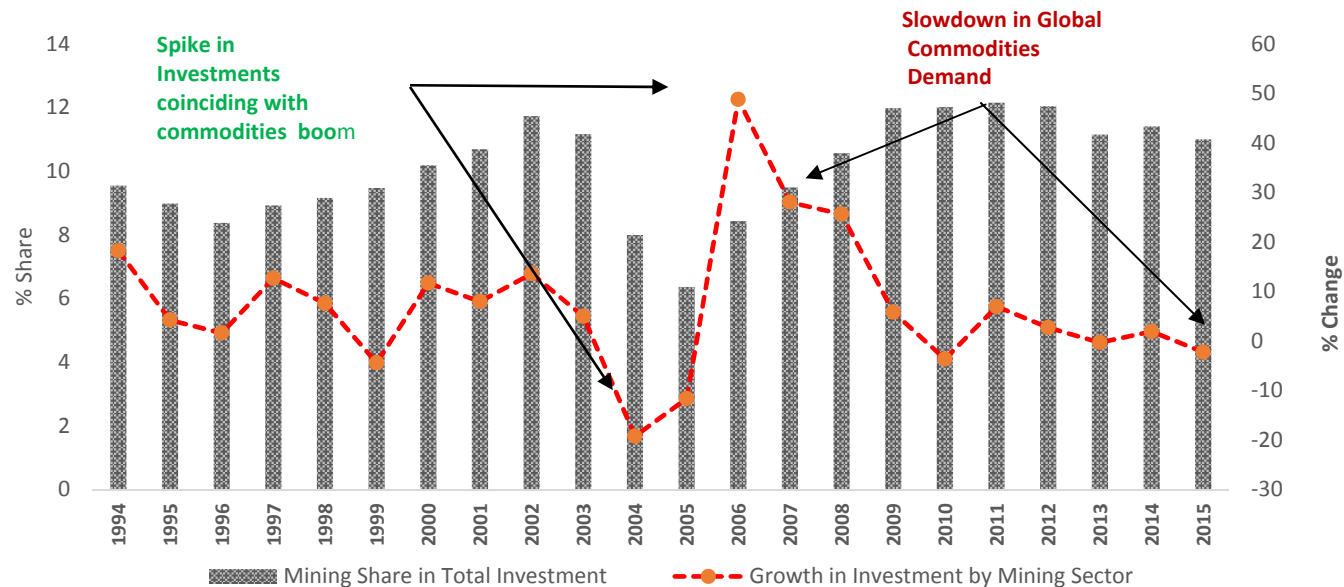
- Despite substantial decline in gold output, growth in non-gold exports ensured average growth in overall mining/mineral production remained positive between 1994 and 2008.
 - On average, between 2010 and 2015, gold output declined by 5%, non-gold increased by 2.4% and mining sector production increased by 1.04%

