

*For an Equitable Sharing of National Revenue*



FINANCIAL AND FISCAL COMMISSION

# ANNUAL REPORT

2009/10



Just as nature constantly seeks balance and harmony, the Financial and Fiscal Commission strives to create that very same balance in the South African system of intergovernmental fiscal relations.

## APPRECIATION

Commissioners and staff of the Financial and Fiscal Commission wish to extend a special word of thanks to Dr Bethuel Setai, outgoing Chairperson and Chief Executive Officer of the Commission, for the leadership, guidance, encouragement and support that he has provided to all in the past five years.

It has been an honour and a pleasure knowing him and working with him.



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# CHAPTER 1

## LEGISLATIVE MANDATE

The Commission derives its mandate from the Constitution of the Republic of South Africa Act No. 108 of 1996 as amended Sections 220, 221 and 222 as well as related Sections 214(2), 219(5), 228(2)(b), 229(5), 230(2), 230A(2) and 230A(2) provide among others that the Commission is an independent, objective, impartial and unbiased advisory institution that has to be consulted by Government with regard to division of revenue among the three spheres of government and in the enactment of legislation pertaining to provincial taxes, municipal fiscal powers and functions, and provincial and municipal loans.

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

## CHAIRPERSON/CE'S REVIEW

My term of office as Commissioner and Chairperson of the Financial and Fiscal Commission comes to an end on August 31 2010. It has been an eventful, exciting and challenging time for the Commission and this country.

The key milestones that the Commission achieved during this period included:

- A 15 Year Review of the Commission and its work.
- The development and institutionalising of a coherent corporate strategy formulation, implementation, monitoring and review processes.
- The development and institutionalising of coherent planning and budget formulation, implementation, monitoring and review processes.
- A comprehensive review of the mandate of the Commission that was informed by among others the pre-1994 history of this country, post-1994 legislation, the decisions of the Courts, ongoing developments in the area intergovernmental relations, and the changing environment.
- A comprehensive review of the governance structures of the Commission which culminated in the development, adoption and implementation of among others.
  - o A Corporate Governance Code that is informed by among others the 2009 King Code on Corporate Governance for South Africa;
  - o A Code of Ethics; and
  - o Revised Commission Secretariat governance structures, policies and practises.
- The adoption of a 5 Year Research Strategy premised on seeking to identify a broader set of institutional and governing arrangements that are capable of achieving positive public expenditure outcomes.
- A deliberate attempt to enhance modeling capacity and begin to question the initial parameters that condition equitable sharing of national revenue.
- The development of world class analytical tools such as the Constitutionally Mandated Basic Services Model (CMBS), macro-meso-micro frameworks such as the energy Computable General Equilibrium Model (CGE), and the 2010 FIFA world Cup Social Accounting Matrix (SAM) model which have enabled the Commission to not only replicate its findings, but has also positioned it to scientifically evaluate ex ante government decisions and proposals

- Recognition by stakeholders that the Commission's recommendations are informed by up to date analytical tools especially within the macro and fiscal policy areas.
- Support from the Parliamentary Ad Hoc Committee on Chapter 9 and Associated Institutions for the continued existence of the Commission and recognition of the important role that the Commission plays in the strategic evolution of intergovernmental fiscal relations, and that its pivotal role in maintaining the balance between fiscal decentralization and the unitary state.
- Assisting other African countries in their thinking around their own intergovernmental fiscal relations systems and efforts at fiscal decentralisation. These countries included Nigeria, Sudan, Democratic Republic of Congo, Malawi, Tanzania, Sierra Leone, Ghana and Uganda.
- The development of a comprehensive Communication/Stakeholder Management Strategy, Policy and Programme that aims to proactively engage all Commission stakeholders.

The challenges as listed in the body of the Report however still remain but despite these constraints, I am certain that the Commission will continue to do its best to deliver policy-relevant, evidence-based recommendations and insightful policy advice based on sound and innovative research and strives to meet the expectations of its key stakeholders. It is the Commission's fervent hope that these will enhance the developmental impact of the intergovernmental fiscal relations system.

I wish to express my sincere thanks and appreciation to all fellow-Commissioners, past and present. I will always value the dedication and commitment that they have demonstrated. Their involvement and concern has always given me the assurance that the Financial and Fiscal Commission is well on its way to being a world-class institution capable of delivering world-class products. I also wish to express my appreciation to current and past members of the Secretariat. It was an honour to work with them. The demands that were placed on them were heavy but they acquitted themselves well. I admire their dedication and cooperation.



Dr Bethuel Setai  
Chairperson / Chief Executive

## HIGHLIGHTS/ACHIEVEMENTS AND CHALLENGES

## A. ACHIEVEMENTS

- The Commission met all constitutionally mandated requirements. The Commission timeously submitted its recommendations on the Division of Revenue for 2010/11 in May 2009; its first ever comments on the Medium Term Budget Policy Statement in November 2009; its comments on the Division of Revenue Bill in February 2010; its first ever comments on the Fiscal Framework in March 2010 and; its first ever comments on the Appropriations Bill in April 2010.
- Over the period under review, the Commission has had to increasingly deal with cross-cutting policies which must be addressed by all three spheres of government such as fiscal frameworks, issues related to poverty reduction and pinning down precisely notions of progressive realisation of rights, environmental issues and so on. Furthermore, the Commission has also had to deal with important changes to the environment especially increases in volume of work where it has been asked to respond to policy and legislation referred to it. In particular, the recent changes in legislation relating to the processing of money bills by parliament imply higher volumes of work for the Commission. To respond to this changing environment, the Commission undertook an extensive research strategy formulation and research policy development and started restructuring its Research and Recommendations Programme to respond to these new developments. In particular, discussions with National Treasury and the Department of Public Service Administration in 2009 culminated in a revised organizational structure which in a nutshell expanded the budget analysis unit into three (national, provincial and local) and introduced a local government sub unit. Staffing requirements and structure were worked out and it was agreed that these will be gradually phased in. Most importantly, the Commission deliberately beefed up its modelling capacity so that it was able to respond rapidly and effectively to technical demands. As a result of these proactive and ongoing restructuring efforts, the Commission was able to meet not only its usually mandated deliverables on time of the Annual submission on the Division of Revenue and Submission on the Division of Revenue Bill for the year under review but also made its first comment on (i) the Medium Term Budget Policy Statement (ii) the Fiscal Frameworks and Revenue Proposals, and (iii) the Appropriation Bill. These new reports were very well received by the stakeholders and enjoyed extensive coverage by both the print and electronic media.
- The Commission has responded timeously to all requests from stakeholders in line with the requirements of the Financial and Fiscal Commission Act. The Commission has also strengthened its engagement with Parliament and with provincial legislatures over the reporting period. Stakeholder engagements included presentations to key stakeholders, attendance at hearings, and research seminars to mention but a few.
- In addition to complying with constitutionally mandated obligations, the Commission has also published research reports, made supplementary submissions, provided advisories and detailed technical comments on important pieces of legislation. See Paragraph 5.8 and Appendix B for details.

In particular, Commission staff had their papers accepted for presentation at the prestigious conferences. Among these were Hammed Amusa who presented a paper titled "Approaches to Tax Reform: The Case of Post-Democratic South Africa" at the "Effective Audit and Investigation for Improved Tax Compliance Africa 2009" conference on held in

Abuja, Nigeria in May 2009; and H el ene Maisonnave who presented a draft paper titled "The Impact of the International Economic Crisis in South Africa." at a conference on "Rethinking African Economic Policy in Light of the Global Economic and Financial Crisis" hosted by the African Economic Research Consortium (AERC) in Nairobi, Kenya in December 2009.

- Researchers have published articles in local and international accredited journals and contributed book chapters in the field of intergovernmental fiscal relations as by-products of the technical work that the Commission does. The Commission through the dissemination of its research continues to contribute to the still emerging body of knowledge on developmentally oriented intergovernmental relations.
- In the spirit of NEPAD, the Commission has assisted other African Countries in thinking around their own intergovernmental fiscal relations systems and efforts at fiscal decentralization
- The Commission has maintained its profile as one of the best practice institutions in the world in the area of fiscal decentralization and intergovernmental fiscal relations. Its newly formulated Research Strategy responds to the changing political, institutional and socio-economic environment by sketching a five-year research trajectory that will extend the Commission's focus from first generation issues relating to revenue sharing formulae to include second generation issues relating to the impact of the intergovernmental system on development outcomes. The Research Strategy will also be the platform for collaborative research in intergovernmental fiscal relations and related.

## B. CHALLENGES

### Human Resources

- Despite the fact that the Commission has employed a Corporate Services Manager to take responsibility for among others the Management of its Human Resources; that it is well on its way to implementing its recently developed talent management strategies, policies and systems; and that the tide appears to have been arrested against the flight of scarce but essential skills, the attraction, development and retention of appropriate skills continues to be a challenge.

### Research

- The Commission has had to scale down on certain necessary research projects while others have had to be put on hold because they could not be accommodated in the existing resource envelope. Included among these are:
  - o Primary Health Care, Concurrent Functions and Funding
  - o Financing and Implementation of Inclusive Education in the South African Schooling System
  - o Municipal Water Pricing and Finance
  - o Spatial Perspective of Unemployment and the EPWP Incentive Grant

### Institutional

- New challenges have emerged on the institutional front:
  - o Implementation of the Money Bills Amendment Procedures and Related Matters Act No. 9 of 2009 and the demands that have been placed on the Commission by stakeholders have put additional strain on the Commission's already overextended resources. This situation has been exacerbated by:
  - o The Performance Monitoring and Evaluation Approach based on Twelve Key Outcomes which has been recently

adopted by Government will require a review of the broader intergovernmental transfer system in view of the cross-cutting nature of outcomes and the concomitant budget implications.

### **Compliance**

- The Commission is, irrespective of size, obliged to comply with several pieces of legislation. These would include inter alia the Promotion of Access to Information Act and the National Archives Act. Compliance attracts significant budget implications.
- Compliance with legislated auditing requirements requires an ever increasing investment in internal and external audit fees currently standing at in excess of five percent (5%) of the Commission's current budget.
- Compliance with the Constitution of 1996, the Public Finance Management Act of 1999; the Supply Chain Management Regulations of 2003; the Preferential Procurement Policy Framework Act 2000; and the Broad Based Black Economic Empowerment Act of 2003 requires an investment in both expertise (permanent human resource capacity) and systems.

### CAPEX

### **Premises**

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

### FUNDING

### **Allocation**

- The Commission received an increase in funding for the financial year and over the MTEF. The reprieve is viewed by the Commission as being transient since the bulk of the resources went towards addressing past problems. Due to the fact that for a prolonged period the Commission was losing staff and also not investing in new ICT infrastructure (AUSTERITY). The challenges going forward are still a reality. This, Coupled with the tight national fiscal framework will require the Commission to try and do more with less resources like all other organs of state.

### ADMINISTRATION COSTS

### **Travel**

- As stated in the previous reporting period, budget constraints and the imposition of austerity measures have severely limited interaction with stakeholders with the result that research, consultation, ongoing interaction, and stakeholder needs assessment has all but been in name only. The situation has been exacerbated by new demands relating to the implementation of the Money Bills Amendment Procedure and Related Matters Act which has exponentially increased the need the Commission's stakeholder interaction.

### **ICT**

- Though an increase in funding has enabled the Commission to upgrade its antiquated basic ICT infrastructure and systems, the Commission still the Commission is still faced with the challenge of finding resources and investing in research related software and ICT. While it is possible to some extent to defer this investment, there is the risk that the quality of Commission research may be compromised. The Commission will however continue to closely monitor and manage this risk.

# CHAPTER 4

## THE COMMISSION

### 4.1 COMPOSITION

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

1. A Chairperson and Deputy Chairperson;
2. Three (3) persons, appointed after consultation with the Premiers of Provinces , from a list compiled in accordance with a process prescribed by national legislation;
3. Two (2) persons, appointed after consultation with organised local government, from a list compiled in accordance with a process prescribed by national legislation; and
4. Two other persons.

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

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

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

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

## 4.2 COMMISSIONERS



CHAIRPERSON/CHIEF EXECUTIVE  
DR BETHUEL SETAI

**Dr Bethuel Setai** is the Chairperson and Chief Executive of the Financial and Fiscal Commission. He formerly served as Director-General of the Free State province. Dr Setai possesses extensive lecturing experience, having taught inter alia at the Universities of California in Santa Cruz, Lincoln University in Pennsylvania University of Vermont in Burlington, Vermont, and the National University of Lesotho. He is a presidential appointee and is currently serving a five-year term of office at the FFC. He was appointed as 01 September 2005 and his term of office expires on August 31 2010.



DEPUTY CHAIRPERSON  
BONGANI KHUMALO

**Bongani Khumalo** was appointed Deputy Chairperson of the Financial and Fiscal Commission as of 01 March 2008. He was previously the Program Manager for Fiscal Policy in the Secretariat of the Commission. He has worked on a variety of areas within the South African intergovernmental fiscal relations system, including the design of revenue sharing formulae, the financing of education, health care and social assistance, and sub national borrowing and taxation issues and on the design of conditional grants. Upon completing a Master of Science (Economics) degree from the University of Zimbabwe, Bongani Khumalo lectured at the same University in the areas of International Trade and Development and Public Finance. He then moved to Rhodes University in Grahamstown in 1994 where he lectured Public Policy, International Trade Policy and Development Economics until 1999 when he joined the Financial and Fiscal Commission as a Researcher. He has published articles and contributed book chapters on Intergovernmental Fiscal Relations and on Public Finance. His term of office expires on 28 February 2013.



