

Financial and Fiscal Commission

ANNUAL REPORT

1998 - 1999

PRIVATE BAG X69 • HALFWAY HOUSE • 1685

MONTROSE PLACE

WATERFALL PARK • BEKKER STREET

MIDRAND

TELEPHONE: (27) (011) 315-7100

FAX: (27) (011) 315-6940

WEBSITE: <http://www.ffc.co.za>

Documents related to the FFC's work can be accessed from the FFC's website or from the FFC's office.

For more information contact:

The Librarian -

FFC, Private Bag X69, Halfway House, 1685

Telephone: (27) (011) 315-7100

Fax: (27) (011) 315-6940

CONTENTS

	page
ONE SECTION 1 A MESSAGE FROM THE CHAIRPERSON	4
TWO SECTION 2 OVERVIEW OF THE FFC	6
The Role of the FFC	6
Work in brief	8
THREE SECTION 3 FFC STRUCTURE	11
Commissioners	12
Secretariat	16
Stakeholder Relationships	17
FOUR SECTION 4 WORK PROGRAMME	18
Context: 1995 - 1997	18
The 1998 - 1999 Fiscal Year	28
Successes and Challenges	32
FIVE SECTION 5 FINANCIAL STATEMENTS	34
SIX SECTION 6 GLOSSARY	62

A MESSAGE

FROM THE CHAIRPERSON



South Africa is still in the throes of transition, and the Commission's recommendations aim to establish a more equitable dispensation

This report, coming on the fifth anniversary of the establishment of the Financial and Fiscal Commission (FFC), marks yet another milestone, not only in the life of the Commission but also in intergovernmental fiscal relations in South Africa.

The environment within which the Commission has to pursue its objectives remains complex, often daunting and at times frustrating. However, the Commission has remained conscious of the historical moment, which forms the backdrop to its work. South Africa is still caught in the throes of social, political and economic transition. Recognising the fact that every transition is fraught with difficulties, not least of which are those relating to role clarity or lack thereof among the various actors, co-ordination thus assumes importance.

The FFC's difficulties with respect to this are well known. Similar to other constitutional institutions, the FFC in some respects, faces problems related to how government or elements in government respond or fail to respond adequately to its inputs.

For its part, the Commission has always been of the view that all its recommendations must be understood in terms of an ongoing quest to establish a more equitable dispensation. This will continue to underline its proposals currently being developed for submission in 2000.

Though much progress has been made in improving our relationship with, in particular, the Department of Finance, the Commission's concern is still that the Ministry has not developed a clear view on how to deal with the FFC's inputs despite the constitutional provisions governing the budget process.

It is indeed my hope, and that of the Commission, that in the coming period

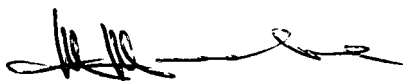
greater attention will be given by the government to the issue of formalising relationships between bodies such as the FFC and the bodies to whom it is accountable. It would indeed serve the system well were bodies like the FFC not left at times with the feeling (real or imagined) that the absence of clear protocols to facilitate its interactions with either the executive or legislative branches of government, derives from a political expediency which renders the institution(s) irrelevant. The Commission should not have to fight for its place in the sun. Being born of the Constitution of the Republic, its role should be understood, welcomed and even facilitated so as to enhance the critical role it has of contributing to the integrity of the Revenue Sharing regime in South Africa

In order to facilitate a discussion on the subject of protocols of engagement for the FFC, in the context of its constitutional mandate and the intergovernmental fiscal relations framework, a draft document was presented to the Minister of Finance in November 1999 whose opinion is still awaited by the Commission. Furthermore, a document detailing the problem of unfilled vacancies in the Commission was presented to the President in August 1999.

The financial statements contained in this report show that the minimalist and somewhat conservative approach the Commission has taken from the beginning has ensured that we have at all times remained within budget. While we had always envisaged a bigger staff complement for the Commission, we have managed to ensure that we are not exposed to runaway personnel costs.

Having allowed ourselves time to get to grips with the exact nature of our business, we will, in the next financial year, be embarking upon a program characterised by a rebuilding and reconfiguration of the Commission's secretariat services. Based on the experiences of the past five years, we will place greater attention on staff development and training. While doing that, we will remain acutely aware of the competition for skilled personnel, not only from the private sector, but also from within the public sector.

Therefore, in presenting this report, I wish to thank the Commissioners and staff who have remained on board despite all the difficulties normally associated with the work of institutions like the FFC. I am confident that this report is a fair reflection of their contributions towards the development of an equitable financial and fiscal system for South Africa.



Murphy Morobe

The Commission should not have to fight for its place in the sun. Being born of the Constitution of the Republic, its role should be understood, welcomed and facilitated

OVERVIEW OF THE FFC

The Financial and Fiscal Commission

The Financial and Fiscal Commission is an independent constitutional institution. It is required to give advice and make recommendations to Parliament, provincial legislatures and other relevant organs of state on matters affecting intergovernmental fiscal relations, mainly regarding the equitable sharing of nationally collected revenues between the national, provincial and local spheres of government.

The FFC is established in terms of Section 220 of the Constitution of the Republic of South Africa, 1996, and functions in terms of the Financial and Fiscal Commission Act (No 99 of 1997). It has been in operation since 1994, when it was established in terms of the 1994 interim Constitution. The powers and functions of the FFC are contained primarily in the Constitution, and given further content in the FFC Act and the Borrowing Powers of Provincial Governments Act of 1995, as well as in the Intergovernmental Fiscal Relations Act of 1997.

The Financial and Fiscal Commission is an independent constitutional institution, advising on the equitable sharing of revenues

THE ROLE OF THE FFC

The Constitution states in Chapter 13 that an Act of Parliament must provide for:

- The annual division of revenue between national, provincial and local government.
- The division of revenue between the nine provinces.
- Conditional or unconditional allocations to provinces or local government out of the national revenue fund.

The Act may be passed only after provincial governments and organised local government, as well as the FFC, have been consulted, and after any FFC recommendations have been considered.

Section 214(2) of the Constitution states that this process has to take into account:

- The national interest.
- The national debt and other national obligations.
- The needs and interests of the national government, determined by objective criteria.
- The ability of provinces and municipalities to provide basic services and perform the functions allocated to them.
- The fiscal capacity and efficiency of the provinces and municipalities.
- Developmental and other needs of provinces, local governments and municipalities.
- Economic disparities within and among the provinces.
- Stable and predictable allocations of revenue shares.
- Flexibility in responding to emergencies or other temporary needs, and other factors based on similar objective criteria.

Other legislation allocates specific functions to the FFC.

The **Borrowing Powers of Provincial Governments Act of 1995** empowers the FFC to make recommendations regarding the need for borrowing by any sub-national sphere of government on:

- The total amount of interest that a provincial government may incur on its expected outstanding debt during a financial year.

Acts providing for division of revenue may be passed only after provincial and organised local government, as well as the FFC, have been consulted, and after any FFC recommendations have been considered

The **Intergovernmental Fiscal Relations Act of 1997** provides that the FFC may:

- Attend meetings of the Budget Council and the Local Government Forum.
- Make recommendations on revenue sharing and allocation of fiscal resources between national, provincial and local spheres of government.
- Be solicited for advice and/or recommendations by other organs of state on matters relevant to their specific functions and falling within the broad constitutional framework of the FFC.

WORK IN BRIEF

- The Commission is expected **to report regularly to Parliament and to the provincial legislatures**, in accordance with the relevant constitutional provisions.
- **Recommendations and advisories** are developed by the FFC researchers and executive. Commissioners participate in this process by making specific expert input to the research undertaken.
- **Research and/or analytical work** is from time to time submitted for review by peers, as well as, when necessary, by external research and academic institutions, before being submitted to the full Commission for approval and finalisation.
- **The final product is submitted chiefly to Parliament and to the Department of Finance** (the Portfolio Committee on Finance and the Budget Council).
- Discussion at a Budget Council meeting highlighted **the need to develop even clearer protocols** in terms of which all relevant role players will and must interface in the pursuit of their respective roles as assigned by the Constitution or any other law.

The FFC work programme for the 1998-1999 financial year is best understood in the context of its work since its formation in 1995

The FFC work programme for the 1998-1999 financial year is best understood in the context of its work since its formation in 1995. This annual report therefore refers to both current and previous research and recommendations made by the Commission.

At least 10 months before the start of each financial year, the FFC must submit any recommendations for that financial year to both Houses of

Parliament and provincial legislatures, on the relative shares of revenue due to the national, provincial and local spheres.

- 1 **The FFC's first major intervention was contained in its 1995 publication of a formula proposal for the equitable sharing of revenue between the spheres of government.** This formula has been gradually adapted over the years, and currently forms the basis of the government's formula for revenue sharing.
- 2 **The FFC *Framework Document for Intergovernmental Fiscal Relations*, released in 1995, sought to establish the principles to inform the development of such a formula for the equitable sharing of revenue.** The recommendations set the basis for sound financial and budgetary practices given the context of past inequality, the new constitutional and legislative dispensation, the urgent need for change and redress, and the concurrent need for financial stability and predictability.
- 3 **This annual report also pays attention to the recommendations made by the FFC for the allocation of financial resources to the national and provincial governments** for the financial year 1997-1998, prepared in 1996, and the financial year 1998-1999, prepared in 1997.

The 1997 and 1998 Budget Reviews both acknowledged the importance of the principles that the FFC had put forward and urged all stakeholders to take them into account when considering decisions on allocations.

The **two key considerations in fiscal allocations in our decentralised system** of government remain the resolution of the problem of:

- The **existing vertical imbalances** between national, provincial and local governments, and
- The **horizontal fiscal disparities** between provinces and among local jurisdictions.