ECONOMIC IMPORTANCE OF MINERALS/MINING SECTOR



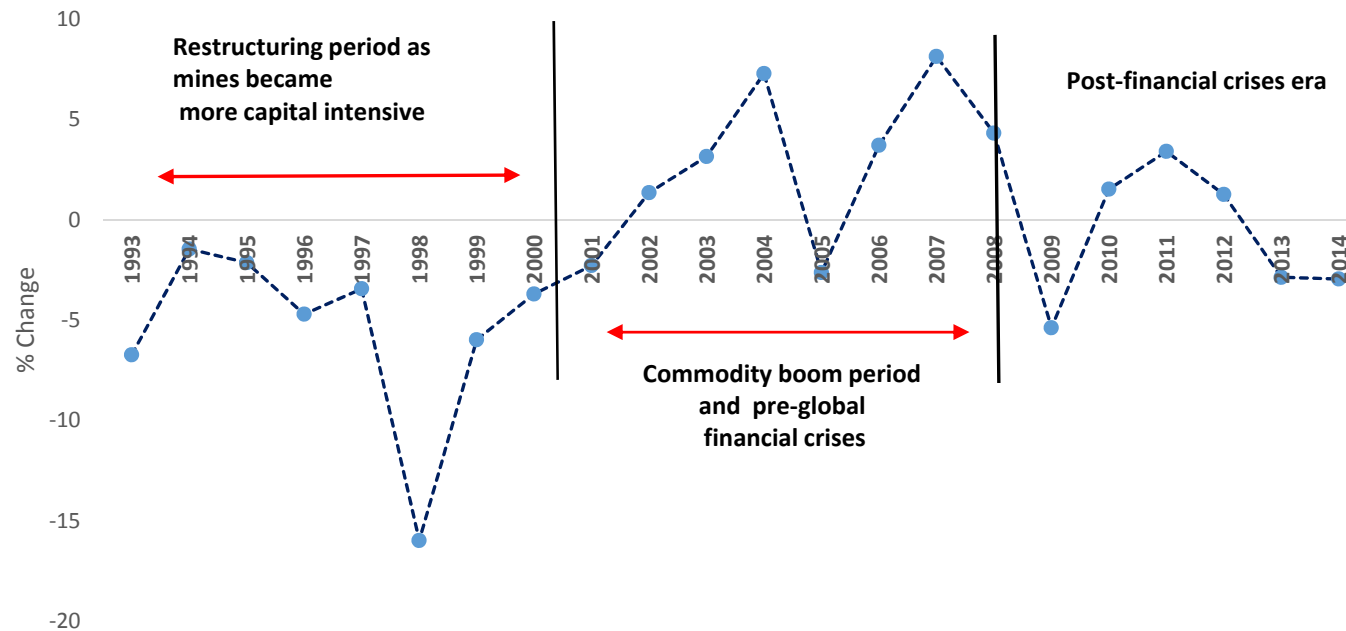
- Changing dynamics of South Africa's economy continues
 - Declining role of primary sector, especially mining contribution to gross value added (GVA)
 - Notable decline in growth and share of mining sector gross value added – from almost 14% average share of total GVA between 1994 and 2004 to 9% since 2005.

ROLE OF MINING SECTOR IN FACILITATING INVESTMENT



- Commodity supercycle has contributed to significant growth in mining sector investments
 - Mining’s share of investment now at levels last seen pre-1994 – average share of 11% of total investments since 2002.
 - Notable that performance of growth in mining investment has mirrored global dynamics around demand for minerals/mining commodities

ROLE OF MINING SECTOR IN FACILITATING EMPLOYMENT



- Production processes in minerals extraction have becoming increasingly capital-intensive
 - Contribution to formal sector employment has declined (**now less than 6%**)
 - Rising costs and declining demand have resulted in restructuring programs with significant risks for existing jobs

KEY POINTS

- The cornerstone gold sector upon which the modern South African economy was built continues to experience difficulties, with average annual production growth of -5% between 2010 and 2015.
- While growth in non-gold output has ensured a relative recovery in growth of total mining production, concerns remain
 - Between 2010 and 2015, average growth in mining share of total value added has remained negative (-1.2%).
 - Slowdown in global demand for commodities has seen growth in investment levels decline from the peaks recorded during the commodity supercycle (average of **27%** from 2006 – 2009 vs average of **0.87%** between 2010 and 2015)
 - Impact of ‘rebalancing of Chinese economy on sales by mining sector

KEY SECTOR CHALLENGES

- Global economic outlook
- Public expenditure growth cutbacks
- Implementing change/transformation and gaining consensus on right economic and ownership strategy for mining
 - Ownership
 - Beneficiation
 - State Mining Company
- Other pressing issues
 - Impact of the mining related labour unrests on growth, inflation and investment
 - Lingering uncertainty around nationalization and
 - Issues about confusion between municipalities and traditional leaders and impact on mining investment