COMMISSIONER  
TANIA AJAM

**Tania Ajam** is a Public Finance Economist. She is the Director of the Knowledge Centre at the Applied Fiscal Research Centre (AFReC) (Pty) Ltd, a UCT affiliated company and the Managing Director of PBS (Pty) Ltd which implements performance budgeting systems. Tania serves on the Financial and Fiscal Commission as a provincial nominee. She was reappointed as Commissioner as of 01 July 2009 and her extended term of office ends on 30 June 2014.



COMMISSIONER  
DAVID SAVAGE

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



COMMISSIONER  
NELISIWE SHEZI

**Neli Shezi** holds a Masters in Social Science (Economics) from the University of Natal (Pietermaritzburg). She is currently the Head of Ithala Development Finance Corporation Limited's Micro Finance and Co-operatives Division. She was previously an Economics tutor and Research Assistant at the University of Natal; Research Assistant at the Financial and Fiscal Commission and co-author of the Commission's work on Public Expenditure on Basic Social Services in South Africa; Manager of the Budget Office at (KwaZulu-Natal's Provincial Treasury); and Process Manager: Entrepreneurial Development and Black Economic Empowerment at Msunduzi Municipality. She was appointed Commissioner as of 01 December 2006 and her term of office expires on June 30 2009.



COMMISSIONER  
KRISH KUMAR

**Krish Kumar** commenced work as a Trainee Accountant with the erstwhile Durban City Council in 1981 and progressed through the ranks to City Treasurer of the North and South Central Local Councils in 1997. In addition thereto, he was appointed as City Treasurer of the Durban Metropolitan Council in 1999 and in 2001 appointed as Deputy City Manager: Treasury. A member of South African Local Government Association's (SALGA) Finance Working Group, Fellow of the Institute of Municipal Finance Officers (IMFO), chairman of Metro's CFO Forum, Past President of IMFO, member of the accounting Standards Board, project champion of new ERP billing system that is being built locally by the municipality and which it intends rolling out to other municipalities on a non-profit basis. Also chair of the eThekweni Risk and Managing the Municipality Committee. He was appointed Commissioner commencing on 01 March 2008 and his term ends on 28 February 2011.



COMMISSIONER  
LUCIENNE ABRAHAMS

**Luci Abrahams** is Director of the LINK Centre of the University of the Witwatersrand (Johannesburg), a public interest research centre, focusing on themes in social and economic change in an emerging paradigm of 'network knowledge economies'. She teaches public policy, strategy, innovation theory, knowledge management and e-government, all incorporating an ICT focus. She conducts research on 'institutions and economic sectors in the network knowledge economy'. Luci serves on the Council on Higher Education. She has also served in various other capacities. These include Council Member of the National Advisory Council on Innovation; Board Member of the National Research Foundation, the State Information Technology Agency and the Development Bank of Southern Africa; Commissioner in the Gauteng Provincial Government; and Director-General of the Department of Welfare and Population Development (now Social Development). She was appointed as a Commissioner commencing on 01 July 2009 and her term of office expires on 30 June 2014.



COMMISSIONER  
MARTIN KUSCUS

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



COMMISSIONER  
RISENGA MALULEKE

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



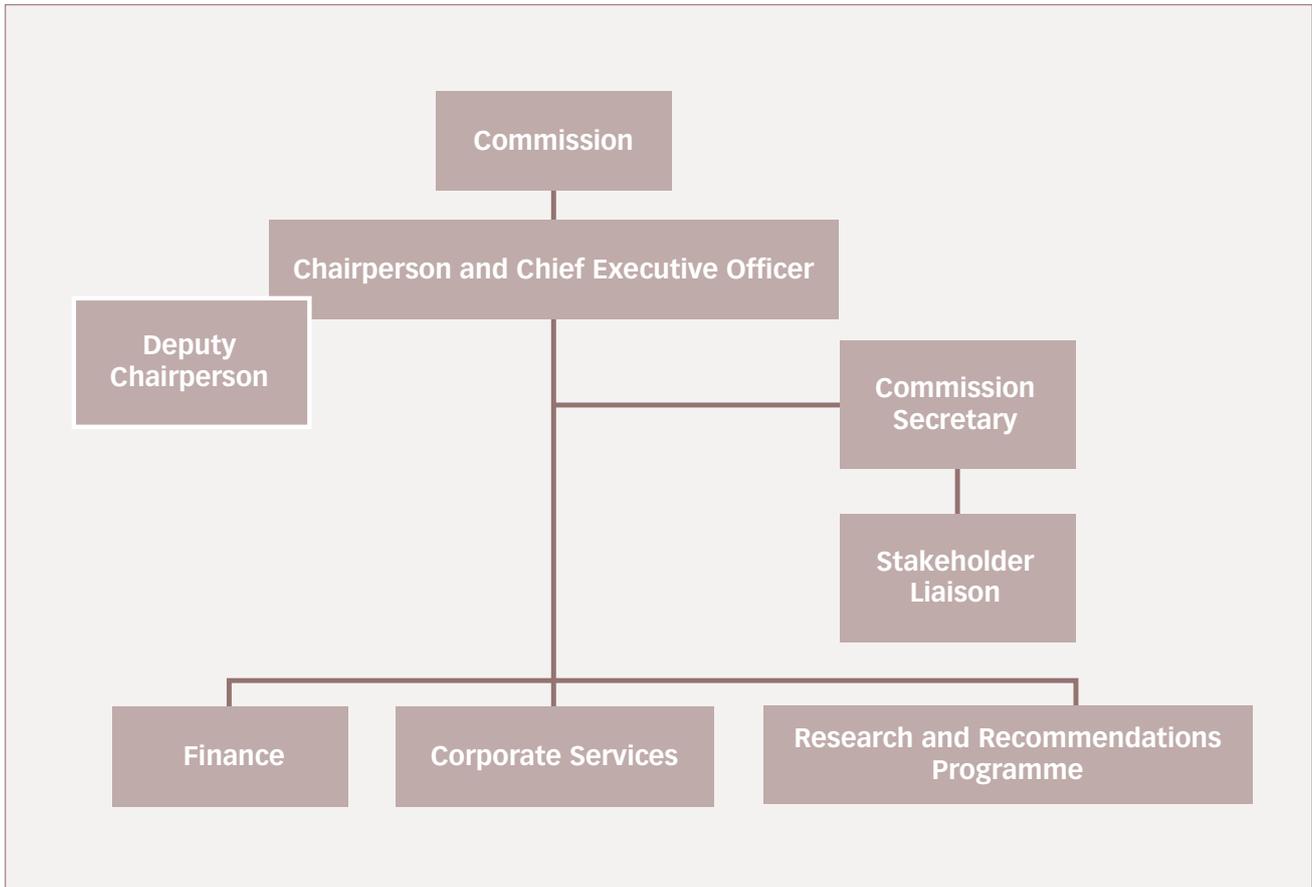
COMMISSIONER  
BLAKE MOSLEY-LEFATOLA

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

COMMISSIONER  
BONGIWE KUNENE

**Bongiwe Kunene** was appointed as a Commissioner commencing on 01 July 2009 and her term of office expires on 30 June 2014.

### 4.3 STRUCTURE



## 4.4 CORPORATE GOVERNANCE

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

The Commission endorses the principles of the South African Code of Corporate Practices and Conduct as recommended by the King Committee on Corporate Governance.

The Commission has adopted a Corporate Governance Code that is benchmarked against the recommendations of the 2009 King Report on Governance for South Africa.

The Commission considers corporate governance as a priority that requires more attention than merely establishing the steps to be taken to demonstrate compliance with legal and regulatory requirements. Issues of governance will continue to receive the Commission's and its committees' consideration and attention during the year ahead.

## 4.5 COMMISSION COMMITTEES

### 4.5.1 Audit Committee

#### *Membership*

**Jerry Sithole** (Independent Chairperson of Committee)

**Tania Ajam** (Commissioner)

**Mkuseli Bashe** (Independent)

**Martin Kuscus** (Commissioner whose term of office and membership of Committee expired on June 30 2009)

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

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

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

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

The Committee meets the Commission's external and internal auditors and executive management regularly to consider risk assessment and management, review the audit plans of the external and internal auditors and to review accounting, auditing, financial reporting, corporate governance and compliance matters. It approves the external auditors' engagement letter and

the terms, nature and scope of the audit function and the audit fee. The internal audit charter, internal audit plan and internal audit conclusions are similarly reviewed and approved by the Audit Committee.

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

#### 4.5.2 Remuneration and Performance Review Committee

##### *Membership*

**Nelisiwe Shezi** - Part-time Commissioner and Chairperson

**Krish Kumar** - Part-time Commissioner

**Mpho Letlape** - Independent Member

**Risenga Maluleke** - Commissioner whose term of office and Committee membership expired on June 30 2009

**Blake Mosley-Lefatola** - Commissioner whose term of office and Committee membership expired on June 30 2009

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

The role of this Committee is to:

- Provide guidance to the Commission with respect to the remuneration of full time Commissioners, non-full time Commissioners and employees of the Commission
- Facilitate and promote communication regarding the above and any other related matters
- Expedite matters referred to it by the Commission or requiring decisions on behalf of the Commission
- Receive, process and interpret inputs/reports/advice, from Commissioners, Committees of the Commission, or the Chairperson/Chief Executive, and
- Undertake any other activity as may be required by the Commission or Chairperson/Chief Executive Officer in the pursuance of its mandate

#### 4.5.3 Research Committee

##### *Membership*

**Professor Bethuel Setai** - Chairperson of Commission

**Tania Ajam** - Commissioner and Committee Chairperson

**Nelisiwe Shezi** - Commissioner

**Bongani Khumalo** - Deputy Chairperson of Commission

**Krish Kumar** - Commissioner

**David Savage** - Commissioner

**Lucienne Abrahams** - Commissioner

The Commission established a Research Committee in 2002. The intention was to provide high-level support and oversight for the research work of its Research and Recommendations Programme. Meetings are held on a quarterly basis, or more frequently, if needed. Activities involve the monitoring of research plans, resources, outputs and external inputs, as well as the acceptance and reviewing of research proposals, and providing strategic direction and guidance during the research process.

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

- Provide guidance to the Commission and oversee the activities of the Secretariat relating to research undertaken and recommendations made by or on behalf of the Commission by the Secretariat ensuring that projects are consistent with overall programme direction of the Commission
- Review and assess all research plans and timeframes to ensure that they are relevant and timeous.

Through the institution of a quality assurance regime, ensure that research outputs are of a quality and standard commensurate with the high level of rigor expected of/by the Commission, and comparable with international and national standards in terms of best practice.

## 4.6 ATTENDANCE OF MEETINGS

Commissioners	Commission	Research	Audit	REMCO
<b>Number of Meeting Days</b>	<b>7</b>	<b>3</b>	<b>4</b>	<b>1</b>
Prof. B Setai	7	2	4	-
Bongani Khumalo	6	2	3	-
Tania Ajam	7	3	3	-
Martin Kuscus	-	-	1	-
Risenga Maluleke	-	-	-	-
Blake Mosley-Lefatola	-	-	-	-
Nelisiwe Shezi	4	3	-	-
Krish Kumar	7	2	-	1
David Savage	7	3	-	-
Lucienne Abrahams	7	1	-	-
Bongiwe Kunene	-	-	-	-

Non-Commissioners				
Jerry Sithole	-	-	4	-
Mkuseli Bashe	-	-	1 <sup>1</sup>	-

<sup>1</sup> Appointed in January 2010

## 4.7 REMUNERATION OF COMMISSIONERS

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

## 4.8 SUSTAINABILITY

### 4.8.1 Funding

The funds of the Financial and Fiscal Commission consist of money:

1. Appropriated by Parliament for the purpose of the Commission;
2. Earned on investments;
3. Obtained by the alienation or letting of movable or immovable property;
4. Accruing to the Commission from any other source; and
5. Otherwise becoming available to the Commission.

### 4.8.2 Risk Management

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

### 4.8.3 Fraud Prevention

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

### 4.8.4 Performance Budgeting and Management

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

### 4.8.5 Balanced Scorecard Business Planning

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

### 4.8.6 Code of Ethics

The Commission has developed and adopted a Code of Ethics.

### 4.8.7 Internal Controls

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

### 4.8.8 Stakeholder Relations

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

The relationships with Parliament, particularly with its Finance Committees, has been consolidated and intensified. More provincial legislatures have shown an interest in engaging with the Commission on its recommendations on the annual division of revenue and other matters that fall within the mandate of the Commission. The relationship that the Commission has with the Secretariat of organised local government continues to mature though concern remains about the lack of engagement at institutional level. The Commission has engaged with members of the public with the object of exposing them to, emphasizing the importance of, and generating interest in, the South African system of intergovernmental fiscal relations. The Commission hosted a delegation from Malawi and views were shared on the approaches of the two countries to intergovernmental fiscal relations.