- 4 **In the 1998-1999 submission the FFC commented, inter alia, on the Department of Finance's Medium-Term Expenditure Framework (MTEF) and on macro-economic strategies implemented by government.**

The 1997 and 1998 Budget Reviews both acknowledge the importance of the principles that the FFC had put forward

- 5 In its 1998-1999 recommendations the FFC also focused on **provincial taxes and fiscal equalisation, and financial resources for local government and municipalities.**
- 6 In 1998 the FFC considered that it was **undesirable to submit a new set of recommendations** for the financial year 1999-2000, as it understood the MTEF to have been negotiated and set for the period 1998-1999 to 2001-2002.
- 7 At the FFC's special **lekgotla of 1998, a resolution was passed for the 1999-2000 FFC work programme to use as a point of departure a significant reappraisal of its previous work.** The work programme was to include preparations for the next three-year budgetary planning cycle starting in 2001. This would allow for any major changes to be made to the initial formula for the equitable sharing of revenue. **Project 2001**, as this work programme is called, will contain the FFC proposals for the three-year planning cycle for 2001-2004.
- 8 Parallel to its work on the revenue sharing formula, **in 1998 the FFC published an important research document entitled *Public Expenditure on Basic Social Services in South Africa*,** commissioned by the United Nations Development Programme (UNDP) and UNICEF. This report focused on the equity and efficiency of expenditure on basic education (pre-primary and primary) and primary health care. This document was a contribution to the UNDP's and UNICEF's 20/20 project being carried out across the globe.

One of the important FFC conclusions was that, rather than making more money available for social expenditures, the essential problem concerned the efficiency of the expenditure

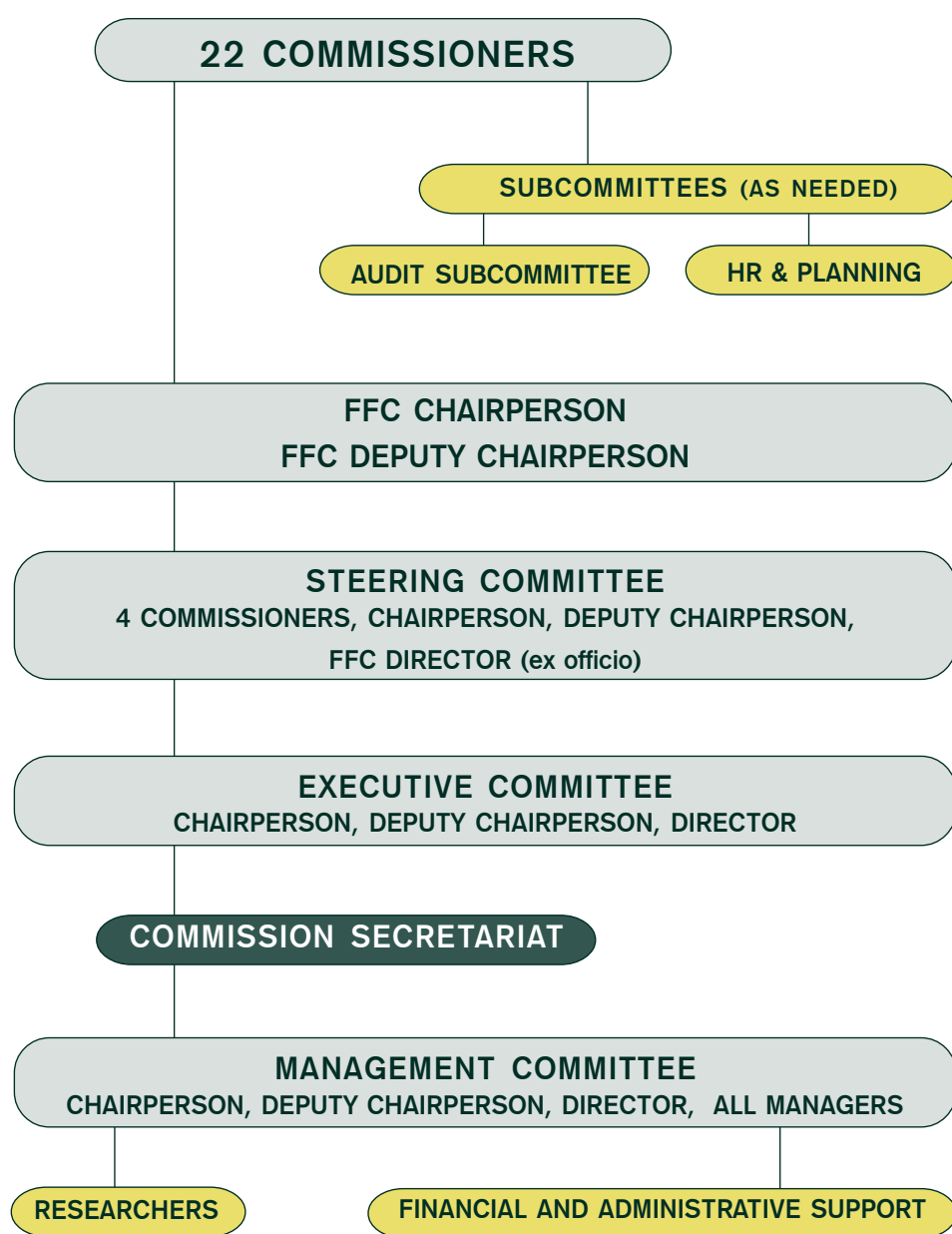
One of the important conclusions of that study was that, rather than making more money available for social expenditures, **the essential problem concerned the efficiency of the expenditure.** The report further argued for improvements in the incidence and cost effectiveness of spending. It took the view, however, that this could be achieved through, among other things, spatial re-organisation, the use of targeting and greater emphasis on preventive and integrated programmes.

The FFC continues to focus on creating stable fiscal relations. The greatest challenge for the FFC is to continue to contribute to the development and maintenance of an appropriate, sustainable and equitable public finance system in South Africa. Project 2001, which will be reported on next year, will go a long way towards meeting this challenge.

FFC STRUCTURE

structure

The FFC is constitutionally structured to comprise 22 Commissioners, appointed by the President, and a full-time secretariat.



This structure is currently under review, and changes are being considered for streamlining, so as to ensure better alignment with the FFC's roles, responsibilities and mandate.

COMMISSIONERS

The President appoints 22 Commissioners to the FFC, each for a term not exceeding five years (though the Commissioners may be re-appointed at the end of their terms):

- A chairperson and a deputy chairperson who may be full-time members.
- One person nominated by the executive councils of each of the nine provinces.
- Two persons nominated by organised local government in the form of the South African Local Government Association (SALGA).
- Nine other persons.

MEMBERS OF THE COMMISSION

(AS OF 24 AUGUST 1999)

The FFC is constitutionally structured to comprise 22 Commissioners, appointed by the President, and a full-time secretariat



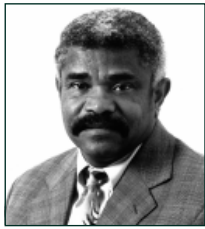
Murphy Morobe has served as chairperson of the FFC since its inception. After serving a three-year prison sentence on Robben Island for sedition, Murphy played a key role during the 1980s in the establishment and leadership of the United Democratic Front. Before his FFC appointment, he worked for five years with PG Bison Ltd in the areas of corporate social investment, business development and change management. During this time he was seconded to the Codesa constitutional negotiations as head of administration. He was the first provincial secretary to the then PWV province after the first democratic elections in 1994. (National nominee)



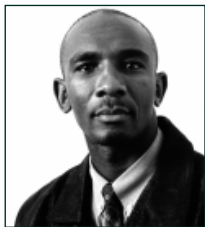
Jaya Josie is acting deputy chairperson of the FFC while a formal appointment by the President is awaited. Before this he was director of the Development Economics Services business unit of Ernst & Young (Southern Africa). He is currently a doctoral candidate at the University of London. Jaya is a part-time lecturer in public finance and fiscal policy at the Universities of the Western Cape and Fort Hare. (Gauteng nominee)



Mustaq Brey qualified as a chartered accountant in 1978. In 1985 he founded his own Western Cape-based chartered accounting firm. Mustaq serves as chairperson of Brimstone, a well-known black empowerment corporation based in Cape Town. (Northern Cape nominee)



John Douw is an executive member of the North West Local Government Association and serves as the chairperson of its finance working group. He is a member of a number of local development bodies, and holds a BA Hons from Potchefstroom University. (SALGA nominee)



Mandla Gantsho is an executive manager at the Development Bank of Southern Africa. He holds a postgraduate degree in finance from the University of Cape Town and is a chartered accountant. He is a member of various professional and non-professional bodies. (National nominee)



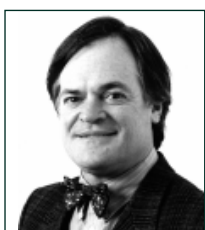
Philip Hourquebie is the CEO of Ernst & Young (Southern Africa) and is a member of the Ernst & Young International Council. He was previously managing partner with Ernst & Young (SA) for KwaZulu-Natal and the Eastern Cape. Philip is a chartered accountant and holds a BComm from the University of Natal. (KZN nominee)



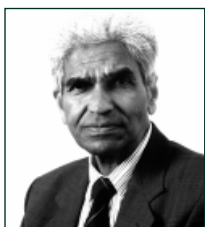
Francois le Roux holds a DComm degree from the University of Stellenbosch. He is currently deputy director-general in the Department of Finance responsible for international development finance, pensions administration, the Public Investment Commissioners, and corporate services. (National nominee)



Monde Limekhaya is the deputy permanent secretary, accountant general, in the Eastern Province Department of Finance. He holds a BComm degree from the University of Fort Hare and has over 25 years' experience in the Eastern Cape civil service. Monde is past vice-president of the Butterworth Chamber of Commerce and Industry. (Eastern Cape nominee)