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DEPARTMENTAL ANALYSIS

NDP AND NGP POLICY OBJECTIVES FOR THE MINING SECTOR

Policy Document	Policy Objectives
National Development Plan	<p>Addressing the major constraints impeding accelerated growth and development of the mining sector</p> <ul style="list-style-type: none"> ▪ Ensure certainty in respect of property rights ▪ Passing amendments to the Minerals and Petroleum Resource Development Act (2002) to ensure a predictable competitive and stable mining regulatory framework ▪ Reliable rail services ▪ Potentially enabling private participation <p>Diversifying the economic base</p> <ul style="list-style-type: none"> ▪ Building the capacities required to produce capital and intermediary goods for the infrastructure programme ▪ Resource-cluster development for the mining industry, ▪ Combining production of capital goods ▪ Beneficiation that targets identified opportunities
National Growth Path	<p>Accelerating exploitation of mineral reserves</p> <ul style="list-style-type: none"> ▪ Ensuring an effective review of the minerals rights regime, ▪ Lowering the cost of critical inputs including logistics and skills in order to stimulate private investment in the mining sector ▪ setting up a state-owned mining company that would co-exist with a strong private mining sector and that promotes beneficiation ▪ Greater utilisation of the mineral resource base of the country for developmental purposes, including potentially through a sovereign wealth fund

DEPARTMENTAL STRATEGIC OUTCOME-ORIENTED GOALS 2014-2019

Strategic Goal	Goal statement
Increased investment in the minerals, mining and petroleum sectors	Promote and facilitate an increase in minerals, mining and petroleum activity, including value addition to mineral resources extracted in the Republic of South Africa.
Transformed minerals sector	Implement transformation policies to redress past imbalances through broader participation in the mineral sector. <ul style="list-style-type: none"> • Provide a framework to manage health and safety risks, enforce compliance and promote best practice in the mineral sector.
Equitable and sustainable benefit from mineral resources	Promote sustainable resource management; contribute to skills development and the creation of sustainable jobs. <ul style="list-style-type: none"> • Contribute to the reduction of adverse impacts of mining on the environment
Efficient, effective and development-oriented department	Optimise internal processes. <ul style="list-style-type: none"> • Attract, develop and retain appropriate skills and ensure optimal utilisation of resources. • Implement risk management strategies and promote corporate governance



DEPARTMENTAL BUDGET AND PROGRAMMES

Programme (R'Millions)	2012/13	2013/14	2014/15	2015/16	Average Growth rate (%) 2012/13-2015/16	2016/17	2017/18	2018/19	Average Growth rate (%) 2016/17-2018/19
Administration	295.3	308.6	315.2	308.9	21.6	310.9	322.1	338.7	3.1
Mine Health and Safety	140.7	153.2	167.5	184.4	11.4	184.9	191.1	198.3	2.4
Mineral Regulation	191.4	205.5	237.7	263.7	15.8	270.8	426.6	452	19.7
Mineral Policy and Promotion	546.3	719.9	754.8	881.5	51.1	902.5	907.5	835.5	-1.8
Total	1173.7	1387.2	1475.2	1638.5	24.98	1669.1	1847.3	1824.5	5.85

Departmental budget has increased from R1.4 billion in 2014/15 to R1.6 billion in 2015/16. In the medium term it increases to R1.8 billion.

The average growth rate has decelerated from 24.98% between 2012/13-2015/16 to 5.85% in the medium term 2016/17-2018/19, suggesting a significant slowdown in the growth of the departmental budget in the medium term.