#### **4.8.9 Research Programme**

Over the years, the Commission has developed quantitative modelling approaches to inform its recommendations. This approach has in the past been used to look at the impact of the 2010 FIFA World Cup; assessing the impact of electricity pricing; assessing the economic impact of public infrastructure investment; as well as assessing the impact of oil price shocks on the economy. In the year under review, the Commission developed such an approach to assess the impact of the global recession on children. This was done in collaboration with UNICEF and was presented internationally.

#### **4.8.10 Corporate Services**

The Commission has recently acquired the services of a dedicated Corporate Services Manager who has assumed full responsibility for the Information Technology, Human Resources and Facilities. The upgrade of the Commission's antiquated Information Technology infrastructure and the implementation of the Commission's recently developed talent management strategies, policies and systems are now receiving priority. With regard to facilities, challenges remain with the financial implications of the Framework for the Devolution of Budgets and Associated Accommodation Charges as funding for that purpose has not been forthcoming.

#### **4.8.11 Finance**

The Finance Division of the Commission has recently upgraded its financial management system to Pastel Evolution; has conducted a comprehensive review of its policies and procedures; is at an advanced stage of establishing a compliant procurement function; and was at the forefront of guiding the Commission through austerity and to another unqualified audit. The Commission remains committed to fiscal discipline.

#### **4.8.12 Performance Information**

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

### 5.1 FINANCIAL AND FISCAL COMMISSION 2009 – 2010 PERFORMANCE INFORMATION

Strategic Objective	Project/ Activities (Input)	Output (Deliverable)	Key Performance Measure/ Indicator	Target	Actual	Outcome
Provide research excellence on current issues affecting IGFR	Local Government Budget Analysis	Report	Stakeholder Advisories	March 2010	Achieved	Discharge of Constitutional and Legislative Mandate
	Provincial Government Budget Analysis	Report	Stakeholder Advisories	March 2010	Achieved	Discharge of Constitutional and Legislative Mandate
	Measuring Sub-National Government Fiscal Effort	Report	Contribution to Submission on the Division of Revenue 2011 - 2012	March 2010	Achieved	Discharge of Constitutional and Legislative Mandate
	Options for Institutionalizing and Funding Rural Development	First Draft	Contribution to future Recommendations on the Submission on the Division of Revenue	March 2010	<ul style="list-style-type: none"> <li>• Achieved</li> <li>• Long-term research</li> </ul>	
	Financing and Implementation of Inclusive Education in the South African Schooling System	Report	Contribution to Submission on the Division of Revenue 2011 - 2012	March 2010	Discontinued	
	Provincial Government Equitable Share Review	Report	Contribution to future Recommendations on the Submission on the Division of Revenue and stakeholder advisories	March 2010	Ongoing research and consultation with stakeholders	Discharge of Constitutional and Legislative Mandate

Strategic Objective	Project/ Activities (Input)	Output (Deliverable)	Key Performance Measure/ Indicator	Target	Actual	Outcome
Provide research excellence on current issues affecting IGFR	Performance of Public Hospitals: An Evaluation of NHI Policy Proposal	Report	Contribution to future Recommendations on the Submission on the Division of Revenue and stakeholder advisories	March 2010	<ul style="list-style-type: none"> <li>On hold pending declaration of Government approach and position on NHI</li> <li>Ongoing Research</li> </ul>	Discharge of Constitutional and Legislative Mandate
	Analysis of Provincial Administration Departments Against Governance, Accountability and Transparency in the IGFR System	Report	Stakeholder Advisories	March 2010	Achieved	Discharge of Constitutional and Legislative Mandate
	Local Government Equitable Share Review	Report	Contribution to 2011 – 2012 Submission on the Division of Revenue and stakeholder advisories	March 2010	Achieved	Compromise on Discharge of Constitutional and Legislative Mandate
	The Fiscal Impact on Local Government in Providing Free Basic Services	Report	Contribution to 2011 – 2012 Submission on the Division of Revenue and stakeholder advisories	March 2010	Achieved	Discharge of Constitutional and Legislative Mandate
	The Intergovernmental Grant System: Assessment of Allocations Against Equity	Report	Contribution to 2011 – 2012 Submission on the Division of Revenue and stakeholder advisories	March 2010	Achieved	Discharge of Constitutional and Legislative Mandate
	Impact of Occupation Specific Dispensation on Provincial Budgets	Report	Stakeholder Advisories	March 2010	Achieved	Discharge of Constitutional and Legislative Mandate
	The Intergovernmental Grant System: Assessment and Proposed Policies	Report	Contribution to 2011 – 2012 Submission on the Division of Revenue and stakeholder advisories	March 2010	Ongoing research and consultation with stakeholders	
	Assessing the Performance of Local Government Capacity Building Programmes and Grants in South Africa	Report	Contribution to 2011 – 2012 Submission on the Division of Revenue and stakeholder advisories	March 2010	On hold pending Government response to recommendations made in Commission's 2010/2011 Submission on the Division of Revenue	

Strategic Objective	Project/ Activities (Input)	Output (Deliverable)	Key Performance Measure/ Indicator	Target	Actual	Outcome
Provide research excellence on current issues affecting IGFR	Municipal Water Pricing and Finance	Report	Contribution to 2011 – 2012 Submission on the Division of Revenue and stakeholder advisories	March 2010	<ul style="list-style-type: none"> <li>• On hold</li> <li>• Capacity constraints</li> </ul>	
	Determining an Adequate Level of Funding for Financing Basic Education in South Africa	Report	Contribution to 2011 – 2012 Submission on the Division of Revenue and stakeholder advisories	March 2010	<ul style="list-style-type: none"> <li>• Third draft Report</li> <li>• Ongoing review of Report</li> </ul>	
	Are Conditional Transfers to Provinces Best Options to Foster Service Delivery, Better Performance and Accountability	Report	Contribution to 2011 – 2012 Submission on the Division of Revenue and stakeholder advisories	March 2010	Achieved	Discharge of Constitutional and Legislative Mandate
	Financing and Delivery of Government's Public Transport Plans in South Africa	Report	Contribution to 2011 – 2012 Submission on the Division of Revenue and stakeholder advisories	March 2010	Achieved	Discharge of Constitutional and Legislative Mandate
	Funding and Delivery of Housing in South Africa: Location and Funding of Housing in South Africa	Report	Contribution to 2011 – 2012 Submission on the Division of Revenue and stakeholder advisories	March 2010	Ongoing research and consultation with stakeholders	
	Modelling Impacts of Public Spending in Education Sector on Growth and Poverty Reduction	Submission document	Submission to Parliament	May 2010	<ul style="list-style-type: none"> <li>• Third draft Report</li> <li>• Ongoing review of Report</li> </ul>	
	Spatial Perspective of Unemployment and the EPWP Incentive Grant	Report	Contribution to 2011 – 2012 Submission on the Division of Revenue and stakeholder advisories	March 2010	<ul style="list-style-type: none"> <li>• On hold</li> <li>• Capacity constraints</li> </ul>	
	Macroeco-nomic Effects of Fiscal Policy in SA (aka The Global Economic Crisis, Fiscal Frameworks and Coping with Vulnerabilities)	Report	Contribution to 2011 – 2012 Submission on the Division of Revenue and stakeholder advisories	March 2010	Achieved	Discharge of Constitutional and Legislative Mandate

Strategic Objective	Project/ Activities (Input)	Output (Deliverable)	Key Performance Measure/ Indicator	Target	Actual	Outcome
Provide research excellence on current issues affecting IGFR	Quantifying the Efficiency and Equity Effects of Social Grants (and Proposed Social Security Reform) in South Africa (aka Social Assistance Reform during a Period of Fiscal Stress)	Report	Contribution to 2011 – 2012 Submission on the Division of Revenue and stakeholder advisories	March 2010	Achieved	Discharge of Constitutional and Legislative Mandate
	Options for Reforming Social Assistance to Address Unemployment Induced Gaps (aka Social Assistance Reform during a Period of Fiscal Stress)	Report	Contribution to 2011 – 2012 Submission on the Division of Revenue and stakeholder advisories	March 2010	Achieved	Discharge of Constitutional and Legislative Mandate
	The Output Effects of Public Infrastructure Using VAR	Report	Stakeholder advisories	April 2009	Achieved	Discharge of Constitutional and Legislative Mandate
	Exogenous Price Shocks and the Economy	Report	Contribution to 2011 – 2012 Submission on the Division of Revenue and stakeholder advisories	March 2010	<ul style="list-style-type: none"> <li>• Terminated</li> <li>• Capacity constraints</li> </ul>	
	Assessing Development Strategies to Achieve the MDG's in South Africa	Report	Contribution to 2011 – 2012 Submission on the Division of Revenue and stakeholder advisories	March 2010	<ul style="list-style-type: none"> <li>• Terminated</li> <li>• Incorporated in other projects</li> </ul>	
	The Efficiency of Regionalising Municipal Services: Electricity	Report	Contribution to 2011 – 2012 Submission on the Division of Revenue and stakeholder advisories	March 2010	Achieved	Discharge of Constitutional and Legislative Mandate
	Develop Concept, Theme and Project Portfolio for 2010/2011 Research	Document	Approval	<ul style="list-style-type: none"> <li>• March 2010</li> <li>• 90%</li> </ul>	Achieved	Strategic Direction for 2010/2011 Research
	Comply with Constitutional and Legislative Mandate and Accountabilities	Seventeenth Constitution Amendment 2009	Submission	Stakeholder advisories	<ul style="list-style-type: none"> <li>• November 2009</li> <li>• 70%</li> </ul>	<ul style="list-style-type: none"> <li>• Achieved</li> <li>• 100%</li> </ul>

Strategic Objective	Project/ Activities (Input)	Output (Deliverable)	Key Performance Measure/ Indicator	Target	Actual	Outcome
Comply with Constitutional and Legislative Mandate and Accountabilities	Eighteenth Constitution Amendment	Submission	Stakeholder advisories	<ul style="list-style-type: none"> <li>November 2009</li> <li>70%</li> </ul>	On hold at the request of the Department of Justice and Constitutional Development	
	Commission Response to 2009 MTBPS	Submission	Stakeholder advisories	<ul style="list-style-type: none"> <li>February 2010</li> <li>70%</li> </ul>	<ul style="list-style-type: none"> <li>Achieved</li> <li>100%</li> </ul>	Discharge of Constitutional and Legislative Mandate
	Continuation and/or Lapsing of Municipal Taxes (other than Property Rates) that Existed Prior to the Municipal Fiscal Powers and Functions Act	Submission	Stakeholder advisories	<ul style="list-style-type: none"> <li>February 2010</li> <li>70%</li> </ul>	<ul style="list-style-type: none"> <li>Achieved</li> <li>100%</li> </ul>	Discharge of Constitutional and Legislative Mandate
	Commission Response to 2010 DoR Bill	Submission	Stakeholder advisories	<ul style="list-style-type: none"> <li>February 2010</li> <li>70%</li> </ul>	<ul style="list-style-type: none"> <li>Achieved</li> <li>100%</li> </ul>	Discharge of Constitutional and Legislative Mandate
	Commission Submission on 2010 Fiscal Framework and Revenue Proposals	Submission	Stakeholder advisories	<ul style="list-style-type: none"> <li>March 2010</li> <li>70%</li> </ul>	<ul style="list-style-type: none"> <li>Achieved</li> <li>100%</li> </ul>	Discharge of Constitutional and Legislative Mandate
	2010/ 2011 – 2012/2013 MTBPS	Submission	Compliance with Financial and Fiscal Commission Act and PFMA	<ul style="list-style-type: none"> <li>July 2009</li> <li>70%</li> </ul>	<ul style="list-style-type: none"> <li>Achieved</li> <li>100%</li> </ul>	Compliance
	2009/2010 Budget Adjustments	Submission	Compliance with Financial and Fiscal Commission Act and PFMA	<ul style="list-style-type: none"> <li>August 2009</li> <li>70%</li> </ul>	<ul style="list-style-type: none"> <li>Achieved</li> <li>100%</li> </ul>	Compliance
	Quarterly Financial Reporting	Quarterly Reports	Compliance with National Treasury Requirements	Quarterly	Achieved	Compliance
	2008/2009 Annual Financial Statements	Report	Compliance with Financial and Fiscal Commission Act and PFMA	May 31 2009	Achieved	Compliance
	2008/2009 Performance Information	Report	Adherence to National Treasury Framework for the Management of Performance Information and compliance with Auditor-General Requirements	May 31 2009	Achieved	Compliance