Lieb Loots holds a doctorate in development economics from the University of Cambridge. He is currently director of the Economic Policy Research Project at the University of the Western Cape. He has published extensively on a variety of topics, including savings and investment, unemployment and labour market policies, regional development and industrial strategy, and taxation and fiscal policy. He served on the Tax Commission and acts as a consultant to a variety of public and private sector organisations. He is a director of Sekunjalo Investments Limited. (National nominee)



Louis Kathan holds a DEd degree and currently serves as a member of the Councils of the Universities of Stellenbosch and the Western Cape. Dr Kathan has had a long and distinguished career as an educationalist and educational civil servant. He is the author of various books and papers in the field of science and education. (Western Cape nominee)



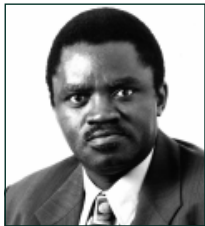
Renosi Mokate is executive director (economic and social analysis) at the Human Sciences Research Council. She holds a PhD from the University of Delaware. Renosi was previously employed as CEO of the Independent Electoral Commission and as director of the Centre for Reconstruction and Development at the University of Pretoria, among other positions. She was the lead researcher on macro-economic context, poverty and the labour market, for the *Study on Poverty and Inequality in South Africa*, commissioned by the Office of the Deputy President in 1997/8. (National nominee)

Audrey Mokhobo is the human resources centralised services manager at Eskom. She holds a BA degree from the University of Lesotho and an MA in public administration from Ohio University. Audrey is a director of a number of companies, including Women's Development Businesses Investment Holdings, and is an adviser to the Ministry of Public Enterprises on privatisation and restructuring. (North West nominee)

Carol Mpapele currently serves the Northern Province Development Corporation as its internal audit manager. He is a member of the Institute of Commercial and Financial Accountants and holds a number of diplomas in accountancy and auditing. (SALGA nominee)



Ebrahim Patel is the deputy general secretary of the Southern African Clothing and Textile Workers Union and serves on the National Executive Committee of the Congress of South African Trade Unions (Cosatu). He is the convenor of the labour constituency in the National Economic Development and Labour Council (Nedlac) as well as a member of the governing body of the Council for Conciliation, Mediation and Arbitration (CCMA). (National nominee)



Jerry Sithole is a chartered accountant and has been director of his own auditing and accounting practice since 1984. He is based in Nelspruit and has served on commissions of enquiry for the Northern Province and the University of the North. He is a member of the Public Accountants and Auditors Board and is chairperson of the Councils of Mapulaneng and Hoxane Colleges of Education. (Northern Province nominee)



Marius van Blerk is group tax consultant to the Anglo American Corporation and founder and editor of the journal *SA Tax Review*. A graduate of the University of Cape Town, he holds an LLM in commercial law and is a registered chartered accountant. He is an alternative director of Anglo Gold Investment Company. Marius is a member of various tax advisory bodies and committees. (National nominee)



Philip van Ryneveld was a Rhodes Scholar at Oxford University and also studied at the Institute of Social Studies in the Netherlands. Before his current appointment as executive director (corporate finance), City of Cape Town, he consulted on intergovernmental and local government fiscal issues. He was involved in writing sections of the South African Constitution. (National nominee)

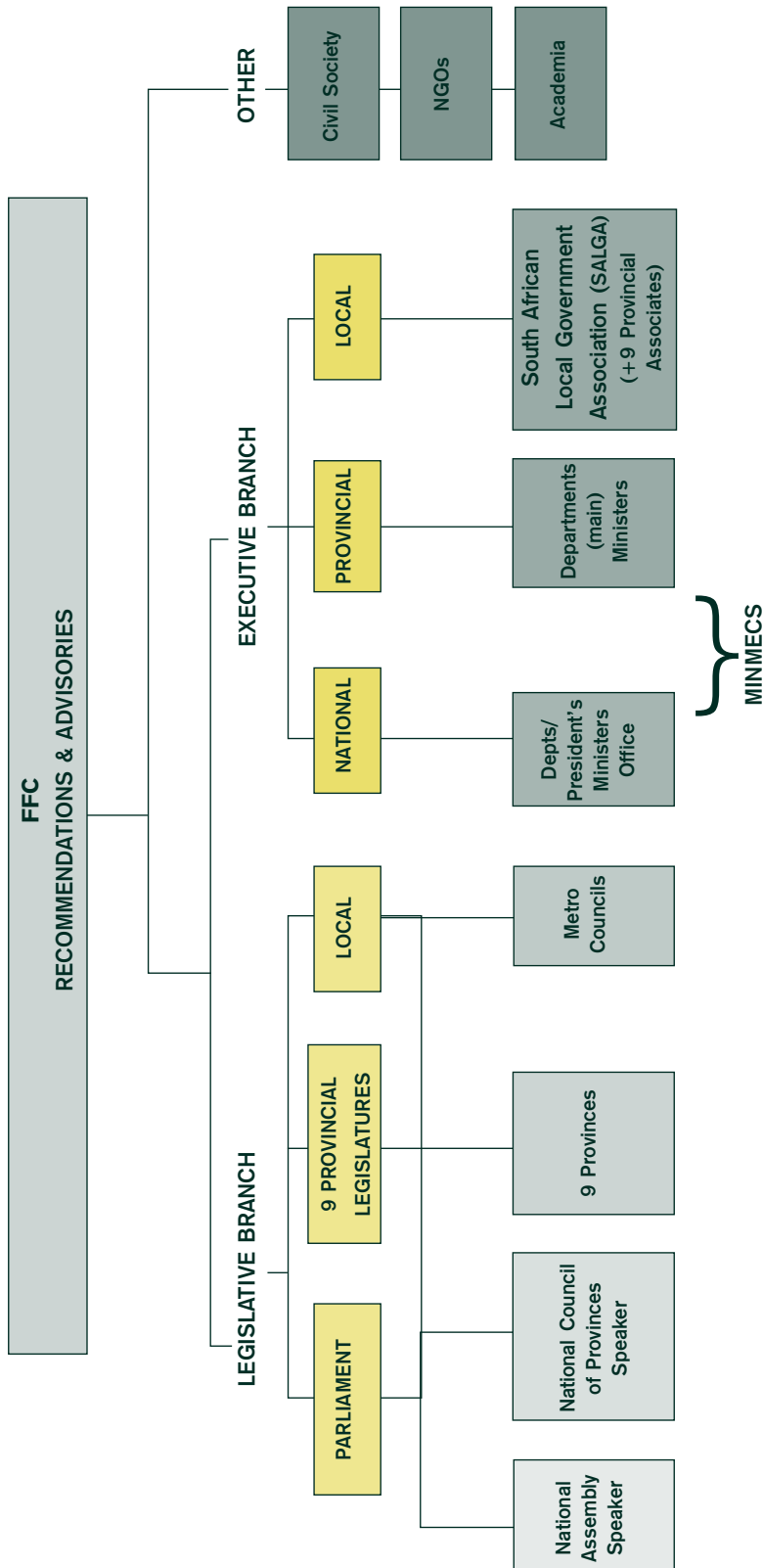
SECRETARIAT

The FFC secretariat is currently housed in Midrand, providing research, analytical and administrative support to the Commission. All staff listed below were on the Commission's establishment as at the time of compiling of this report.

STAFF :

Murphy Morobe	Chairperson
Jaya Josie	Acting Deputy Chairperson
Colin Donian	Acting Research Coordinator
Hildegard Fast	Parliamentary Liaison and Research, Cape Town
Paul Ledwaba	Accountant/Finance
Rossana Achterberg	Researcher
Dirk Besdziek	Researcher
Selwyn Jehoma	Researcher
Bongani Khumalo	Researcher
Cindy Bruce	Admin/Network Manager
Antonette Smit	Librarian/ Information Technologist
Lyn Desai	PA to the Chairperson and Deputy
Annaleeze Prosee	Secretary (Director and Research Component)
Annah Mosiane	General Assistant
Deliswa Schoeman	Receptionist/Typist

STAKEHOLDER RELATIONSHIPS



* abbreviations - see glossary

WORK PROGRAMME

work programme

The FFC's core functions concern intergovernmental fiscal relations and arrangements, involving all spheres of government.

The context in which these functions are carried out is characterised by new and continuously evolving political systems at national, provincial and local levels, and the transformation of the civil service to meet these new requirements.

To gain a full understanding of the FFC's programme in 1998-1999, it is necessary to refer to earlier FFC research and recommendations.

CONTEXT : 1995 - 1997

To gain a full understanding of the FFC's programme in 1998-1999, it is necessary to refer to earlier FFC research and recommendations

① INITIAL FORMULA FOR THE EQUITABLE SHARING OF REVENUE

In 1995 the FFC first developed an initial formula for the equitable sharing of revenue. This was a time when the new government was settling in and most departments, including the Department of Finance, were fundamentally restructuring.

In the absence of clear direction from central government, the FFC focused mainly on how from the point of view of its mandate to interpret the then interim Constitution. The FFC proposed an initial basic formula for revenue sharing in its submission *The Financial and Fiscal Commission's Recommendations for the Allocation of Financial Resources to the National and Provincial Governments for the 1996/97 Fiscal Year*.

The formula-funding method, as proposed, had to take into account criteria providing for:

- Equitable financial resources to perform assigned functions.
- Predictable and objectively based allocations.
- The provision of minimum levels of basic services, including administrative responsibilities.

- Financing for so-called unique national services.
- Reasonable fiscal autonomy in all spheres of government.
- The addressing of poverty, backlogs, developmental needs and economic disparities.
- Long-term economic growth.
- The development of democratic and accountable government.
- Compensation for inadequate tax bases.
- A transparent budgeting process.