DEPARTMENTAL APPROPRIATION PER PROGRAMME

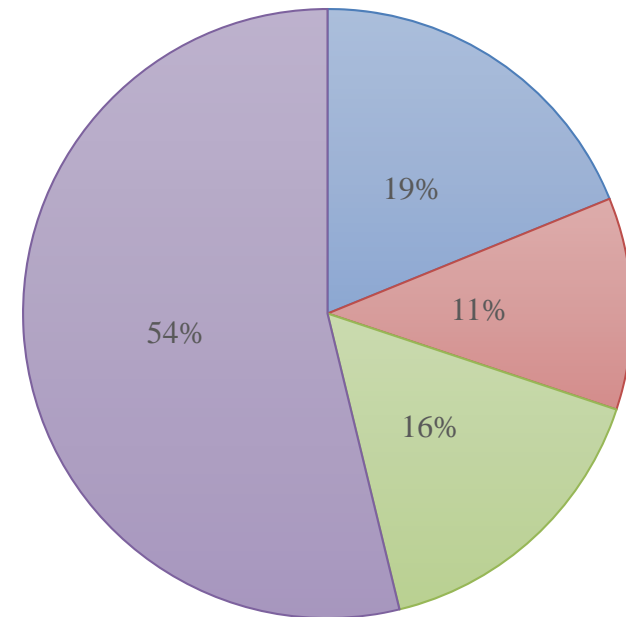
	2014/15				2013/14	
	Final Appropriation	Actual Expenditure	Variance	Expenditure as % of final Appropriation	Final Appropriation	Actual Expenditure
Administration	315598	315221	377	99.90%	310144	308572
Promotion of Mine Safety and Health	167497	167492	5	100%	153998	153220
Mineral Regulation	237660	237658	2	100%	205521	205521
Mineral Policy and Promotion	754786	754786	0	100%	724186	719906
Total	1475541	1475157	384	100%	1393849	1387219

The Department has demonstrated a very good record in minimizing budget and spending variation. In 2013/14 and 2014/15 almost all the programme achieved a 100% record when actual expenditure is compared with final appropriation.

BUDGET COMPOSITION ACROSS PROGRAMMES – 2015/16

The largest programme is Mineral Policy and Promotion Programme. Its initiatives over the medium term is to promote investment in the mineral and upstream petroleum sectors, research on shale gas and assistance to small, medium and micro enterprises (SMMEs).

The Administration programme will focus on attracting and retaining skilled workers over MTEF. The smallest programme is Promotion of Mine Health and Safety. It is a concern that the average growth rate of the programme is only 2.4% while the safety track record in the mining industry remains a challenge as evidenced by incidences in Lonmin Marikana and Lily Mines.



- Administration
- Mine Health and Safety
- Mineral Regulation
- Mineral Policy and Promotion

SPENDING ECONOMIC CLASSIFICATION

Programme (R'Millions)	2012/13	2013/14	2014/15	2015/16	Average Growth rate (%) 2012/13- 2015/16	2016/17	2017/18	2018/19	Average Growth rate (%) 2016/17- 2018/19
Compensation of employees	395.9	435.3	484.6	548.4	10.9	572.1	579.1	604.8	3.3
Goods and services	227.9	249.6	255.3	251.7	6	259.2	276.2	290.6	4.9
Transfers and Services	525.1	688.5	723.7	826.9	15.1	824.1	980.1	916.8	3.5
Capital assets	24.5	13.9	11.7	11.5	-16.9	13.6	11.8	12.5	2.6
Total	1173.4	1387.3	1475.3	1638.5	3.775	1669	1847.2	1824.7	3.575

- The department achieves most of its mandate through the entities in its portfolio. More than 50% of the departmental budget is allocated to transfers and services in 2015/16. Capital Assets receives only 1% of the departmental financial resources.
- The compensation of employees recorded the highest average growth rate (10.9%) between 2012/13 to 2015/16 but decelerates to 3.3% in the medium term. Goods and services records the highest growth in the medium term (4.9%), followed by transfers and services. Capital assets records the least growth (2.6%) in the medium term

DEPARTMENTAL ENTITIES

- Five entities fall under the Department of Minerals:
 1. Mine Health and Safety Council
 - Research and advisory function to the Minister in terms of mine health and safety
 2. Council for Mineral Technology Research
 - Provides research, development and technology to foster the development of business in the mineral industry
 3. Council for Geoscience
 - Development and maintenance of national geosciences knowledge infrastructure for onshore/off-shore environment of South Africa
 4. South African Diamond and Precious Metals Regulator
 - Regulation of diamond, platinum and gold sectors
 5. State Diamond Trader
 - Promote equitable access to and beneficiation of diamond resources, correct historical market failures and grow South Africa's diamond cutting and polishing industries