Strategic Objective	Project/ Activities (Input)	Output (Deliverable)	Key Performance Measure/ Indicator	Target	Actual	Outcome
Comply with Constitutional and Legislative Mandate and Accountabilities	2008/2009 Annual Report	Report	Compliance with Constitution, Financial and Fiscal Commission Act and PFMA	May 31 2009	Achieved	Compliance
	2010/2011 Submission on the Division of Revenue	Submission	Compliance with Constitution and Intergovernmental Fiscal Relations Act	<ul style="list-style-type: none"> <li>• May 2009</li> <li>• 70%</li> </ul>	Achieved	Discharge of Constitutional and Legislative Mandate
	2010/2011 Business Plan	Plan	Commission approval	March 2010	Achieved	Compliance
	2010/2011 Budget	Budget	Commission approval	March 2010	Achieved	Compliance
	Commissioner engagement and Collective Decision-Making	Minimum of Four (4) Meetings	Compliance with Financial and Fiscal Commission Act	2009/2010	Achieved	Compliance
	Develop and Implement					Compliance and Good Governance
	ECM Capability	<ul style="list-style-type: none"> <li>• Strategy</li> <li>• Policies and Procedures</li> </ul>	Compliance	<ul style="list-style-type: none"> <li>• March 2010</li> <li>• 70%</li> </ul>	Achieved	
	Review of ECM email archiving policy, E-communications records and PAIA policies	Reviewed Policies	Compliance	<ul style="list-style-type: none"> <li>• March 2010</li> <li>• 90%</li> </ul>	Achieved	
	Records Management Policy and Procedures	Recordkeeping Plan	Compliance	<ul style="list-style-type: none"> <li>• March 2010</li> <li>• 60%</li> </ul>	<ul style="list-style-type: none"> <li>• 50%</li> <li>• Capacity Constraints</li> </ul>	
File Plan		Compliance	<ul style="list-style-type: none"> <li>• March 2010</li> <li>• 60%</li> </ul>	<ul style="list-style-type: none"> <li>• 50%</li> <li>• Capacity Constraints</li> </ul>		
Development of a Comprehensive Talent and Human Resource Approach	Human Resource Strategy Development and Implementation	<ul style="list-style-type: none"> <li>• Strategy</li> <li>• Implementation Plan</li> </ul>	Adoption	<ul style="list-style-type: none"> <li>• March 2010</li> <li>• 100%</li> </ul>	Achieved	Talent Management
	Human Resource Policy Development	Performance Management and Bonus System	Adoption	<ul style="list-style-type: none"> <li>• March 2010</li> <li>• 100%</li> </ul>	Achieved	Talent Management
Adopt a Prudent and Transparent Approach to the Management of Finances	Budget management	Actual versus budgeted expenditure	% Deviation for Auditor-General Norm	+/-5%	Achieved	Good Governance
	Performance-Based Budgeting (inclusive of Cost-Centre Budgeting)	Alignment of budget with the strategic and business plans as well as performance contracts,	% Alignment	70%	Achieved	
	Budgeting under Austerity	Cost efficiency	Savings	+5%	-5%	

Strategic Objective	Project/ Activities (Input)	Output (Deliverable)	Key Performance Measure/ Indicator	Target	Actual	Outcome
Adopt a Prudent and Transparent Approach to the Management of Finances	Develop and implement appropriate Financial Management Systems	Rollout of Pastel Evolution	% System Efficacy	90%	Achieved	Good Governance
	Review Policies and Procedures	Revised				
		Risk Strategy and Plan	Adoption	90%	80%	
		Fraud Prevention Plan				
Adopt a Prudent and Transparent Approach to the Management of Finances	Review Policies and Procedures	Revised Financial Policies and Procedures	Adoption	90%	Achieved	Good Governance
	Develop Innovative Revenue Alternatives	<ul style="list-style-type: none"> <li>• Collaborations</li> <li>• Partnerships</li> <li>• Donations</li> </ul>	Leveraging of Resources	5% of Allocation	2.25% of Allocation (Unicef)	Exploitation of Economies of Scale
Develop, implement and Maintain Appropriate Internal Business Systems	2009/2014 Research Matrix	Matrix	Research Dashboard	<ul style="list-style-type: none"> <li>• March 2010</li> <li>• 80%</li> </ul>	Achieved	Strategic Direction for Long-Term Research
	Develop and Implement Results-based Management Framework	Framework	Proposal	<ul style="list-style-type: none"> <li>• March 2010</li> <li>• 60%</li> </ul>	Achieved	Structured approach to development of Project Portfolios
	Develop and Implement					
	<ul style="list-style-type: none"> <li>• a Comprehensive Approach to the Management of Communication</li> </ul>	<ul style="list-style-type: none"> <li>• Strategy</li> <li>• Policy</li> <li>• Programme</li> <li>• Website Upgrade</li> </ul>	Approval	<ul style="list-style-type: none"> <li>• March 2010</li> <li>• 100%</li> </ul>	Achieved	Stakeholder-centric Approach to the Management of Communication
	<ul style="list-style-type: none"> <li>• Governance Code</li> </ul>	<ul style="list-style-type: none"> <li>• Code</li> </ul>	Approval	<ul style="list-style-type: none"> <li>• March 2010</li> <li>• 100%</li> </ul>		Good Corporate Governance
	<ul style="list-style-type: none"> <li>• Code of Ethics</li> </ul>	<ul style="list-style-type: none"> <li>• Code</li> </ul>	Approval	<ul style="list-style-type: none"> <li>• March 2010</li> <li>• 100%</li> </ul>	Achieved	Good Corporate Governance
	<ul style="list-style-type: none"> <li>• Divisional Business Plans</li> </ul>	<ul style="list-style-type: none"> <li>• Plans</li> </ul>	Alignment with Corporate Strategy and Business Plan	<ul style="list-style-type: none"> <li>• March 2010</li> <li>• 100%</li> </ul>	75%	
	<ul style="list-style-type: none"> <li>• Library Support</li> </ul>	<ul style="list-style-type: none"> <li>• Knowledge and Data Resources</li> </ul>	Accessibility of resources	<ul style="list-style-type: none"> <li>• March 2010</li> <li>• 65%</li> </ul>	<ul style="list-style-type: none"> <li>• 60%</li> <li>• Resource constraints</li> </ul>	Knowledge Management

<b>Strategic Objective</b>	<b>Project/ Activities (Input)</b>	<b>Output (Deliverable)</b>	<b>Key Performance Measure/ Indicator</b>	<b>Target</b>	<b>Actual</b>	<b>Outcome</b>
Develop, implement and Maintain Appropriate Internal Business Systems	• Electronic Repository	• Capability	Knowledge Sharing	• March 2010 • 50%	• 40% • Capacity Constraints	
	• Institutional Repository	• Capability	Preservation of Institutional Memory	• March 2010 • 50%	• 40% • Capacity Constraints	
	Review of Facilities Management Policies and Procedures	• Revised Policies and Procedures	Approval	• March 2010 • 70%	Achieved	Creation of environment that is conducive to superior performance
	• Code of Ethics	• Code	Approval	• March 2010 • 100%	Achieved	Good Corporate Governance
	• Divisional Business Plans	• Plans	Alignment with Corporate Strategy and Business Plan	• March 2010 • 100%	75%	
	• Library Support	• Knowledge and Data Resources	Accessibility of resources	• March 2010 • 65%	• 60% • Resource constraints	Knowledge Management

## 5.2 2009 COMMISSION RECOMMENDATIONS FOR THE 2010/2011 DIVISION OF REVENUE

The proposals contained in the Commission's 2009 Submission for the 2010/2011 Division of Revenue dealt with recommended reforms to the provincial equitable share (PES; recommendations on public infrastructure scale up, social grants, health, rental housing and roads local government issues of water and sanitation and capacity building which cut across all three spheres of government and are both reactive and prospective with respect to pressing policy challenges.

The following were the key recommendations:

### On principles

- a. Expenditure assignments between provinces and national government should be clarified beyond what is covered under Schedule 4 of the Constitution: A concerted effort is required to make a distinction between delegated responsibilities (for which the national government still retains a strong interest in performance) and own or devolved responsibilities of the provincial governments. There is also a need to emphasise exclusive assignments, as opposed to concurrent assignments to increase accountability.
- b. There should be a clear separation of instruments in the transfer system. The following principles should be observed:
  - i. The equalisation grant should equalise on the basis of differences between expenditure needs.
  - ii. There is a need to establish a system of conditional grants, which has performance aspects, and that clearly support the delivery of delegated responsibilities by sub-national governments.
  - iii. There is a need for other transfers for regional development, including capital grants that need not be conditional.
- c. Provincial governments should be encouraged to exercise the revenue powers conferred to them through Section 228 of the Constitution and the Provincial Tax Regulation Process Act of 2003.
- d. The ability of provinces to borrow should be carefully facilitated and linked to their revenue-raising capacity as a way to close the infrastructure gap in a responsible and incentive-compatible fashion.

### On reform options for the PES and formula

#### *Option 1: The Short-Term Solution*

In the short term, the Commission recommends that the reform of the PES formula stay within the confines of the current constitutional dispensation. The Commission further recommends that:

- a. The PES formula should retain for the most part its current structure, and only be reformed to bring it closer to a conventional equalisation grant which equalises both expenditure and revenue.
  - i. Both the expenditure needs and the fiscal capacity of each province should be defined by means of objective criteria that properly represent the objectives of horizontal equalisation.
  - ii. Expenditure needs should be derived on all expenditure responsibilities of the provinces. Expenditure can be quantified on the basis of an explicit per client financial norms, determined in the annual budget cycle for the national government, or the costed norms approach.

- iii. The computation of the fiscal capacity must take into account the direct forecast receipts from revenue sharing for each province and the estimated potential revenues from own revenues, including the piggyback personal income tax and fuel levy if they were introduced.
- b. The PES formula should be divided into a number of components, in pursuit of clear and separate objectives.
- i. The 'economic activity' component of the PES formula should be removed to become a straightforward conventional form of revenue sharing, allocated either on a derivation basis or according to some other criterion such as the share of gross domestic product.
  - ii. Another part would be allocated for a system of conditional capital grants, mainly targeting backlogs in capital infrastructure and capital investment needs of provinces, especially for those that are not expected to be financed through borrowing, and should build on the current infrastructure grant for provinces.
  - iii. Most importantly, another component would be dedicated to implementing a system of unconditional equalisation grants that takes into account differences in expenditure needs and differences in fiscal capacity. The latter assumes that none of the expenditure assignments to the provincial governments (in particular education, health, and social welfare) are delegated. This would allow provinces complete autonomy to set priorities within the parameters of the Constitution, i.e. respecting the role of national government. An incentive system of matching grants should be developed to support the implementation of national priorities.
- c. That institutional weakness in the budget process should be addressed as a matter of urgency to enhance cooperation between the two spheres, improve enforcement of norms and standards, and increase the capacity of national departments to monitor and build capacity of provincial counterparts. The role of the FFC, as defined in the Constitution, should be strengthened within the institutions dealing with division of revenue matters.

#### *Option 2: Medium- to Long-Term Solution*

In the medium to long term the Commission recommends that the reforms should depart from the realisation that fixing the PES as a pool requires the fixing of other aspects of the current fiscal decentralisation system. Specifically, the reform of the PES will require the reform of current expenditure and revenue assignments between the national and provincial governments. The implementation of this option will require significant changes in the current legislation and amendments to schedules 4 and 5 of the Constitution in order to enable the conversion of several functions into delegated functions.

The Commission further recommends that this option should be considered with utmost caution owing to the inherent risks, relating to transition costs and the potential to compromise service delivery. It will be necessary to have a dedicated intergovernmental committee that will oversee and manage the transition process as well as identify potential risks.

- a. Taking the education and health services out of the PES, and converting those components into separate block, conditional grants from the national government to the provinces. Under a block grant, the provincial governments will have the obligation to spend the grant in the particular expenditure area (for example, primary education), but they will also be free to determine how the funds are used within that area. Education and health services will remain concurrent responsibilities of the national government and the provinces. In the reformed expenditure assignment system, these services will be explicitly recognised as 'delegated' responsibilities from the national government to provinces (as opposed to provincial government's own responsibilities and concurrent functions but not delegated responsibilities). Under this redefinition, the national government will have explicit responsibility for securing adequate funding on behalf of the provinces for the provision of these services. Provincial governments will use their discretion to add their own funds for improved financing and speed up service delivery. The national government will also have responsibility for establishing performance standards for the delegated services. The necessary level of funding for the delegated responsibilities

in education and health will be determined in the annual budget of the national government by using financial per client norms or any other expenditure quantification criteria. The quantification of expenditure needs can be improved by adjusting the norms for differences in the costs of provision across jurisdictions.

- b. Removing the 'economic activity' component from the PES formula and converting it into a revenue-sharing pool. Because provincial governments will have added expenditure responsibilities, the current levels of revenue sharing will be maintained. This will be a mechanism to close the vertical gap between expenditure needs and financing ability of the provinces. Revenue sharing on a stable basis will increase the fiscal stability of provincial governments and will also be a way to let less poor, sub-national governments receive their share in the wealth/revenues collected within their boundaries.
- c. Increasing the revenue autonomy of provincial governments by fully implementing the provisions of section 228 of the Constitution and the Provincial Tax Regulation Process Act of 2003.
- d. an equalisation grant with the following features:
  - i. A predetermined fixed funding rule, which allows beneficiary provinces to anticipate and plan, based on the funding that will be available from this grant from year to year; and
  - ii. A distribution formula for the available funds, proportionate to the fiscal gap computed for each province, on the basis of the difference between allowable expenditure needs and fiscal capacity. Unlike the first option, expenditure needs will be a derivative of all expenditure responsibilities for provinces other than the delegated responsibilities (education and health), which are already minimally financed by the block grants.