The FFC sought to provide **a composite formula that generated the relative shares of the national and provincial spheres**. The essential elements in this formula were school education and primary health care. The importance of these two sectors to individuals and the country as a whole, reflected by the overall share of the budget, created the need to ensure that adequate funding be provided to meet national service standards. This approach served merely as a tool to assist in deriving the relative share that the provinces, in particular, were to receive as their “equitable share”.

Because the old system provided for an annual budget cycle, and the 1996 budget was well under way at the time that the 1995 document was released, there was little serious scope for the government formally to consider and incorporate the FFC approach in the 1996-1997 budget process.

The problems encountered with the first submissions in 1995-1996 led the FFC to realise that there was an urgent need for input into public sector discourse on intergovernmental fiscal relations. The move from a centralised government to different spheres of government called for major adjustments in mindsets and the allocation of budgets.

It soon became clear that **developing a set of principles to underpin and inform intergovernmental fiscal relations was critical**, and this led to the development of the FFC’s *Framework Document for Intergovernmental Fiscal Relations in South Africa* (1995).

The FFC realised that there was an urgent need for input into public sector discourse on inter-governmental fiscal relations

2 FRAMEWORK DOCUMENT FOR INTERGOVERNMENTAL FISCAL RELATIONS

The *Framework Document for Intergovernmental Fiscal Relations in South Africa (1995)* put forward the Commission's view on the principles that should inform the interactions of all role players in the new fiscal relations system envisaged in the Constitution. Released by the FFC in 1995, the document addressed the question of, and need for, **sound financial and budgetary practices, given our historical context of inequality**, the urgent need for change and redress, and the simultaneous need for financial stability and predictability.

The document emphasises **four principles as key features of intergovernmental fiscal relations**, namely:

- Equity
- Democracy
- Fiscal accountability
- Economic efficiency.

A detailed analysis of the following key areas was made:

- **The constitutional context** providing for FFC recommendations.
- **Norms applicable to systems of intergovernmental fiscal relations**; e.g. effective resource use, accountability, national unity and fiscal autonomy, transparency, equity, developmental priorities, administrative efficiency, macro-economic stability, provincial loan financing, and stability in the delivery of services.
- **Fiscal allocations** to national, provincial and local governments.
- **Provincial and local government revenue sources**. The FFC worked from the premise that local and provincial governments should ideally raise as much as possible of the revenue that they spend, and analysed existing taxes to ascertain which would be suitable for this purpose.
- Provincial and local government **borrowing powers**.

Based upon the Commission's interactions with various stakeholders, it is clear that **not enough emphasis has been placed by the government on the need to deepen understanding of the four principles**, not only within

It soon became clear that developing a set of principles to underpin and inform inter-governmental fiscal relations was critical

the public sector but also among the general populace. It is vital that all should understand the rules and principles which must underpin all intergovernmental relationships.

③ RECOMMENDATIONS ON THE ALLOCATION OF FINANCIAL RESOURCES 1997 - 1998

Expanding on the 1995 initial submissions, the FFC in 1996 submitted its *Recommendations for the Allocation of Financial Resources to the National and Provincial Governments for the 1997/98 Financial Year*.

Once again, the two key considerations in fiscal allocations for our newly decentralised system of government that the FFC had to pay special attention to were:

- The built-in vertical fiscal imbalances between national and sub-national governments.
- The horizontal fiscal disparities which characterised the new provincial system.

Vertical fiscal imbalances

The FFC noted that **the division of the total available resources between the national and provincial governments should be based on the constitutional allocation of functions**. In terms of these, the delivery of the major services to the public, such as education and health care, are mainly the responsibility of provincial government, whereas less population-driven functions, such as defence, policing and foreign affairs, are national functions. However, concerning the former, the Constitution also provides for concurrency between the national and provincial spheres.

The FFC noted that **only a limited number of national departments have their services directly related to the increase of the population**, and suggested that allocations to the national government should, as a principle, grow more slowly than allocations to the provincial governments in the period under review.

The division of the total available resources between the national and provincial governments should be based on the constitutional allocation of functions

The political nature of decisions concerning the vertical division did not, however, escape the Commission. While convinced that considerations of equity with respect to the vertical division were still within its ambit, the FCC nevertheless chose to take a more cautious approach.

Horizontal fiscal disparities

As opposed to the vertical division, the FCC's role in relation to the horizontal division of revenue is more explicit.

The FCC recommended that the total provincial allocation (P) should be shared among the provinces by means of a provincial grants formula comprising:

1. **A minimum national standards grant (S)**, specifically for the provision of primary and secondary education and primary and district health care.
2. **A spill-over grant (M)** to provide for the financing of those services which have inter-provincial spill-over effects (e.g. provinces with academic hospitals).
3. **A fiscal capacity equalisation grant (T)** to ensure that provincial functions are financed from an equitable provincial taxing capacity and to encourage accountability in the provincial legislatures.
4. **An institutional grant (I)** to provide funds for each province to finance the core of its legislature as per the Constitution (this was based on estimated costs to the smaller provinces).
5. **A basic grant (residual) (B)** to enable provinces to plan and budget for the fulfilment of their constitutional responsibilities.

The recommendation was for the formula to be phased in over a period of five years. This was to ensure that those provinces which were to receive cuts in their budgetary allowances would have sufficient time to make the necessary adjustments, either to their expenditures or to their own revenues.

BASIC STRUCTURE OF 1997-1998 FORMULA

$$P = S + M + T + I + B$$

The political nature of decisions concerning the vertical division did not escape the Commission

RECOMMENDED FINANCIAL ALLOCATIONS PER PROVINCE: PERCENTAGE ALLOCATIONS FOR 1997/98. THIS TABLE INDICATES THE ALLOCATED RESULTS FROM THE APPLICATION OF THE FFC RECOMMENDED FORMULA.

PROVINCE	1996/97 ACTUAL (BASE YEAR)	1997/98
Western Cape	11.13	10.58
Eastern Cape	18.46	18.38
Northern Cape	2.35	2.23
KwaZulu-Natal	19.34	19.67
Free State	6.90	6.86
North West	8.57	8.63
Gauteng	14.75	14.79
Mpumalanga	6.12	6.19
Northern Province	12.38	12.68
South Africa	100.00	100.00

The recommendation was for the provincial grants formula to be phased in over a period of five years

4 RECOMMENDATIONS ON THE ALLOCATION OF FINANCIAL RESOURCES 1998 - 1999

The Budget Council's proposal and development of the Medium-Term Expenditure Framework (MTEF) vindicated the FFC's emphasis, as early as 1995, on a **multi-year budgetary planning cycle**.

The FFC's September 1997 submission, *Recommendations and Comments: The Allocation of Financial Resources to National, Provincial and Local Governments for the 1998-1999 Fiscal Year*, evaluated the MTEF and other macro-economic strategies

In a presentation to the Select Committee on Finance, the FFC made the observation that **unless the government acts on its stated goal of cutting down on personnel expenditure**, one of the implications in the medium term would be **the crowding out of capital expenditure in the budget**. Subsequent budgets, as well as the expenditure behaviours of various spending agencies, bore out this observation.

The FFC's *Recommendations and Comments: The Allocation of Financial Resources to National, Provincial and Local Governments for the 1998-1999 Fiscal Year* contained a number of observations regarding:

- **Implementation of the Medium-Term Expenditure Framework (MTEF)**

While **welcoming the implementation of the MTEF**, the FFC cautioned that it was being planned and implemented in the absence of any broader economic or development planning. The FFC also noted that **provincial autonomy could be a serious stumbling block** to the successful implementation of the MTEF. Fiscal planning of this type tends to work well in countries with similar arrangements to South Africa's, where central government still has significant power and control over the management of the entire economy.

- **Conditional grants**

The FFC **recognised the role of conditional grants to the provinces** for services with a national benefit, RDP expenditure, and intergovernmental grants to local government. However, it raised **concerns about the way in which these grants would be determined and structured**. It was stressed that the Department of Finance was constitutionally obliged to make conditional grants from national government's share, and not from the provincial shares as proposed.

- **Policy and contingency reserve**

The FFC suggested that **the policy and contingency reserve funds** to be top-sliced from the national revenue pool **should be included in the national government's share**. The national government could then allocate grants in terms of any national development priorities and any criteria agreed to.

- **The vertical division**

The FFC expressed concern that in the process of determining the vertical division of revenue, **local government was not treated in a satisfactory manner**. In fact, the local government share of the vertical division still reflects, at least in terms of the question of funds, pre-1994 inequities.

The FFC expressed concern that in the process of determining the vertical division of revenue, local government was not treated in a satisfactory manner

- **Improvements in conditions of service**

The FFC welcomed the recommendation that national departments and provincial governments were to fund improvements in the provision of service from their budget. However, the FFC emphasised that it was important to ensure that those amounts remained in the provincial budgets, and did not revert to top-sliced or national components.

- **Social security grants**

The Department of Finance was considering transferring functional responsibility for these grants to the national government. However, for whatever reasons (probably political), these still remain a provincial responsibility. It was made clear that provinces would have to budget on the basis of their estimated expenditure on social welfare grants, and that they would have to carry the risk for additional claims.

The Commission itself had been grappling with how to assist in resolving this dilemma. Its inclination is currently towards having this function located at national level.

- **Unconditional social security grants**

The FFC supported the transfer of the budget for unconditional social security grants to the national government. However, it recommended that provinces continue to administer the grant on behalf of the national government until administrative matters were resolved. The FFC could indeed not avoid making reference to **the consistent gap between actual and budgeted expenditure in the social security grants.**

- **Unconditional equity grant**

The FFC **questioned the fact that 45% (roughly R25-billion) of the total unconditional equity grant had been allocated to education**, as the relationship between this amount and the actual education budgets in the provinces was unclear.