DEPARTMENTAL BUDGET FOR ENTITIES

Programme (R' Millions)	2012/13	2013/14	2014/15	2015/16	Average Growth rate (%) 2012/13- 2015/16	2016/17	2017/18	2018/2019	Average Growth rate (%) 2016/17- 2018/19
Council of Geoscience	310096	333713	366572	494702	16.80%	425948	417906	359796	-10.10%
Mintek	462462	443699	485664	519760	4%	475018	474379	483727	-2.40%
Mine Health and Safety Council	46888	58853	67881	127000	39.40%	128177	126571	122261	-1.30%
South African Diamond and Precious Metals Regulator	75351	85915	92636	88439	6.90%	93336	98935	104873	5.80%
State Diamond Trader	416103	556409	401869	562716	10.60%	611652	561210	563310	0.00%
Totals	1310900	1478589	1414622	1792617	15.54%	1734131	1679001	1633967	-1.60%

- The State Diamond Trader has the highest budget than all other entities, followed by Mintek while the South African Diamond and Precious Metals Regulator has the smallest budget.
- Almost all the budgets for the entities have a negative average growth rate in the medium term (2016/17-2018/19). Only the South African Diamond and Precious Metals Regulator has a positive average growth rate in the medium term.

ENTITIES AUDIT OUTCOMES, 2012/13- 2014/15

	Unqualified Opinions with no Findings	Unqualified Opinions with Findings
2012/13	<p>Council for Mineral Technology</p> <p>South Africa Diamond and Precious Metals Regulator</p> <p>State Diamond Trader</p>	<p>Council for Geoscience</p> <p>Mine Health and Safety Council</p>
2013/14		<p>Council for Mineral Technology</p> <p>South Africa Diamond and Precious Metals Regulator</p> <p>State Diamond Trader</p> <p>Council for Geoscience</p> <p>Mine Health and Safety Council</p>
2014/15	<p>Council for Mineral Technology</p> <p>State Diamond Trader</p>	<p>Council for Geoscience</p> <p>Mine Health and Safety Council</p> <p>South Africa Diamond and Precious Metals Regulator</p>

CONCLUDING REMARKS

- DMR has oversight over a critical sector to South Africa's economy
 - Innovative approach to dealing with current global headwinds that impact on functioning of sector. Innovation could include a renewed focus on enhancing viability, productivity and value chains embodied within small scale mining.
- In an era of fiscal constraint
 - DMR will need to ensure more prudent management of existing capacity especially in relation to inspectors and mineral economists/specialists
 - Influencing capacity development through Mining Qualifications Authority (SETA) would be critical to dealing with capacity constraints.



THANK YOU.

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2015/16 SUBMISSION FOR THE DIVISION OF REVENUE

"Balancing Fiscal Sustainability with Socio-economic Impact". The country faces more severe economic and fiscal challenges than most people realise, at a time of deep and widespread uncertainty over the world economy and its financial system that is unparalleled since the Great Depression. But even after the world economy once more finds its footing, South Africans cannot assume that strong economic growth will follow, especially given the poverty and inequality challenges facing the country. The government needs to have steady and dependable revenue growth in order to finance programmes over the long term. An expanding economy is the foundation for rising revenues. If the economy fails to grow quickly enough, South Africa's revenues will fall short of the sums needed to support existing government programmes as well as the ambitious new programmes to which the NDP aspires. This will put pressure not only on government's



NEW!!!

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- [Keynote Address - FFC 20th Anniversary Conference - Acting Chairperson](#)
- [President Zuma appoints members to the Financial and Fiscal Commission](#)
- [Growing Revenue is the Priority](#)
- [Submission on the 2014 Appropriation Bill](#)
- [2015/16 Submission for the Division of Revenue](#)
- [Submission on the 2014 Division of Revenue Bill](#)
- [2014 Submission on Fiscal Framework and Revenue Proposals](#)
- [Response to Questions Posed During the Financial and Fiscal Commission Briefing of the Standing Committee on Appropriations on the 2013 Medium Term Budget Policy Statement](#)

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