#### **With respect to public infrastructure investment**

1. The government should review upwards the departmental baselines and increase the quantum of appropriate investment in public infrastructure (national, provincial and municipal): Macro-micro modelling done by the Commission, as well as international experience, has shown that investment in appropriate infrastructure leads to reduced unemployment and poverty. The Commission recommends that increased funding be directed towards infrastructure programmes that are linked to basic services including water, health, electricity, roads, transport and communication.
2. For funds already in the system, the Commission recommends that the government should improve the quality of targeted outcomes of infrastructure investment towards employment creation and poverty reduction. Leveraging from efficiency gains throughout all baselines of departments should be made an ongoing exercise, as it strengthens the link between planning and spending, especially within the provincial sphere of government.
3. The Commission recommends that the government should implement a fully comprehensive national infrastructure maintenance strategy, especially for those infrastructure classes with a high impact on unemployment and poverty, with dedicated maintenance objectives. To achieve sustainable outcomes, the government must improve management of infrastructure investment by building in/safeguarding adequate future lifecycle replacement and maintenance provision of the infrastructure.
4. The Commission recommends that government develops appropriate funding mechanisms through intergovernmental coordination to facilitate, integrate and sequence infrastructure planning and delivery. Such planning should:
  - a. Support stronger municipal management, especially for capital expenditure and maintenance programmes, and resolve lingering policy uncertainty. A case in point relates to the Regional Electricity Distribution reforms which have stalled and, as a consequence, are currently undermining municipal investment in infrastructure and maintenance.

- b. Improve long-term planning for state investments:
  - i. Use best practice from effective state owned agencies for infrastructure planning, management, spending and maintenance.
  - ii. Complete comprehensive infrastructure monitoring and evaluation system.
  - iii. Use common methodologies for calculating costs and benefits for project appraisal.

#### **With respect to social assistance grants**

1. The government should increase the rollout of social grants to cushion poor people from the effects of the economic downturn. However, there are risks and opportunities associated with the scaling up of social grants. The government needs to make trade-offs between coverage and grant amounts, taking into consideration affordability, incentive effects and the net effect across all grants. There is an inherent trade-off within programmes in attempts to scale up social grants, as the resource envelope is not without limits. Past experience at provincial level has illustrated that increases in social grants may 'crowd out' other forms of social expenditure, leading to the rationing of other non-cash social services (such as increased waiting times in health clinics, reduced welfare services etc.).
2. Social assistance should be managed in such a way as to eventually reduce dependency on the social grants. The issue of fiscal risk is linked to issues of fiscal sustainability of scaling up conditional cash transfers (CCTs). Fiscal risk arises when such CCTs give the receiver an impression of entitlement, which will be hard or impossible to reverse in the future. In the presence of revenue decline or volatility, the fiscal rigidities of entitlement spending may exacerbate fiscal risk. As a starting point, social grants on the demand side appear to be working well and can be scaled up in the short term but those on the supply side are not working well and will need to be shrunk.
3. The government should use infrastructure expansion to provide opportunity for workfare programmes as well as activities identified in the Expanded Public Works Programme (EPWP). The government should consider the EPWP to pilot workfare immediately.

#### **With respect to the performance of public hospitals**

1. Whilst recognising the provisions of the National Health Act (2004) and current norms guiding the primary health care (PHC) system, there is a policy gap in respect of legislative provisions and norms and standards for a well-functioning public hospital system. In addressing the identified gap, the government must develop norms and standards that should address the following issues in relation to the public hospital system:
  - a. The specification of minimum service requirements;
  - b. The establishment of minimum input norms;
  - c. The establishment of a workable quality assurance framework;
  - d. The establishment of a transparent reporting system focusing on:
    - i. Inputs
    - ii. Processes

- iii. Outputs, and
  - iv. Outcomes;
  - e. The identification of governance requirements;
  - f. The establishment of governance norms and standards;
  - g. A strategic planning framework which outlines the medium-/long-term vision of the hospital system, expressed in terms that are implementable and auditable.
  - h. A need exists for a mix of hard (codified by legislation) and soft norms (guidelines to aid departments) and standards. Hard norms and standards should be set by national government, codified by statute and be enforceable in relation to allocations set to achieve this objective. Soft norms and standards can be expressed as guidelines to assist delivery agencies in motivating for resources. Provinces should be allowed to contextualise soft norms and standards which suit their needs/socio-economic circumstances.
2. It is recommended that the government needs to standardise and institutionalise budget formats processes across all hospitals. In effecting these considerations, the following issues are pertinent:
- a. Setting individual hospital budgets:
    - i. In relation to an agreed set of services with due consideration to the unit cost per service and needed activities;
    - ii. Subjected to a substantial and informed negotiation process between the province and the hospital;
    - iii. Which include agreements on how to deal with unforeseen and unavoidable expenses so that services are not disrupted; and
    - iv. That ultimately address how case mix-based budgets can be deployed (that are consistent with international best practice). By defining the cost-drivers within a case mix, it is possible to mitigate against avoidable variances that currently occur between hospitals.
  - b. Consistent with hard norms and standards, allocations should be determined by differentiating by hospital type i.e. central, regional and district hospitals; acute psychiatric and chronic hospitals; and infectious disease hospitals.

### **With respect to rental housing**

1. There should be relaxation and flexibility on the:
  - a. Eligibility criteria for accessing the Social Housing Capital Restructuring Grant to allow projects falling outside the Designated Restructuring Zones to access funding;
  - b. Number of Designated Restructuring Zones to respond to excess demand for rental housing;
  - c. Minimum unit size for redevelopments of existing buildings.
2. The process of disbursing funds for rental housing within the housing sector should be made shorter to minimise time lags following the submission of approved project plans.

3. The Social Housing Regulatory Authority should improve the inter-sectoral coordination between various government departments responsible for integrated human settlement.
4. The qualifying income bands should be reviewed to ensure that individuals are not unfairly excluded from benefiting from the subsidy (due, for example, to increases in the cost of living).

#### **With respect to the management and financing of road infrastructure**

1. There should be an increased and stable flow of funds for maintenance, rehabilitation and addressing backlogs in the long-term. Potential policy proposals to ensure that this is achieved can include:
  - a. Formulating pricing and cost-recovery policy for roads that generate sufficient revenues for authorities to maintain and operate their road infrastructure network on a sustainable basis;
  - b. Earmarking a portion of road-related user charges and taxes;
  - c. Explicitly including a road infrastructure component within the provincial and local government equitable share formulae;
  - d. Expanding the role of development institutions and capital market in funding road infrastructure investment especially at sub-national spheres.
2. There should be greater coordination of road management functions across the three spheres of government. In this regard, the revision and modification of the inter-road authority coordinating model proposed by the National Department of Transport [see Appendix A] should be carried out with a view for possible future implementation.
3. Priority should be given to addressing the lack of technical skills in the road management sector of sub-national governments. Attaining this objective can be done through the introduction of a separate conditional grant, specifically targeted at building technical capacity within the road management sector of sub-national governments.

#### **With respect to water and sanitation**

1. The Commission recommends that there must be a review of the free basic water and sanitation subsidy as well as a review of water tariff structures, to ensure that the shortcomings implicit in the current subsidy system do not outweigh the benefits. At present, there is no coherent framework of oversight for how water service authorities manage trade-offs in the design and determination of their water tariffs. The tariff structures (that is, the number of customer classes or consumption blocks and the level of tariffs for each of the classes or blocks), which are different in various municipalities, have a substantial impact on the pricing of water. Principles and practices guiding both tariff and subsidy structures and price levels should be made clear and routinely monitored.
2. In order to sharpen the focus of public expenditures on expanding access to sanitation services and improving sanitary outcomes, the Commission recommends that:
  - a. The sanitation strategy should target behavioural change in relation to sanitation practices by households, rather than the provision of infrastructure alone, premised on attaining certain health outcomes. This can generally be achieved through establishing targets and providing funding in a manner that creates incentives for community-level behavioural changes, while providing households with greater discretion on selecting sanitation technologies that meet their needs.

- b. Greater consideration should be given to household affordability constraints that may affect the long-term sustainability of sanitation investments. High service levels (such as in-house flush toilets) put significant ongoing pressure on household and municipal budgets, without a significant proportional improvement in public health outcomes. This limits the pace at which sanitation backlogs can be addressed, and may create significant fiscal risk for service providers over the longer term, as assets must be maintained and replaced.
3. The Commission recommends that there be a separation of policy function from the regulatory function within the water services sector. This should help to improve institutional accountability for performance and the achievement of policy goals. The current overlapping of capacity support, oversight and policy-making functions within the Department of Water Affairs and Forestry (DWA) has led to a situation where policy targets are inadequately monitored, and simply shifted in the case of under-performance. Following on this recommendation, the Commission would like to propose that the government consider establishing an independent National Water Regulator that would report to Parliament. Its functions, amongst others, will be to:
  - a. Regulate the entire water supply industry.
  - b. Issue licences, regulate tariffs, and monitor Water Integrated Resource Plans for infrastructure investments.
  - c. Regulate compliance to industry norms and standards.
  - d. Regulate the supply of water and sanitation services and their compliance to quality standards.
  - e. Regulate water efficiency and demand-side management.
  - f. Develop regulatory frameworks for Public Private Partnerships and alternative service delivery models in the water sector.
  - g. Ensure regulatory instruments support the achievement of universal access to water and sanitation services.
  - h. Monitor supply and demand trends in the water supply industry.

### **With respect to local government capacity building**

1. For their own improvement, local government should be central to setting the agenda for capacity-building programmes. This recognises the fact that municipalities remain accountable for their own performance until such time as section 139 of the Constitution is invoked. To achieve this, the Commission further recommends that:
  - a. Capacity programmes should be informed by a local government performance management system which is driven by their Key Performance Indicators.
  - b. Prior to capacity programmes being developed and implemented at local government level, a comprehensive assessment and design process should be undertaken.
  - c. Capacity-development programmes should be aligned to each stage of the developmental transition of municipalities. There should be a differentiated approach in building capacity.
  - d. Capacity-development programmes should be comprehensive and not only focus on training of personnel and deployment of experts within municipalities. They must also focus on other organisational, fiscal and institutional constraints that impact on the overall performance of municipalities.

2. The government must establish an intergovernmental-wide framework for understanding what constitutes a lack of capacity within the context of local government.
3. When capacity-building interventions are undertaken with respect to different functional areas, there should be a clear separation of responsibilities, as well as coherent interface, between service authority and the service providers.
4. It is also recommended that replication of poorly defined roles and responsibilities between national, provincial and district municipalities in the policy framework should be eliminated. This is necessary to create clear lines of responsibility and accountability for spheres of government or sector departments over their capacity-building roles in local government.
5. Each capacity-building programme must have a clear outline of measurable objectives, targets and timelines. These must detail conditions under which a programme can be withdrawn from a respective municipality and following a detailed monitoring and evaluation of success factors, failures with possible suggestions for sustaining the programme. The method of implementing capacity programmes should be changed from a standard stop-gap package to a more unique incremental solution, focusing on the identified problems within the municipality and identifying key leverage points where capacity programmes can make a difference.
6. A variety of grant instruments should be used for addressing different capacity challenges within different functional areas. Such grants should only be devolved to sector departments once they have demonstrated the capacity to manage such grants and capacity programmes in an Intergovernmental Relations (IGR) system effectively. The Commission further recommends that appropriations for Siyenza Manje should be allocated through the Division of Revenue as done for other capacity grants. This will promote order, transparency and accountability.

## 5.3 2010 GOVERNMENT RESPONSE TO THE COMMISSION'S 2009 RECOMMENDATIONS FOR THE 2010/2011 DIVISION OF REVENUE

Section 214 of the Constitution and section 9 of the Intergovernmental Fiscal Relations Act (1997) require the FFC to make recommendations in April every year, or soon thereafter, on the division of revenue for the coming budget. The FFC complied with this obligation by tabling its Submission for the Division of Revenue 2010/11 to Parliament in May 2009. This part of the explanatory memorandum complies with the Constitution and section 10 of the Intergovernmental Fiscal Relations Act by setting out how government has taken into account the FFC's recommendations when determining the division of revenue for the 2010 MTEF.

The 2010/11 recommendations are divided into eight chapters covering a wide range of issues across the three spheres.

### CHAPTER 1: REVIEW OF THE PROVINCIAL EQUITABLE SHARE (PES) FORMULA

The FFC's recommendations on the provincial equitable share formula deal with principles, as well as short- and medium-term solutions to the reform of the formula.

#### Principles

The FFC recommends that there should be clarity on expenditure assignments between provinces and national government, especially distinguishing between delegated and own or devolved responsibilities of the provincial governments. More emphasis should also be placed on exclusive assignments, as opposed to concurrent assignments, to increase accountability. There should be a clear separation of instruments in the transfer system. The following principles should be observed: (a) the equalisation grant should equalise on the basis of expenditure need; (b) there is a need to establish a performance based conditional grant system; and (c) there is a need for other transfers for regional development.

Provinces should be encouraged to exercise their legislative revenue powers. Further, provincial borrowing should be carefully facilitated and linked to their revenue-raising capacity to close the infrastructure gap.