The FFC could not avoid referring to the consistent gap between actual and budgeted expenditure in the social security grants

- **Provincial taxes and fiscal equalisation**

- Although the Department of Finance recognised **the need for provinces to have their own sources of revenue**, it still largely remains unconvinced about the FFC proposal for a provincial surcharge on personal income tax base. It referred the matter to the Katz Commission. Instead the fuel levy and payroll tax were suggested as alternative sources of revenue for the provinces.
- In *Recommendations and Comments: The Allocation of Financial Resources to National, Provincial and Local Governments for the 1998-1999 Fiscal Year*, the FFC expressed the view that **policies ensuring that provinces are responsible for raising a large part of their revenue** would undoubtedly promote fiscal accountability and the fiscal autonomy called for by the Constitution.
- **Provinces currently derive their own revenue mainly from user charges**, such as hospital charges and licence fees, for example motor vehicle, horse racing and gambling. These revenues constitute only a tiny fraction of total revenue in each province. With provinces' own revenues accounting for less than 5% of their total revenues, **there is little incentive for provincial governments to be fiscally accountable to their electorates**.
- The FFC recommended that **national legislation regulating how provinces impose a flat rate surcharge on the Personal Income Tax (PIT) base** be considered. The FFC interpreted Section 228 (2) of the Constitution as saying that provinces have the constitutional right, if they want, to impose this surcharge. This would of course require the passing of national framework legislation.
- The FFC further recommended that **this surcharge be implemented in the context of national government creating tax room**. This means that the national rate on personal income tax should be lowered when the provincial surcharges are instituted, so as to ensure that there is no increase in the overall tax burden.
- The FFC expressed **confidence in South Africa's tax collection capacity to successfully implement the surcharge**. It envisaged that the South African Revenue Service (SARS) would collect the provincial surcharge on behalf of the provinces, as now provided for in the SARS Act. It discouraged the creation of provincial revenue services.

With provinces' own revenues accounting for less than 5% of their total revenues, there is little incentive for provincial governments to be fiscally accountable to their electorates

5 THE FFC AND LOCAL GOVERNMENT

The FFC document *Local Government in a System of Intergovernmental Fiscal Relations in South Africa* (July 1997) sought to examine the vexed issue of financial resources for local government.

In developing its recommendations regarding local government, the FFC took the view that **intergovernmental transfers should be made to municipalities**, under certain circumstances. There are two major reasons for this:

- **Some municipalities are able to meet all their obligations from their own revenues, but some are not**, as their revenue sources do not match the services they are required to deliver. In such cases intergovernmental transfers are necessary to ensure vertical equity between the different spheres of government.
- **People in different areas should pay similar tax rates and receive similar levels of services** in the interests of horizontal equity. In order to achieve this under current circumstances, where disparities are severe, intergovernmental transfers are also required.

Equity in this sense would mean that certain minimum levels of service provision must be attained for all citizens. This will require cross-subsidisation from richer to poorer communities, but in some cases it will also require intergovernmental transfers. The following would therefore become necessary:

- **Identification of which communities qualify for transfers.** Subsidies available to municipalities from national revenue should be calculated after taking into account the circumstances of each municipality as a total entity, rather than those of a poor community within a more wealthy municipality.
- **Determination of the level at which assistance should be given.** The FFC's inclination had been towards directing transfers to the metro or district council level, rather than at the primary level. Data difficulties continue to plague the sector, and make direct formula-funding almost impossible at this stage. At the same time

Certain minimum levels of service provision must be attained for all citizens. This will require cross-subsidisation from richer to poorer communities and, in some cases, intergovernmental transfers

metro and district councils know enough about local conditions in their jurisdiction to be able to reflect local priorities with reasonable accuracy.

The capital and the operating grant components are designed to address the **basic needs of the poorest section of the population**. On the one hand, the capital grant is aimed at eliminating backlogs in the provision of basic municipal services. On the other hand, the operating transfer is expected to enable the poor to purchase the minimum quantities of certain essential services, such as clean water, adequate sanitation, suitable roads, and electricity.

It is commonly stated that **transfers should address inter-jurisdictional fiscal disparities**. If a jurisdiction has the capacity to raise its own revenue, the money made available to it through the transfer system is reduced. The FFC recommended that at present only the revenue-sharing transfers be adjusted according to a jurisdiction's tax capacity.

The principle of provincial taxation remains at the centre of the FFC's consideration of provincial revenue

A number of the comments and recommendations contained in *Local Government in a System of Intergovernmental Fiscal Relations in South Africa (1997)* are still contentious in 1999. A case in point is the principle of provincial taxation, which remains at the centre of the FFC's consideration of provincial revenue. However, this is still a major area of debate and has been referred by the government to the Katz Commission. Its report in this regard has already been submitted to Parliament.

THE 1998 - 1999 FISCAL YEAR

① RECOMMENDATIONS ON FINANCIAL ALLOCATIONS 1999/2000

The FFC decided that **it was not desirable to submit a new set of recommendations in 1998 for 1999/2000**. This was in the light of the fact that the Medium-Term Expenditure Framework (MTEF) had been negotiated and set for the period 1998/99 to 2001/02.

The FFC opted instead **to target the outer years of the three-year MTEF cycle**. With the corroboration of the Department of Finance, the Commission considered this point as the most suitable for any possible significant changes to the allocative formula in place.

This approach was confirmed in October 1998 at **a major FFC lekgotla**. The lekgotla confirmed the FFC's work programme for 1999-2000, entailing a significant reappraisal of its previous work.

Thus was born **Project 2001**.

2 PROJECT 2001 - AN INTRODUCTION

Project 2001 contains the **FFC proposals for the three-year planning cycle for the period 2001-2004**. Project 2001 will see the first major shift in recommendations to government since the initial system started operating in 1997/1998.

By the beginning of the 2001-2002 fiscal year the current basic formula will have been in operation for three years. A great deal more information about population figures and the needs and spending of provincial and local government has become available since the FFC was established. This increasingly provides scope for more precise analysis and systems development. Also, the move towards **outcomes-based and outputs-based budgeting** will fundamentally change the nature of budgeting.

The **main objectives of Project 2001** will therefore be to:

- Present a set of recommendations to be taken into account for the second three-year phase.
- Review the earlier FFC recommendations based on its initial guiding principles.
- Assess the workings of the system during the initial three-year phase.

Project 2001 will be informed by the FFC guiding principles and its subsequent interpretation of key issues such as equity, the equitable share, basic services, taxation and conditional grants.

A great deal more information about population figures and the needs and spending of provincial and local government has become available since the FFC was established

The broad guidelines informing the FFC's Project 2001 are:

- **A review of original and subsequent FFC recommendations, Department of Finance formulae, and budget and actual expenditure results.** This study uses as a point of departure an assessment of the validity of the underlying principles formulated in 1996. The consistency of recommendations will be examined, taking into account changing circumstances and improved data sources. The 1997-1998 MTEF and resultant decisions taken by the Department of Finance will be reviewed and compared to the FFC recommendations. Actual budgets and expenditures, particularly in the provinces, will be compared to the patterns used to establish equitable shares.
- The **vertical division of revenue will be revisited** prior to a final determination of the appropriate horizontal division of the provincial and local equitable share. Issues such as the incorporation of funds for conditional grants and top-slicing for borrowing costs and contingencies will be considered.
- The **horizontal division of revenue between provinces** will be a major focus with particular regard to health, education and welfare, capital grants, institutional expenditure and own-source revenue.
- The establishment of a **local government equitable share** will be examined. This will entail developing a clear understanding of the responsibilities and programmes of local government. The ability of local governments to provide their own revenue must be tested.
- **Sub-national borrowing** will be an area of focus as this will inform discussions on the vertical division and top-slicing. The links between borrowing, capital expenditure, capital grants and the consequences for recurrent expenditure also require attention.

The horizontal division of revenue between provinces will be a major focus with particular regard to health, education and welfare, capital grants, institutional expenditure and own-source revenue

Project 2001 will also present an opportunity for the FFC to interact with relevant political stakeholders and civil society.

3 PUBLIC EXPENDITURE ON BASIC SOCIAL SERVICES IN SOUTH AFRICA

An important piece of research published by the FFC in 1998 was *Public Expenditure on Basic Social Services in South Africa*, commissioned by Unicef and the United Nations Development Programme.

This report focused on the equity and efficiency of expenditure on **basic social services of basic education** (pre-primary and primary) and **primary health care**.

This report addressed **three major issues**:

- Total basic education and health expenditure.
- The distribution of recurrent and capital expenditure.
- The incidence of basic education and health expenditure.

Three sets of inter-related strategies were proposed:

- To increase resources for basic education and health.
- To improve the efficiency of basic education and health expenditure.
- To improve the incidence of public expenditure on basic education and health.

The report argued that **the greatest scope for increased efficiency lies in improving the incidence and cost-effectiveness of spending**, rather than in increased spending. This can be achieved through spatial reorganisation, the use of targeting, and greater emphasis on preventive and integrated programmes.

The report further suggested some **key actions that could be taken by the government**:

- Increasing preventive services, specifically water, sanitation and a nutrition programme.
- Implementing procedures for the development of new policies.

The greatest scope for increased efficiency lies in improving the incidence and cost-effectiveness of spending

- Redeploying personnel geographically to where they are most urgently needed.
- Creating more management and finance posts, and resources for system development.
- Creating greater links between Statistics South Africa (SSA) and departmental information systems.

The report concluded that donors should consider supporting not only capital projects but the development of systems for financial management, human resource management, monitoring and capacity-building both within the health and education sectors as well as within communities. Such support would assist the government in improving efficiency of expenditure.