#### Option 1: The Short-Term Solution

The FFC recommends that the reform of the provincial equitable share formula stays within the confines of the current constitutional dispensation. The provincial equitable share formula should retain for the most part its current structure, and only be reformed to bring it closer to a conventional equalisation grant, which equalises both expenditure and revenue. The provincial equitable share formula should be divided into a number of components in pursuit of clear and separate objectives as follows:

- The economic activity component should be removed to become a straightforward conventional form of revenue sharing, allocated either on a derivation basis or some other criterion such as share of gross domestic product.
- A component dealing with a system of conditional capital grants, mainly targeting backlogs in capital infrastructure and capital investment needs of provinces, especially for those that are not expected to be financed through borrowing, and which should build on current infrastructure grants for provinces.
- A component dedicated to implementing a system of unconditional equalisation grants, taking into account differences in expenditure needs and fiscal capacity. The latter assumes that none of the expenditure assignments to the provincial governments (and in particular, education, health, and social welfare) are delegated. This would allow provinces complete autonomy to set priorities within the parameters of the Constitution, i.e. respecting the role of national government. An incentive system of matching grants should be developed to support the implementation of national priorities.

Institutional weakness in the budget process should be addressed as a matter of urgency to enhance cooperation between the national and provincial spheres, improve the enforcement of norms and standards and increase the capacity of national

departments to monitor and build capacity of provincial counterparts. The role of the FFC, as defined in the Constitution, should be strengthened within the institutions dealing with division of revenue matters.

### **Option 2: The Medium- To Long-Term Solution**

The FFC recommends that the reform should depart from the realisation that fixing the provincial equitable share as a pool requires the fixing of other aspects of the current fiscal decentralisation system.

The reform of the provincial equitable share will require the reform of current expenditure and revenue assignment between the national and provincial governments. The implementation of this option will require significant changes in the current legislation and amendments to Schedules 4 and 5 of the Constitution to enable the conversion of several functions into delegated functions. This option should be considered with utmost caution owing to the inherent risks related to transition costs and the potential to compromise service delivery. It will be necessary to have a dedicated intergovernmental committee that will oversee and manage the transition process as well as identify potential risks.

The FFC recommends that the education and health services should be taken out of the provincial equitable share, and that those components be converted into separate block: conditional grants from the national government to provinces. Under a block grant, the provincial governments will have the obligation to spend the grant in the particular expenditure area (for example, primary education) but they will also be free to determine how the funds are used within that area. Education and health will remain concurrent responsibilities of the national government and the provinces. In the reformed expenditure assignment system, these services will be explicitly recognised as “delegated” responsibilities from the national government to provinces. Under this redefinition, the national government will have explicit responsibility for securing adequate funding on behalf of the provinces for the provision of these services. Provincial governments will use their discretion to add their own funds for improved financing and speeding up service delivery. The national government will also have responsibility for establishing performance standards for the delegated services. The necessary level of funding for the delegated responsibilities in education and health will be determined in the annual budget of the national government, by using financial per client norms or any other expenditure quantification criteria. The quantification of expenditure needs can be improved by adjusting the norms for differences in the costs of provision across jurisdictions.

The FFC also recommends that the “economic activity” component be removed from the provincial equitable share formula and be converted into a revenue-sharing pool. Also, the revenue autonomy of provincial governments should be increased by fully implementing the provisions of section 228 of the Constitution and the Provincial Tax Regulation Process Act (2003).

Lastly, an equalisation grant with the following features should be introduced: (a) a predetermined fixed funding rule, which allows beneficiary provinces to anticipate and plan, based on funding that will be available from this grant from year to year; and (b) a distribution formula for the available funds, proportionate to the fiscal gap computed for each province, on the basis of the difference between allowable expenditure needs and fiscal capacity. Unlike the first option, expenditure will be a derivative of all expenditure responsibilities for provinces other than the delegated responsibilities (education and health) which are already minimally financed by the block grants.

### **Government response**

In 2007, government endorsed a comprehensive review of the provincial equitable share formula. A task team consisting of the FFC, National Treasury, provincial treasuries and relevant sector departments is conducting this review and should complete its work in time for the 2011 MTEF. The recommendations of the FFC will be considered as part of this review.

## **CHAPTER 2: PUBLIC INFRASTRUCTURE INVESTMENT**

The FFC recommends that increased funding be directed to infrastructure programmes that are linked to basic services including water, health, electricity, roads, transport and communication. For funds already in the system, government should improve the quality of targeted outcomes of infrastructure investment towards employment creation and poverty

reduction. Leveraging from efficiency gains throughout all baselines of departments should be made an ongoing exercise, as it strengthens the link between planning and spending, especially within the provincial sphere of government.

The FFC also recommends that government should implement a fully comprehensive national infrastructure maintenance strategy, especially for those infrastructure classes with a high impact on unemployment and poverty, with dedicated maintenance objectives. To achieve sustainable outcomes, the government must improve management of infrastructure investment by building in/safeguarding adequate future lifecycle replacement and maintenance provision for the infrastructure. Government should develop appropriate funding mechanisms through intergovernmental coordination to facilitate, integrate and sequence infrastructure planning and delivery.

### **Government response**

Government agrees that investment should be targeted towards infrastructure that supports basic needs. Informed by the medium-term strategic framework (MTSF), which covers the period 2009-2014, government will continue with the infrastructure investment programme aimed at expanding and improving social and economic infrastructure to increase access, quality and reliability of public services.

This will boost economic activity and create jobs. Infrastructure expenditure continues to be one of the fastest-growing items in provincial and municipal expenditure. Provinces will spend R146.4 billion on education, health, roads and agriculture infrastructure over the next three years. Municipalities will spend R147.8 billion on infrastructure that supports basic services, roads and housing over the next three years.

Government is also taking active steps to ensure that these large investments result in increased access to quality services. Through the Siyenza Manje and IDIP programmes, government aims to improve infrastructure management. This includes ensuring that budgeting for infrastructure includes full lifecycle costing.

## **CHAPTER 3: EFFICIENCY AND EQUITY EFFECTS OF SOCIAL GRANTS**

The FFC recommends that government should increase the rollout of social grants to cushion poor people from the effects of the economic downturn. There is, however, a trade-off between coverage and grant amounts given limited resources. Past experience at provincial level has illustrated that increases in social grants may crowd out other forms of social expenditure. Social assistance should be managed in such a way as to eventually reduce dependency on the social grants. Fiscal sustainability of scaling up conditional cash transfers needs to be carefully managed. As a starting point, social grants on the demand-side appear to be working well and can be scaled up in the short term, but those on the supply side are not working well and will need to be scaled down. Government should use infrastructure expansion to provide opportunities for workfare programmes, and consider an immediate pilot of workfare in the expanded public works programme.

### **Government response**

Government agrees that the social grants system should be managed in a manner that does not compromise fiscal sustainability. Social grants are an important mechanism to cushion the most vulnerable in times of economic contraction. Government has succeeded in containing the cost of the social grant system without compromising coverage and crowding out other areas of spending.

In addition through its large capital investments and expanded public works programme, government is taking active steps to increase employment.

## **CHAPTER 4: PERFORMANCE OF PUBLIC HOSPITALS**

The FFC recommends that while recognising the provisions of the National Health Act (2004) and current norms guiding the primary health care system, there is a policy gap in respect of legislative provisions and norms and standards for a

well-functioning public hospital system. To close the gap, government must develop norms and standards that should address the following issues in relation to the public hospital system: (a) specification of minimum service requirements; (b) establishment of minimum input norms; (c) establishment of a workable quality assurance framework; (d) establishment of a transparent reporting system focusing on inputs, processes, outputs, and outcomes; (e) identification of governance requirements; (f) establishment of governance norms and standards; (g) establishment of a strategic planning framework which outlines the medium/long-term vision of the hospital system, expressed in terms that are implementable and auditable; and (h) development of hard (codified by legislation) and soft (guidelines to aid departments) norms and standards. Provinces should be allowed to contextualise soft norms and standards which suit their needs/socio-economic circumstances.

Government needs to standardise and institutionalise budget format processes across all hospitals.

Consistent with hard norms and standards, allocations should be determined by differentiating by hospital type: central, regional and district hospitals; acute psychiatric and chronic hospitals; and infectious disease hospitals.

### **Government response**

The recommendations are in line with Government's vision to improve the country's entire health system. The Department of Health's 2009/10 strategic plan offers a comprehensive set of programmes intended to overhaul the health system, with public hospitals a key area of focus. Factors such as norms and standards, enhanced management and training, delegation of authority, appropriate levels of autonomy, human resources for health, quality assurance, quality improvement and monitoring will be looked at. Although the Department of Health recognises that norms and standards are an important tool in reforming the health system, it is important that these norms and standards be informed by the available resource envelope.

## **CHAPTER 5: RENTAL HOUSING**

### **Relaxation and flexibility**

The FFC recommends relaxation of and flexibility towards the (a) eligibility criteria for accessing the social housing capital restructuring grant to allow projects falling outside the designated restructuring zones (DRZs) to access funding; (b) number of DRZs to respond to excess demand for rental housing; and (c) minimum unit size for redevelopments of existing buildings. The process of disbursing funds for rental housing within the housing sector should be made shorter to minimise time lags following the submission of approved project plans.

### **Government response**

The social housing programme is a targeted programme – rather than a mass housing delivery programme – with specific restructuring objectives. The restructuring aims to facilitate the further provision of rental accommodation by the private sector in areas where no or minimal investment in rental housing is occurring, but it is required.

### **The Social Housing Regulatory Authority and Inter-Sectoral Coordination**

The FFC recommends that the Social Housing Regulatory Authority (SHRA) should improve the intersectoral coordination between departments responsible for integrated human settlement.

### **Government response**

The SHRA was established to focus on the regulation of the social housing sector to protect government's investment in rental housing. In terms of the Social Housing Act and the Rental Housing Act, national government should ensure that national departments and all spheres of government are aligned to enable and support the development of rental/social housing.

### **Qualifying Income Bands**

The FFC recommends that the qualifying income bands should be reviewed to ensure that individuals are not unfairly excluded from benefiting from the subsidy (due, for example, to increases in the cost of living).

### Government response

Government acknowledges that there is great demand and need for affordable rental housing. It is important to note that the institutional subsidy qualifying criteria does not apply when the SHRCG is used in the social housing programme. There are, however requirements to ensure that government's investment does benefit targeted income groups (those below R3 500-R1 500) through cross-subsidisation with middle- and higher-income groups.

## CHAPTER 6: MANAGEMENT AND FINANCING OF ROAD INFRASTRUCTURE

The FFC recommends that there should be an increased and stable flow of funds for maintenance, rehabilitation and addressing road infrastructure backlogs in the long-term. Potential policy proposals to ensure that this is achieved can include explicitly providing for a road infrastructure component within the provincial equitable share formula.

There should be greater coordination of road management functions across the three spheres of government. In this regard, the revision and modification of the inter-road authority coordinating model by the national Department of Transport, which proposed a roads coordinating body comprised of metropolitan municipalities, district municipalities, local municipalities and SALGA should be carried out with a view to possible future implementation. Priority should be given to addressing the lack of technical skills in the road management sector of sub-national governments. Attaining this objective can be done via the introduction of a separate conditional grant specifically targeted at building technical capacity within the road management sector of sub-national governments.

### Government response

This proposal will be dealt with as part of the review of the provincial equitable share formula.

The proposal to expand the existing Roads Coordinating Body (RCB) may have merit as it could improve intergovernmental coordination and resolve issues such as Roads Infrastructure Framework of South Africa (RIFSA). Including metros and SALGA seems realistic, but including all municipalities may not be viable logistically. Funding through a separate grant should not be necessary as capacity building and staff development should be part of the department's budget already. Government, through its IDIP and Siyenza Manje programmes, is stepping up efforts to build infrastructure capacity in provinces and municipalities.

## CHAPTER 7: ASSESSMENT OF UNIVERSAL ACCESS TO WATER AND SANITATION SERVICES

### Free Basic Water and Sanitation Subsidy

The FFC recommends a review of free basic water and sanitation subsidy and water tariff structures, to ensure that the shortcomings of the current subsidy system do not outweigh the benefits. At present, there is no coherent oversight framework for how water service authorities manage trade-offs in the design and determination of their water tariffs. The tariff structures, which vary across municipalities, have a substantial impact on the pricing of water. Principles and practices guiding both tariff and subsidy structures and price levels should be made clear and routinely monitored.

### Government response

Government agrees with the proposal for a review of the water tariff structures. Specific legislation, regulations, policies and guidelines have been developed on water tariffs. At present municipalities set tariffs and the National Treasury and Department of Water Affairs only oversee and comment on such tariff setting. Therefore, government supports the need for strengthened regulation on water tariffs and monitoring.

### Expanding Access to Sanitation Services and Improving Sanitary Outcomes

The FFC recommends that the sanitation strategy should target behavioural change in relation to sanitation practices by households, rather than the provision of infrastructure alone, premised on attaining certain health outcomes. Greater consid-

eration should also be given to household affordability constraints that may affect the long-term sustainability of sanitation investments.