Lack of clarity about the development of new institutions for local government still presents a challenge to the FFC and other institutions involved in local government finance

SUCCESSES AND CHALLENGES

In the past year the FFC continued to focus on creating **stable fiscal relations**. Despite pressures to propose various changes to its work programme, the FFC remained committed to putting in place a stable formula for the equitable sharing of revenue and a multi-year planning cycle. This was first proposed by the FFC as early as 1995 and 1996.

Lack of clarity about the development of new institutions for local government still presents a challenge to the FFC and other institutions involved in local government finance. The FFC's accuracy in planning depends in part on its knowledge of and interaction with these structures. At the time of writing this report further changes for local government were being finalised by the Municipal Demarcation Board.

Building **sustainable and reciprocal relationships with other institutions and structures of government**, such as the Medium-Term Expenditure Framework committees, the Intergovernmental Forum and MinMec, poses further challenges. This challenge is not limited to the FFC.

The greatest challenge for the FFC now is to **secure an appropriate, sustainable and integrated place** in the public finance system. Project 2001 will go a long way towards meeting this challenge.

Project 2001 and the FFC's current and medium-term work plan, highlight the importance of focusing on **achievable programmes for the FFC**. A strong emphasis is placed on the need to ensure that the experiences of the first five years of the new intergovernmental fiscal arrangements inform all future considerations and proposals.

While the FFC has been successful in raising key issues in various forums of both the executive and the legislatures, **major challenges remain at the level of accessing skilled personnel**. To address this problem, the Commission has embarked upon an intensive programme to put in place a new Human Resource management regime.

FINANCIAL STATEMENTS

I, Murphy Morobe, herewith present the audited financial statements of the Financial and Fiscal Commission for the financial years ended 31 March 1997, 1998 and 1999 in terms of the relevant Constitutional and legislative provisions. I am satisfied that the financial statements correctly reflect the activities of the Commission during this period.

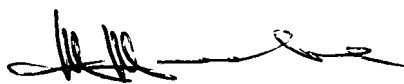
FINANCIAL AND FISCAL COMMISSION FINANCIAL OVERVIEW

SUMMARY INCOME STATEMENTS FOR THE YEARS ENDED 31 MARCH 1997 TO 31 MARCH 1999

	1997	1998	1999
REVENUE			
Government grant	5,047,034	4,376,000	3,800,000
Interest received	38,270	40,178	45,665
Other income	–	220,224	–
Total revenue	<u>5,085,304</u>	<u>4,636,402</u>	<u>3,845,665</u>
EXPENSES			
Salaries and employee expenses	3,053,279	3,170,157	2,300,532
General and administration expenses	1,732,396	2,026,650	1,701,552
Total expenses	<u>4,785,675</u>	<u>5,196,807</u>	<u>4,002,084</u>
Profit/(loss) from operations	<u>299,629</u>	<u>(560,405)</u>	<u>(156,419)</u>

Expenses include the following:

Audit fee	39,000	30,000	30,000
Commissioners' expenses	155,897	131,011	83,397
Depreciation	518,817	591,866	423,328
Operating lease rentals - office equipment	41,182	42,765	41,940
Professional fees	137,672	304,822	307,262



Murphy Morobe

1999

Financial Statements

REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL
STATEMENTS OF THE FINANCIAL AND FISCAL
COMMISSION FOR THE YEAR ENDED

31 MARCH 1999

PUBLISHED BY AUTHORITY

TABLE OF CONTENTS	Page
1. AUDIT ASSIGNMENT	36
2. REGULARITY AUDIT	36
2.1 NATURE AND SCOPE	36
2.1.1 FINANCIAL AUDIT	36
2.1.2 COMPLIANCE AUDIT	36
2.2 AUDIT OPINION	37
2.2.1 FINANCIAL AUDIT	37
2.2.2 COMPLIANCE AUDIT	37
3. APPRECIATION	37
FINANCIAL STATEMENTS	38

1. AUDIT ASSIGNMENT

The financial statements as set out on pages 38 to 44, for the year ended 31 March 1999 have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 3 and 5 of the Auditor-General Act, 1995 (Act No. 12 of 1995) and section 25 of the Financial and Fiscal Commission Act, 1997 (Act No. 99 of 1997). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the Accounting Officer. My responsibility is to express an opinion on these financial statements and compliance with relevant laws and regulations, applicable to financial matters, based on the audit.

2. REGULARITY AUDIT

2.1 NATURE AND SCOPE

2.1.1 FINANCIAL AUDIT

The audit was conducted in accordance with generally accepted government auditing standards which incorporate generally accepted auditing standards. These standards require the audit to be planned and performed to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements,
- assessing the accounting principles used and significant estimates made by management, and
- evaluating the overall financial statement presentation.

I believe that the audit provides a reasonable basis for my opinion.

2.1.2 COMPLIANCE AUDIT

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations applicable to financial matters. I believe that the audit provides a reasonable basis for my opinion.

2.2 AUDIT OPINION

2.2.1 FINANCIAL AUDIT

In my opinion, the financial statements fairly present, in all material respects, the financial position of the Commission at 31 March 1999 and the results of its operations and cash flows for the year then ended in accordance with generally accepted accounting practice.

2.2.2 COMPLIANCE AUDIT

The transactions of the Commission that I have examined during the course of the audit were in my opinion, in all material respects, made in accordance with the relevant laws and regulations.

3. APPRECIATION

The assistance rendered by the staff of the Commission during the audit is sincerely appreciated.



M W PRETORIUS,
for Auditor-General.
Pretoria,
21/06/2000.

BALANCE SHEET AT 31 MARCH 1999

	NOTES	1999 R	1998 R
ASSETS			
Non-current assets			
Fixed assets	2	364,209	654,949
Current assets			
Accounts receivable		5,798	9,686
Cash and cash equivalents	3	296,252	147,433
		<u>302,050</u>	<u>157,119</u>
Total assets		<u>666,259</u>	<u>812,068</u>
EQUITY AND LIABILITIES			
Equity			
Capital	4	918,752	918,752
Accumulated loss		(417,195)	(260,776)
Total equity		<u>501,557</u>	<u>657,976</u>
Current liabilities			
Accounts payable	5	164,702	154,092
Total equity and liabilities		<u>666,259</u>	<u>812,068</u>



M. Morobe
Chairperson
21/06/2000.

INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 1999

	NOTES	1999 R	1998 R
Revenue			
Government grant		3,800,000	4,376,000
Interest received		45,665	40,178
Other income		–	220,224
Total revenue		3,845,665	4,636,402
Costs and expenses			
Salaries and employee expenses		2,300,532	3,170,157
General and administration expenses		1,701,552	2,026,650
Total costs and expenses	6	4,002,084	5,196,807
Loss from operations		(156,419)	(560,405)

**CASH FLOW FOR THE YEAR ENDED
31 MARCH 1999**

	1999 R	1998 R
Cash generated from operating activities	281,407	7,735
Loss from operations	(156,419)	(560,405)
Adjusted for:		
Depreciation	423,328	591,866
Interest received	(45,665)	(40,178)
Cash generated by operations	221,244	(8,717)
Working capital adjustments		
Decrease/(Increase) in accounts receivable	3,888	(9,686)
Increase/(decrease) in accounts payable	10,610	(14,040)
Cash generated by operations after working capital adjustments	235,742	(32,443)
Interest received	45,665	40,178
Cash utilised in investing activities		
Additions to fixed assets	(132,588)	(160,552)
Net movement in cash and cash equivalents for the year	148,819	(152,817)
Cash and cash equivalents at beginning of year	147,433	300,250
Cash and cash equivalents at end of year	296,252	147,433

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 1999

	CAPITAL	ACCUMULATED FUNDS/(LOSS)	TOTAL
Balance at 1 April 1997	918,752	299,629	1,218,381
Operating loss for the year	-	(560,405)	(560,405)
Balance at 31 March 1998	918,752	(260,776)	657,976
Operating loss for the year	-	(156,419)	(156,419)
Balance at 31 March 1999	918,752	(417,195)	501,557

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 1999

1. ACCOUNTING POLICIES

The annual financial statements are prepared on the historical cost basis and incorporate the following principal accounting policies which are consistent with those adopted in the prior years:

1.1 FIXED ASSETS

Fixed assets, except for paintings, are stated at cost less accumulated depreciation. Depreciation is calculated using the straight line basis at rates considered appropriate to reduce the carrying value to estimated residual value over their estimated useful lives. Paintings are regarded as investments and are stated at cost with a write down to market value if this is less than cost.

The annual rates used for this purpose are as follows:

Computer equipment	33.33%
Computer software	50%
Furniture and fittings	20%
Motor vehicles	20%
Office equipment	20%

1.2 REVENUE RECOGNITION

Revenue from government grants is recognised when the income is received.

Interest income is recognised on a time proportion basis which takes into account the effective yield of the asset over the period it is expected to be held.

1.3 CASH AND CASH EQUIVALENTS

Consists of cash on hand, balances with banks and all highly liquid investments with a maturity of three months or less at the date of purchase.

1.4 RETIREMENT BENEFITS

The employees of the Commission belong to a provident fund. Contributions to the fund are expensed when they become payable.

2. FIXED ASSETS

1999							
	COMPUTER EQUIPMENT R	COMPUTER SOFTWARE R	FURNITURE & FITTINGS R	MOTOR VEHICLES R	OFFICE EQUIPMENT R	PAINTINGS R	TOTAL R
Balance at beginning of year							
- Cost	748,392	543,310	356,282	64,828	146,970	38,805	1,898,587
- Accumulated depreciation	(532,722)	(420,349)	(193,837)	(27,281)	(69,449)	-	(1,243,638)
- Net book value	215,670	122,961	162,445	37,547	77,521	38,805	654,949
Movements for the year							
- Additions	56,259	15,344	-	-	60,985	-	132,588
- Depreciation	(215,474)	(92,486)	(71,301)	(12,966)	(31,101)	-	(423,328)
Balance at the end of the year	56,455	45,819	91,144	24,581	107,405	38,805	364,209
Made up as follows							
- Cost	804,651	558,654	356,282	64,828	207,955	38,805	2,031,175
- Accumulated depreciation	(748,196)	(512,835)	(265,138)	(40,247)	(100,550)	-	(1,666,966)
- Net book value	56,455	45,819	91,144	24,581	107,405	38,805	364,209
1998							
Balance at beginning of year							
- Cost	713,206	466,903	350,810	64,828	142,288	-	1,738,035
- Accumulated depreciation	(285,162)	(188,551)	(122,834)	(14,315)	(40,910)	-	(651,772)
- Net book value	428,044	278,352	227,976	50,513	101,378	-	1,086,263
Movements for the year							
- Additions	35,186	76,407	5,472	-	4,682	38,805	160,552
- Depreciation	(247,560)	(231,798)	(71,003)	(12,966)	(28,539)	-	(591,866)
Balance at the end of the year	215,670	122,961	162,445	37,547	77,521	38,805	654,949
Made up as follows							
- Cost	748,392	543,310	356,282	64,828	146,970	38,805	1,898,587
- Accumulated depreciation	(532,722)	(420,349)	(193,837)	(27,281)	(69,449)	-	(1,243,638)
- Net book value	215,670	122,961	162,445	37,547	77,521	38,805	654,949

	1999 R	1998 R
3. CASH AND CASH EQUIVALENTS		
Cash on hand	500	500
Cash in bank	295,752	146,933
	296,252	147,433

4. CAPITAL		
Value of assets acquired from the Department of Finance	918,752	918,752

5. ACCOUNTS PAYABLE		
Trade payables	134,702	111,324
Provision for audit fee	30,000	30,000
Unsettled travel claims	–	12,768
	164,702	154,092

6. COSTS AND EXPENSES		
Costs and expenses include the following:		
Audit fees	30,000	30,000
Commissioners' expenses	83,397	131,011
Depreciation (Refer to note 2)	423,328	591,866
Operating lease rentals – office equipment	41,940	42,765
Professional fees	307,262	304,822

7. FINANCIAL INSTRUMENTS

The Commission has cash and cash equivalents and is thus exposed to interest rate risk in this regard. Surplus cash is invested with banks of high standing, earning interest at rates which vary in accordance with market conditions.

The accounts receivable are of a sundry nature and the Commission is not exposed to any significant credit risk.

Management are of the opinion that the fair value of all financial instruments approximates their carrying value.

8. RETIREMENT BENEFITS

The employees of the Commission are members of a provident fund.

1998

Financial Statements

REPORT OF THE AUDITOR-GENERAL ON THE
FINANCIAL STATEMENTS OF THE FINANCIAL AND
FISCAL COMMISSION FOR THE YEAR ENDED

31 MARCH 1998

PUBLISHED BY AUTHORITY

TABLE OF CONTENTS Page

1. AUDIT ASSIGNMENT	46
2. REGULARITY AUDIT	46
2.1 NATURE AND SCOPE	46
2.1.1 FINANCIAL AUDIT	46
2.1.2 COMPLIANCE AUDIT	46
2.2 AUDIT OPINION	47
2.2.1 FINANCIAL AUDIT	47
2.2.2 COMPLIANCE AUDIT	47
3. EMPHASIS OF MATTER	47
3.1 PRESENTATION OF THE FINANCIAL STATEMENTS	47
4. APPRECIATION	47
FINANCIAL STATEMENTS	48

1. AUDIT ASSIGNMENT

The financial statements as set out on pages 48 to 53, for the year ended 31 March 1998 have been audited in terms of section 188 and section 20(3) of Schedule 6 - Transitional Arrangements of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 3 and 5 of the Auditor-General Act, 1995 (Act No. 12 of 1995), and section 25 of the Financial and Fiscal Commission Act, 1997 (Act No. 99 of 1997). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the Accounting Officer. My responsibility is to express an opinion on these financial statements and compliance with relevant laws and regulations, applicable to financial matters, based on the audit.

2. REGULARITY AUDIT

2.1 NATURE AND SCOPE

2.1.1 FINANCIAL AUDIT

The audit was conducted in accordance with generally accepted government auditing standards which incorporate generally accepted auditing standards. These standards require the audit to be planned and performed to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements,
- assessing the accounting principles used and significant estimates made by management, and
- evaluating the overall financial statement presentation.

I believe that the audit provides a reasonable basis for my opinion.

2.1.2 COMPLIANCE AUDIT

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations applicable to financial matters. I believe that the audit provides a reasonable basis for my opinion.

2.2 AUDIT OPINION

2.2.1 FINANCIAL AUDIT

In my opinion, the financial statements fairly present, in all material respects, the financial position of the Commission at 31 March 1998 and the results of its operations and cash flows for the year then ended in accordance with generally accepted accounting practice.

2.2.2 COMPLIANCE AUDIT

The transactions of the Commission that I have examined during the course of the audit were in my opinion, in all material respects, made in accordance with the relevant laws and regulations.

3. EMPHASIS OF MATTER

Without qualifying the audit opinion expressed above, attention is drawn to the following matter:

3.1. PRESENTATION OF THE FINANCIAL STATEMENTS

The presentation of the financial statements, for example regarding fixed assets, can be improved to better comply with the prescribed accounting practice.

4. APPRECIATION


The assistance rendered by the staff of the Commission during the audit is sincerely appreciated.



M W PRETORIUS,
for Auditor-General,
Pretoria.
21/06/2000

BALANCE SHEET AS AT 31 MARCH 1998

	NOTES	1998 R	1997 R
Capital employed			
Accumulated funds/(loss)		(260,776)	299,629
Capital	2	918,752	918,752
		<u>657,976</u>	<u>1,218,381</u>
Employment of capital			
Fixed assets	3	654,949	1,086,263
Net current assets		3,027	132,118
Current assets		157,119	300,250
Cash in bank		146,933	299,750
Cash on hand		500	500
Accounts receivable		9,686	-
Current liabilities		154,092	168,132
Creditors	4	154,092	168,132
		<u>657,976</u>	<u>1,218,381</u>



M. Morobe
Chairperson
21/06/2000

INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 1998

	NOTES	1998 R	1997 R
Income		4,636,402	5,085,304
Government grant		4,376,000	5,047,034
Interest received		40,178	38,270
Other income		220,224	-
Expenditure		5,196,807	4,785,675
Advertising		15,156	-
Audit fee		30,000	39,000
Bank charges		10,058	9,443
Commissioners' expenses		131,011	155,897
Computer maintenance		125,108	40,439
Courier expenses		18,351	8,991
Depreciation			
Computer equipment		247,560	236,041
Computer software		231,798	181,512
Furniture and fittings		71,003	66,081
Motor vehicles		12,966	12,966
Office equipment		28,539	22,217
Entertainment		21,936	6,867
Insurance		8,028	7,246
Meetings and conferences		63,139	14,198
Motor vehicles expenses		9,032	13,928
Postages		5,557	2,407
Printing, stationery and consumables		107,587	83,148
Professional fees		307,262	137,672
Regional Services Council Levies		9,762	12,155
Registration fees		27,634	22,203
Rental – office equipment		41,940	41,182
Repairs and maintenance		19,240	28,919
Salaries		3,027,922	2,967,813
Staff training		142,235	85,466
Telephone and fax		112,892	161,023
Travelling		258,736	428,861
Rent digit lines		112,355	-
Operating income for the year		(560,405)	299,629
Accumulated funds at the beginning of the year		299,629	-
Accumulated funds/(loss) at the end of the year		(260,776)	299,629

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 1998**

	NOTES	1998 R	1997 R
Cash retained from operating activities		7,735	986,578
Cash generated by operations	5	(8,717)	780,176
Interest received		40,178	38,270
Increase in accounts payable		(14,040)	168,132
Increase in accounts receivable		(9,686)	-
Cash utilised in investing activities		(160,552)	(686,328)
Additions to fixed assets		(160,552)	(686,328)
Net cash inflow for the year		(152,817)	300,250
Cash and cash equivalents at the beginning of the year		300,250	-
Cash and cash equivalents at the end of the year		147,433	300,250

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 1998

1. ACCOUNTING POLICY

The annual financial statements have been prepared on the historical cost basis and incorporate the following accounting policy:

1.1 FIXED ASSETS AND DEPRECIATION

Fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated using the straight line method at rates considered appropriate to reduce carrying values to estimated residual values over their estimated useful lives.

The annual rates used for this purpose are as follows:

Computer equipment	33.33%
Computer software	50%
Furniture and fittings	20%
Motor vehicles	20%
Office equipment	20%

2. CAPITAL

	1998	1997
	R	R
Assets acquired from the Department of Finance	918,752	918,752

3. FIXED ASSETS

Computer equipment	215,670	428,044
At cost	748,392	713,206
Less: accumulated depreciation	532,722	285,162
Computer software	122,961	278,352
At cost	543,310	466,904
Less: accumulated depreciation	420,349	188,552
Furniture and fittings	162,445	227,976
At cost	356,282	350,810
Less: accumulated depreciation	193,837	122,834
Motor vehicles	37,547	50,513
At cost	64,828	64,828
Less: accumulated depreciation	27,281	14,315
Office equipment	77,521	101,378
At cost	146,970	142,288
Less: accumulated depreciation	69,449	40,910
Paintings		
At cost	38,805	-
Total	<u>654,949</u>	<u>1,086,263</u>

Refer to Annexure A

4. CREDITORS	1998	1997
	R	R
Trade creditors	111,324	107,034
Unsettled travel claims	12,768	22,098
Provision for audit fee	30,000	39,000
	<u>154,092</u>	<u>168,132</u>

Amount relates to items invoiced before year end but paid only after year end.