### **Government response**

Government agrees and already implements a holistic sanitation strategy that includes behavioural change. In determining appropriate sanitation investments, affordability and safety are considered.

### **Establishment of a National Water Regulator**

The FFC recommends that government should consider establishing an independent National Water Regulator that would report to Parliament. Its functions would include regulating the entire water supply industry; issuing licenses, regulating tariffs and monitoring integrated resource plans for infrastructure investments; regulating compliance with industry norms and standards; regulating the supply of water and sanitation services and their compliance with quality standards; regulating water efficiency and demand-side management; developing regulatory frameworks for public-private partnerships and alternative service delivery models in the water sector; and ensuring regulatory instruments support the achievement of universal access to water and sanitation services.

### **Government response**

Government agrees to the FFC's recommendation on the establishment of an independent National Water Regulator subject to its cost and affordability. Any lessons learnt from the regulation of both bulk and retail electricity should be taken into account.

## **CHAPTER 8: ASSESSMENT OF THE INSTITUTIONAL AND FISCAL CAPACITY SUPPORT MECHANISMS OF LOCAL GOVERNMENT**

The FFC recommends that local government should be central to setting the agenda for capacity-building programmes in recognition of the fact that municipalities remain accountable for their own performance until such time as section 139 of the Constitution is invoked. Capacity programmes should be informed by a local government performance management system which is driven by key performance indicators.

Prior to capacity programmes being developed and implemented at a local government level, a comprehensive assessment and design process should be undertaken. Capacity-development programmes should be aligned to each stage of the developmental transition of municipalities. There should be differentiated approaches in building capacity. Capacity-development programmes should be comprehensive and not only focus on training of personnel and deployment of experts within municipalities. They must also focus on other organisational, fiscal and institutional constraints that impact on the overall performance of municipalities.

The FFC also recommends that government must establish an intergovernmental framework for understanding what constitutes a lack of capacity within the context of local government. The replication of poorly defined roles and responsibilities between national and provincial government and district municipalities in the policy framework should be eliminated. This is necessary to create clear lines of responsibility and accountability for spheres of government or sector departments over their capacity building roles for local government. Each capacity building programme must have a clear outline of measurable objectives, targets and timelines. These must detail conditions under which a programme can be withdrawn from a respective municipality and, following a detailed monitoring and evaluation of success factors and failures, suggestions for sustaining the programme. The method of implementing capacity programmes should be changed from a standard stop-gap package to an incremental solution focusing on the identified problems within the municipality, and identifying key leverage points where capacity programmes can make a difference.

A variety of grant instruments should be used to address different capacity challenges within different functional areas. Such grants should only be devolved to sector departments once they have demonstrated capacity to manage effectively such

grants and capacity programmes in an IGR system.

The Commission further recommends that appropriations for Siyenza Manje should be allocated through the Division of Revenue like other capacity grants. This will promote order, transparency and accountability.

### **Government response**

Government agrees that local government capacity should be streamlined to enhance its performance.

Through various initiatives, such as the local government turnaround strategy and implementation of municipal budgeting and reporting reforms, government is looking at measures to improve service delivery at local level.

The current local government capacity grant frameworks have clear outlines of measurable objectives, targets, conditions and timelines.

Government does not agree with the recommendation that Siyenza Manje be allocated through the division of revenue. This is because the funds are allocated to the Development Bank of Southern Africa (DBSA) to perform local government capacity-building on behalf of national government, and one-third of the funding comes from DBSA's own revenues. In addition, the DBSA has the capability to source this expertise much faster than government. It needs to be noted that given the need for in-year intervention, it is not possible to allocate these funds to specific municipalities from the start of the financial year. Government agrees however, that more transparent reporting of where funds have been used is required.

## 5.4 COMMISSION RESPONSE TO DIVISION OF REVENUE BILL 2010/2011

### 1. Introduction

The Commission is of the view that the DoRB represents a strategic document capable of linking priorities with outcomes. In its 2009 Submission on the DoRB, the Commission noted that the Division of Revenue Act (DoRA) was becoming increasingly complex, voluminous and too wide-ranging in terms of the issues it covers. The potential danger of the Act becoming a “hold-all” document, and thus losing strategic focus and transparency, was identified. The Commission recommended a review of the Bill with a view to streamlining and reducing its volume. The Commission also notes that the DoRA (first introduced in 1998) preceded other pieces of legislation relating to the management of public finances such as the Public Finance Management Act of 1999, Municipal Finance Management Act of 2003 and the Intergovernmental Relations Framework Act of 2005. Certain issues that have since been addressed in this legislation may still be finding their way into DoRA, which could be addressed through the proposed review. For example, an important issue that this review will need to consider is whether the annual DoRA is simply meant to address the technical elements of the division of revenue and not with any elements of responsibility or accountability for the use of funds. In this case the current “objects” section needs no review. However, if the legislation is interpreted to include responsibility and accountability for use of the funds transferred there is a need to review and probably expand the objects section of the legislation). The Commission is of the latter view.

The Commission welcomes the fact that the 2010 Bill is significantly streamlined, without having lost strategic coherence. In the current Bill for example, a number of specific clauses that deal with allocations are now appropriately dealt within the relevant grant frameworks.

Following consultations with the Ministry of Finance, it has been agreed that the Commission will lead a process for a comprehensive review of the Division of Revenue Bill in preparation for the 2011 division of revenue. It has been further agreed that the work should be completed by June 2010.

### 2. Commission Comments on the 2010 Fiscal Framework

Five key priorities underlie government policy over the Medium Term Expenditure Framework (MTEF) all of which have been mapped to section 214 (a) to (j) of the constitution namely:

- Improvement in education and skills development
- Enhancing the quality of health care
- Fight against crime and corruption
- Employment creation and
- Rolling out a comprehensive rural development strategy

The Commission notes the priority areas guiding government’s allocation decisions over the 2010 MTEF. A concern from the Commission is the apparent lack of intergovernmental structures such as MinMecs and Clusters for coordination of the employment creation and rural development priority areas. These two priority areas are both very important and cut across the three spheres of government. As such they require very strong intergovernmental structures to coordinate the various strategies from the different sectors and spheres of government.

More broadly, the view of the Commission is that the impact and aftermath of the global recession just witnessed has added further challenges to attainment of government’s priority objectives. As part of its work for the 2011 division of revenue, the Commission is investigating measures that could assist in the cushioning of the impact of similar recessions while at the same time preparing the country for future growth through the division of revenue process.

Another key aspect in ensuring progress in the attainment of these objectives is in the area of actual service delivery. As part of its work, the Commission has developed a budget analysis tool that allows it to assess performance amongst the three spheres of government.

Finally, improved health care and the fight against HIV and AIDS require that personnel, utilities and infrastructure in the area health are able to cope with the demands placed upon them. The anticipated introduction of the National Health Insurance scheme has the potential to be a key input in this. However, it should be noted that the details of the system have not been made available to the Commission. The Commission can only comment once the formal proposal has been forwarded to it by government.

What follows now are the Commission's comments regarding the fiscal framework as it applies to the national, provincial and local government spheres of government.

For the 2010 budget, an additional R112 billion has been added to the fiscus to finance the priorities. Of this, R33.3 billion (or 38.3 per cent) goes to national government, R 45.5 billion (or 52.3 per cent) to provinces and R7.8 billion (or 8.9 per cent) to municipalities. The Commission's reaction to this division of revenue amongst the three spheres is that:

- Whilst the local government sphere receives the smallest share of total revenue relative to the other two spheres, it exhibits the fastest growth
- With respect to provinces, conditional grant allocations grow faster than allocations made via the provincial equitable share
- Allocations to national departments are expected to show an annual average growth rate of 4.7%.

The Commission notes that there is an increase in the debt service cost compared to other items of the budget. In this respect it is also important to note the rapid increase in the public sector wage bill. This scenario might imply that significant amounts of the debt service costs increases are driven by personnel expenditure. If this is indeed the case, it would be important that this development is reversed as soon as possible. Large amounts of debt that are driven by current consumption as opposed to the financing of capital assets are known to ultimately compromise future economic growth and destabilise the domestic financial system. The Commission's submission for the 2010 division of revenue emphasised the need to, where possible, restrict long term borrowing to the financing of infrastructure investment in order to secure a better life for future generations.

### 2.1 Comments on the National Allocations

The additional R33.3 billion to the national sphere is mainly to deal with the new defence force remuneration system, the Occupation Specific Dispensation (OSD) for Correctional Services and additional policing personnel under the area of Justice, Crime Prevention and Policing. An additional R3.7 billion is added to drive nationally managed employment creation initiatives that include the textile sector, an automotive production incentive and bio-security.

### 2.2 Comments on the Provincial Allocations

The provincial total expenditure, including conditional grants made by provinces, for 2010/11 amounts to R322 billion. This represents an upward revision of R45.5 billion in transfers to provinces. Of this, R33.9 billion is allocated using the equitable share. This is largely intended for improvements to staff conditions of service. In turn this is intended to attract and retain skills in the health, education and social development sectors, and improve the quality of service delivery. Part of this adjustment is meant to assist provinces in accommodating the higher than anticipated OSD wage settlements.

R1 billion over the MTEF is made to accommodate the shifting of the Further Education Training (FET) function from provinces to national government. Government indicated that as part of the preparatory stage to shifting the function, an amount spent by every province on this grant was ring fenced to create the base line for the new national grant. Because all provinces

are guaranteed to receive back the amount ring fenced out of their equitable share there should be no direct impact on the spending to this area, except that the change equates to conditionalising part of the equitable share. It is the Commission's view that the constitutionality of such an exercise can be challenged. Government argues that this is done in order to prepare for the shift in this function from the provincial to the national sphere of government (as FET moves to Higher Education). Further, it is recognised that this skills training through FET has become a national priority and would benefit the other schemes like the SETAs and related industrial training. This would mean the grant will most likely enjoy increased funding as the purpose and scope will widen beyond that which would be the case if it were to remain located at a provincial level.

With respect to the distribution of the equitable share between provinces the Commission notes and agrees with the updating of the relevant information used in the allocation formula. These include accounting for the re-incorporation of Merafong into Gauteng from the North West. The Commission has always held the view that the data used in the revenue sharing formulae should be the most recent available and in this regard, the revisions to the PES formula have been consistent with the Commission's recommendations.

However, the Commission cautions government against the risk of increasing demand for bail-out money when demarcation related decisions are taken. In its recommendations after the 2005 demarcation process, the Commission indicated that such processes tend to have vertical fiscal externalities since the decision is taken from the centre in an environment where norms and standards are not consistent across provinces or municipalities. In this respect the Commission recommended the use of conditional and performance-based transitional transfers to assist negatively affected provinces or municipalities adjust to their new boundaries. In order to avoid unrealistic expectations it would make more sense to build in incentives for sub-national governments to make necessary expenditure adjustments. This could be done through better structured transitional transfers, wherein a province would need to use funding to take the right decisions however hard they may seem in terms of their budgets.

### **2.3 Comment on the Local Government Allocations**

The 2010 MTEF will see an additional R10.3 billion allocated to the local government sphere. The bulk of this increase (R6.7 billion) is in respect of the local government equitable share. The Commission commends the increase to the local government equitable share baseline and government's acknowledgment of the need to both ensure continued expansion of access to basic services and to assist municipalities in dealing with increases in the cost of purchasing bulk electricity. The remainder of the R10.3 billion will be allocated to infrastructure grants.

With respect to the local government equitable share formula, the Commission would like to raise two areas of concern. The first relates to the data underpinning the formula, whilst the second relates to the potential unconstitutionality of the revenue raising component of the formula.

- Data underpinning the Local Government Equitable Share (LES): In the 2008 MTBPS and the 2009 DORA, government stated that it would explore updating the LES with the 2007 Community Survey. However, after several statistical tests and analysis, the degree of error on the survey is deemed too large to be used to allocate funds for the LES. Although such a decision should be supported as only the most accurate of data can be used for a fiscal function of such magnitude, it raises the question of the current design of the formula. Given the dynamic demographics situation faced by municipalities, it is pivotal that the data are updated as frequently as possible in order to fund municipalities accurately and efficiently and prevent large shocks in allocations that an update in data every decade will have. The current design of the formula only allows for an update in the data every 10 years with a census. Government needs to urgently explore technical changes to the formula and the data required so as to ensure a constant as possible update to the formula using international best practice.
- Revenue Raising Component (RRC) is potentially unconstitutional: The RRC serves as a correction mechanism to account for a municipality's own revenue potential in the allocation of funds via the LES formula. Once a municipality's allocation through the Basic Services (BS) and Institutional (I) components is calculated, the RRC mechanism would subtract funds

from this initial allocation to calculate a municipality's final allocations through the LES formula. Section 227(2) of the Constitution states that "Additional revenue raised by provinces or municipalities may not be deducted from their share of revenue raised nationally, or from other allocations made to them out of national government revenue. Equally, there is no obligation on the national government to compensate provinces or municipalities that do not raise revenue commensurate with their fiscal capacity and tax base" (RSA, 1996). According to this section, an individual municipality's own revenue ability or other allocations from national government to municipalities should not be deducted from its equitable share allocations. However, in the current LES formula, a municipality's ability to generate its own revenues is taken into account through the RRC Component, which clearly contradicts the Constitutional requirement in Section 227(2).