5. CASH GENERATED BY OPERATIONS		
Operating income for the year	(560,405)	299,629
Adjustments for:		
Depreciation	591,866	518,817
Interest received	(40,178)	(38,270)
	<u>(8,717)</u>	<u>780,176</u>

ANNEXURE A

	COMPUTER EQUIPMENT	COMPUTER SOFTWARE	FURNITURE FITTING	MOTOR VEHICLES	OFFICE EQUIPMENT	PAINTINGS	TOTALS
Opening balance	428,044	278,352	227,976	50,513	101,378	–	1,086,263
Additions	35,186	76,407	5,472	–	4,682	38,805	160,552
	463,230	354,759	233,448	50,513	106,060	38,805	1,246,815
Less: depreciation	247,560	231,798	71,003	12,966	28,538	–	591,865
Carrying value at the end of the year	215,670	122,961	162,445	37,547	77,521	38,805	654,949
Cost	748,392	543,310	356,282	64,828	146,970	38,805	1,898,587
Less: accumulated depreciation	532,722	420,349	193,837	27,281	69,449	–	1,243,638
	215,670	122,961	162,445	37,547	77,521	38,805	654,949

1997

Financial Statements

REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL
STATEMENTS OF THE FINANCIAL AND FISCAL
COMMISSION FOR THE YEAR ENDED

31 MARCH 1997

PUBLISHED BY AUTHORITY

TABLE OF CONTENTS	Page
1. AUDIT ASSIGNMENT	55
2. REGULARITY AUDIT	55
2.1 NATURE AND SCOPE	55
2.1.1 FINANCIAL AUDIT	55
2.1.2 COMPLIANCE AUDIT	55
2.2 AUDIT OPINION	56
2.2.1 FINANCIAL AUDIT	56
2.2.2 COMPLIANCE AUDIT	56
3. EMPHASIS OF MATTER	56
3.1 PRESENTATION OF THE FINANCIAL STATEMENTS	56
4. APPRECIATION	56
FINANCIAL STATEMENTS	57

1. AUDIT ASSIGNMENT

The financial statements as set out on pages [57] to [61], for the year ended 31 March 1997 have been audited in terms of section 188 and section 20(3) of Schedule 6 - Transitional Arrangements of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 3 and 5 of the Auditor-General Act, 1995 (Act No. 12 of 1995). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the Accounting Officer. My responsibility is to express an opinion on these financial statements and compliance with relevant laws and regulations, applicable to financial matters, based on the audit.

2. REGULARITY AUDIT

2.1 NATURE AND SCOPE

2.1.1 FINANCIAL AUDIT

The audit was conducted in accordance with generally accepted government auditing standards which incorporate generally accepted auditing standards. These standards require the audit to be planned and performed to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements,
- assessing the accounting principles used and significant estimates made by management, and
- evaluating the overall financial statement presentation.

I believe that the audit provides a reasonable basis for my opinion.

2.1.2 COMPLIANCE AUDIT

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations applicable to financial matters. I believe that the audit provides a reasonable basis for my opinion.

2.2 AUDIT OPINION

2.2.1 FINANCIAL AUDIT

In my opinion, the financial statements fairly present, in all material respects, the financial position of the Commission at 31 March 1997 and the results of its operations and cash flows for the year then ended in accordance with generally accepted accounting practice.

2.2.2 COMPLIANCE AUDIT

The transactions of the Commission that I have examined during the course of the audit were in my opinion, in all material respects, made in accordance with the relevant laws and regulations.

3. EMPHASIS OF MATTER

Without qualifying the audit opinion expressed above, attention is drawn to the following matter:

3.1 PRESENTATION OF THE FINANCIAL STATEMENTS

The presentation of the financial statements, for example regarding fixed assets, can be improved to better comply with the prescribed accounting practice.

4. APPRECIATION

The assistance rendered by the staff of the Commission during the audit is sincerely appreciated.



M W PRETORIUS,
for Auditor-General.
Pretoria,
21/06/2000.

BALANCE SHEET AS AT 31 MARCH 1997

	Notes	1997 R
Capital employed		
Accumulated funds		1,218,381
Employment of capital		
Fixed assets	3	1,086,263
Net current assets		132,118
Current assets		300,250
Cash in bank		299,270
Cash on hand		500
Current liabilities		168,132
Creditors	4	168,132
		1,218,381



M. Morobe
Chairperson
Midrand, 28/11/97.

INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 1997

	NOTES	1997 R
Income		5,085,304
Government grant		5,047,034
Interest received		38,270
Expenditure		4,785,675
Audit fee		39,000
Bank charges		9,443
Commissioners' expenses		155,897
Computer maintenance		40,439
Courier expenses		8,991
Depreciation		
Computer equipment		236,041
Computer software		181,512
Furniture and fittings		66,081
Motor vehicles		12,966
Office equipment		22,217
Entertainment		6,867
Insurance		7,246
Meetings and conferences		14,198
Motor vehicle expenses		13,928
Postage		2,407
Printing, stationery and consumables		83,148
Professional fees		137,672
Regional Services Council Levies		12,155
Registration fees		22,203
Rental – Office equipment		41,182
Repairs and maintenance		28,919
Salaries		2,967,813
Staff training		85,466
Telephone and fax		161,023
Travelling		428,861
Operating income for the year		299,629
Prior year adjustment	2	918,752
Accumulated funds at the end of the year		1,218,381

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 1997

	NOTES	1997 R
Cash retained from operating activities		1,905,330
Cash generated by operations	5	1,698,928
Interest received		38,270
Increase in accounts payable		168,132
Cash utilised in investing activities		(1,605,080)
Additions to fixed assets		(1,605,080)
Net cash inflow for the year		300,250
Net cash and cash equivalents at the end of the year		300,250

**NOTES TO THE FINANCIAL STATEMENTS FOR
THE YEAR ENDED 31 MARCH 1997**

1. ACCOUNTING POLICY

The annual financial statements have been prepared on the historical cost basis and incorporates the following accounting policy:

1.1 FIXED ASSETS AND DEPRECIATION

Fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated using the straight line method at rates considered appropriate to reduce carrying values to estimated residual values over their estimated useful lives.

The annual rates used for this purpose are as follows:

Computer equipment	33.33%
Computer software	50%
Furniture and fittings	20%
Motor vehicles	20%
Office equipment	20%

2. PRIOR YEAR ADJUSTMENT

Assets acquired in the previous year but only brought into account in the current financial year.

	1997
	R
— at book value	918,752

3. FIXED ASSETS

Computer equipment	428,044
At cost	713,206
Less: accumulated depreciation	285,162
Computer software	278,352
At cost	466,904
Less: accumulated depreciation	188,552
Furniture and fittings	227,976
At cost	350,810
Less: accumulated depreciation	122,834
Motor vehicles	50,513
At cost	64,828
Less: accumulated depreciation	14,315

Office equipment	101,378
At cost	142,288
Less: accumulated depreciation	40,910
Total	1,086,263

4. CREDITORS

Trade creditors	107,034
Unsettled travel claims	22,098
Provision for audit fee	39,000
	<u>168,132</u>

Amount relates to items invoiced before year end but only paid after year end.

5. CASH GENERATED BY OPERATIONS

Operating income for the year	299,629
Adjustments for:	
Depreciation	518,817
Prior year adjustment	918,752
Interest received	(38,270)
	<u>1,698,928</u>

GLOSSARY

glossary BUDGET COUNCIL

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

CAPITAL ASSETS

Financial or physical assets capable of generating income. Property of any kind, including assets that are movable or immovable, tangible or intangible, fixed or circulating, but excluding trading stock held for purpose of business activity.

CAPITAL BUDGETING

The process of allocating funds for investment in projects that produce capital.

CAPITAL EXPENDITURE

Funds spent for the purposes of replacing depreciated capital or for creating new capital.

CAPITAL GRANT

A sum of money allocated for funding specifically determined projects.

CONDITIONAL GRANTS

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

CONTINGENCY RESERVE

That portion of the spending total which is set aside in advance to accommodate unforeseen expenditures due to socio-economic pressures which could not be quantified when planning the budget.

EQUITABLE SHARE

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

EQUITY

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

FISCAL POLICY

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

FUEL LEVY

An excise tax on petrol.

GROSS DOMESTIC PRODUCT (GDP)

A measure of the total national output, income and expenditure in the economy.

HORIZONTAL DIVISION

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

MACRO - ECONOMIC

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

MINMEC

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

MULTI - YEAR PLANNING CYCLE

Budgetary planning that takes into account a number of years as opposed to a one-year budget.

NATIONAL REVENUE

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

OUTCOMES AND OUTPUTS - BASED BUDGETING

A system of accounting which classifies costs according to the outputs in the production rather than in terms of the inputs that are purchased. A conventional budget for the police, for instance, would allocate costs to salaries, equipment, etc. An output-budget would use headings such as crime prevention and detection. Expenditure is classified by objectives rather than by departments.

OUTER YEARS

The first or last year of the 3-year spending plans of national and provincial governments in South Africa.

OWN - SOURCE REVENUE

Any fees, levies, charges or taxes collected by a sphere of government within its own jurisdiction.

PAYROLL TAX

A tax based on the wages and salaries paid by an employer.

POLL TAX

A lump-sum tax whose payment is not related to income or expenditure.

RECURRENT EXPENDITURE

Expenditure required on an ongoing basis.

SPHERES OF GOVERNMENT

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

SUB-NATIONAL BORROWING

Borrowing by a sub-national sphere of government.

SUBSIDY

A payment made by government which forms a wedge between the price consumers pay and the costs incurred by producers, such that price is less than marginal cost.

SURCHARGE

An extra charge on an existing tax base.

TOP SLICING

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

VERTICAL DIVISION

The division of national revenues between national, provincial and local governments.