## 2.4 Revisions to Conditional Grants

### 2.4.1 Provincial Grants

This year sees the introduction of at least 4 new conditional grants to provinces, despite previous recommendations of the Commission's highlighting the need to reduce the number of conditional grants. Two of these new grants are in the education sector. Other new grants are the Expanded Public Works Programme for the Social Sector (a once off allocation of R57 million in 2010/11), the Secondary School Recapitalisation Grant and Dinaledi Schools Grant for the purchasing of mathematics and science teaching material, and the grant (discussed previously) to facilitate the transfer of FET colleges to national government.

The Commission welcomes funding of the EPWP Incentive Grant for the Social Sector. However, it must emphasize that caution needs to be exercised to avoid asymmetry in the expenditure patterns within the grant framework. There will be a need to standardise the employment framework for the sector including conditions, wages and progression across provinces and municipalities. The Commission is also concerned with the difficulties still being experienced with the transfer of the Expanded Public Works Programme Incentive Grant to Local and Provincial Governments. In the 2009/10 certain provinces (e.g. Western Cape) raised a concern that they received transfers outside the ambit of the Division of Revenue and can't spend the money because it is not properly appropriated through various legislatures.

The general challenge with this grant is that provinces and municipalities still find it difficult to integrate it through their infrastructure programmes. Labour intensive infrastructure projects must be planned, costed and scheduled properly. It should be noted that not all projects will yield the same labour intensity, so targets must be set by project type and category. Some projects will better lend themselves to labour intensive methods than others. This must be factored into the budget allocations and monitoring of the grant.

The Commission welcomes the certainty in funding shown by firm allocations for Public Transport Improvement & Systems Grant over the MTEF. However, the Commission is still concerned about the vague allocation criteria for this grant. In the past the Select Committee has raised its reservations about the performance of this grant, especially with regard to deliverables such as bus stations, pavements, pedestrian and bicycle ways constructed, for which there has been inadequate reporting on non-financial performance. Of importance is that funding for the transport sector needs to be urgently reviewed. There are pockets of funding for transport in the fiscal framework (Equitable Shares, Infrastructure Grant to Provinces, Municipal Infrastructure Grant, Rural Transport Services and Infrastructure Grant and the PTIS), yet no coherent fiscal strategy for the long term sustainability of public transport services is in place.

The Commission is currently reviewing the whole system of conditional grants and will be making recommendations in the submission for the 2011 Division of Revenue.

### 2.4.2 Revisions to the Local government conditional grants allocations

Key developments with respect to local government conditional grants include the discontinuation of three grants and the introduction of one new grant. Each is considered in turn:

The Backlogs in Water and Sanitation at Schools and Clinics: This grant was implemented during the 2007/08 financial year as a three-year grant with the intention of providing funding for the eradication of water supply and sanitation backlogs at all

clinics and schools. More specifically, it was envisaged that, by 2008/09, 465 clinics would be supplied with basic sanitation facilities and 719 clinics would be supplied with water supply. With respect to schools, 170 were targeted for supply with safe water and sanitation facilities. A total of R665 million was made available over the 2007 MTEF cycle to ensure that all identified clinics and schools would be granted access. The Commission notes that it is not clear whether all outputs associated with this grant have been reached.

The Backlogs in the Electrification of Clinics and Schools Grant: Similar to the Backlogs in Water and Sanitation at Schools and Clinics Grant, this particular grant was introduced into the system in 2007/08. It was an in-kind allocation that aimed to implement the Integrated National Electrification Programme through the provision of capital subsidies to Eskom in order to address the electrification backlog of schools and clinics. R285 million was made available to fund this intervention that was meant to connect 6928 schools and 411 clinics with electricity by 2009/10. The Commission again notes that it is not clear whether all outputs associated with this grant have been reached.

The Electricity Demand Side Management Grant: This grant was introduced as recently as 2008/09. The intention was that the programme would run until the 2014/15 financial year. The purpose of the grant was to implement an energy efficiency demand side management (EEDSM) programme by providing capital subsidies to licensed distributors to address EEDSM in residential dwelling, community and commercial buildings in order to mitigate the risk of load shedding and supply interruptions. It is now intended that as of 2012/13, it will be discontinued. When this grant was first introduced, the Commission cautioned against the introduction of any financial instrument to encourage energy efficiency in the absence of first identifying areas causing high energy intensities and waste. At that point the Commission noted that it seemed that the magnitude of the problem was not yet identified and quantified. The Commission re-iterates the sentiment expressed last year that investment decisions should be based on a thorough interrogation of costs and benefits before spending decisions are taken. This will aid the achievement of greater value for tax-payers' money.

Over the 2010 MTEF period, one new conditional grant is introduced, namely the Rural Households Infrastructure Grant. This grant will be funded through savings that were realized from the lower than anticipated electricity tariff increase. The intended purpose of the grant is to facilitate the provision of rural sanitation and rural water in villages and homesteads to existing households through the use of on-site solutions. Allocations to this grant over the 2010 MTEF amount to R1.2 billion – R100 million in 2010/11, R350 million in 2011/12 and R750 million in 2012/13. The grant will be located within the Human Settlements Department. The Commission is concerned with the institutional location of the grant and its link to the interventions of, for example, the Department of Rural Development and Land Reform and infrastructure-related grants such as the Municipal Infrastructure Grant (MIG). MIG also has a focus on the provision of capital finance for basic municipal infrastructure for poor households, some of which can be on-site technologies. In addition, it is not yet clear that sufficient rigour has gone into the design of this programme, given that its creation was a function of savings from lower than anticipated electricity price increases.

In general, with respect to conditional grant allocations the Commission recommends that as a matter of standard and ongoing practice:

- Independent exit reviews of discontinued grants be conducted in order to evaluate their performance relative to objectives, and provide lessons for the ongoing improvement to other conditional grant programmes
- A design and implementation planning review be conducted for new grants (in this instance the Rural Households Infrastructure Grant), and
- There be independent mid-term grant performance reviews for all grants in the system.

As raised in the Commission's response to the Division of Revenue for 2010, concern exists around continued delays in the implementation of policy in key service delivery sectors and the impact that this has on the intergovernmental system. This is

raised specifically in the context of the restructuring of the electricity distribution industry (EDI) and the proposed establishment of Regional Electricity Distributors (REDS). In addition to the political, economic and social changes that have transpired since the reform process was initiated, and which bring into question the current assumptions underpinning the restructuring process, the current hiatus with respect to the implementation of the REDs continues to generate new costs. The Commission continued to believe that this requires a total re-evaluation of the costs and benefits of the restructuring, relative to what were anticipated at the conception of the idea.

### **3. Comments on Government's response to the Commission's recommendations**

In 2009 the Financial and Fiscal Commission made recommendations in 8 areas of government spending as follows;

- The review of the provincial equitable share
- Funding for public infrastructure
- Funding for social security
- Performance of public hospitals
- Funding for rental housing
- Financing and management of roads infrastructure
- Assessment of universal access to water and sanitation services and,
- Assessment of institutional and fiscal capacity support mechanism for local government.

The Commission's reaction to Government's response that is contained in annexure W1 can be summarised as follows:

- The Commission welcomes the fact that Government has accepted almost all of its recommendations.
- Furthermore the Commission is committed to ensuring ongoing improvements with respect to the relevance and quality of its recommendations

In this spirit, the Commission proposes further consultation with National Treasury and relevant government departments) following the tabling of the national budget.

## 5.5 COMMISSION RESPONSE TO 2009 MEDIUM TERM BUDGET POLICY STATEMENT

### 1. BACKGROUND

- This submission is made in terms of Section 3 (1), Part 1 of the Financial and Fiscal Commission Act 99 of 1997 as amended which provides for the Commission to act as a consultative body for and to make recommendations to organs of state in the national, provincial and local spheres of government on financial and fiscal matters..
- In the case of the Medium Term Budget Policy Statement (MTBPS), Section 4 (4) (c) of the Money Bills Amendment Procedure and Related Matters Act 9 of 2009, requires Committees of Parliament to consider the Commission's recommendations when dealing with money bills and related matters.
- This submission highlights the key issues emerging from the 2009 Medium Term Budget Policy Statement (MTBPS) that the Commission believes need to be taken into consideration by the Committees in as far as those matters provide an indication of what factors will inform the budget for the 2010 fiscal year. A further issue is to make specific reference to matters that have a bearing on the Commission's recommendations for 2010 Division of Revenue (consultations with Government through the offices of the National Treasury are still ongoing) that the Committee may wish to consider.

### 2. OVERAL FISCAL FRAMEWORK AND BLEAK ECONOMIC OUTLOOK OVER THE NEXT MTEF PERIOD

- The Medium Term Budget Policy Statement tabled in Parliament on 27 October 2009 contains the proposed budget framework for the next three years.
- The extent of the global financial crisis influence on the MTBPS is discussed in this submission. The assumptions about growth underpinning government's MTEF are shown below.

#### *National Treasury's Macroeconomic Outlook*

%	2009	2010	2011	2012
Gross domestic product (GDP)	-1.9	1.5	2.7	3.2
Household consumption	-3.1	0.9	2.3	2.5
Capital Formation	3.5	4.4	7.1	6.6
Consumer Price Inflation	7.1	6.3	6	5.7

Source: National Treasury, MTBPS

The Medium-term spending priorities over the MTEF are:

- Expanding employment and safeguarding social security through skills building and the new phase of the EPWP (Expanded Public Works Programme)
- Improving the quality of education and skills development
- Enhancing the quality of healthcare
- Rolling out of a comprehensive rural development strategy
- Creating a built environment to support economic development, and
- A broad based approach to fighting crime

### 3. ASSUMPTION UNDERPINNING THE MTBPS

- The Commission broadly agrees with the fiscal easing proposed in the 2009 MTBPS given the sharp recession and weak economic outlook
- The substantially bigger borrowing requirement is linked to large infrastructural investment projects that would be key for long term growth as well as the being of future generations. (Eskom& Transnet)
- These assumptions lead government to forecast revenue reductions in real terms when compared to the February 2009 Budget. The reduction in collections is shown in the table below:

#### Revenue Projections

R billions	**2009/10	**2010/11	**2011/12	**2012/13
Revenue MTBPS	657.5	743.5	833.4	921.3
Revenue Budget Review	642.9	709.1	781.2	-
Difference	14.6	34.4	52.2	921.3

Source: National Treasury, MTBPS

- Even though the revenue collection shows an improvement in nominal terms from the point of tabling the 2009 Budget Review, such an adjustment is insignificant when offset against inflation.
- In the context of the global economic climate the assumptions underpinning Government's projections on economic growth, revenue growth, and hence the division of revenue are largely not unexpected.
- In the same light, the Commission's own modelling raises the possibility that the assumptions underpinning Government projections about growth might be optimistic. For this reason, the Commission would like to caution against the possibility that the anticipated recovery in industrial economies may not come as early as predicted. The recession may continue much longer than what Government's assumptions suggests. Therefore things may get much worse before they get any better.
- Should the recovery be delayed, Government's assumptions with regard to growth and inflation for the next three years upon which the budgetary parameters were based may be overly optimistic. Going forward, the Commission suggests focusing on the issue of cutting indicative allocations in circumstances where projections indicate that revenue collection is likely to plummet.
- With respect to job creation through EPWP, the Commission would like to re-emphasise its previous position that there be an evaluation of the performance of the first EPWP programme. Such an evaluation will go a long way in enhancing Government insight into its successes and failures.
- On the expenditure side, the Minister of Finance is proposing a large easing of Government expenditure driven largely through its budget and public enterprise investment. With declining government revenue induced by the recession, the budget deficits are inevitable. The budget deficit for the next three years has therefore had to be increased from forecasts of 3.8%, 3.2%, and 1.9% of gross domestic product in the February 2009 Budget to 7.6%, 6.2% and 5.0% of GDP.
- Within the government budget, the main drivers of the high budget deficit are a substantial discretionary fiscal impulse in the form of a continued increase in infrastructure investment, an expansion of the social safety net and a larger than anticipated wage bill (driven by the implementation of the Occupation Specific Dispensation (OSD) in Health and Education.

- The Commission broadly agrees with this fiscal easing proposed in the 2009 MTBPS given the sharp recession and weak economic outlook. In fact Chapter 2 of the Commission's 2010/11 Annual Submission on the division of revenue, supports this position (See Box 1 below).
- Looking at the non financial sector public enterprises, we note that there is increased funding for Eskom and Transnet. The public sector borrowing requirement rises cumulatively over the three years by R331 billion compared with what was budgeted for in February or a large R1.11 trillion over the next four years. Given that the increases in the budget deficit will drive public investment in the next three years, we find the proposal sound and understandable. The substantially bigger borrowing requirement is linked to large infrastructural investment projects that would be key for long term growth and well being of future generations.

### *Revenue Projections*

Quantitative Effects of FFC's model simulations finds that a strategy that increases public investment in the areas identified strike broadly the right balance between supporting demand and maintaining macroeconomic stability. The FFC's computable general equilibrium model was used for simulating the dynamics of the economy under a package of public infrastructure increases and maintenance. We find that these policies would raise output and employment by about 2 percentage points, at the expense of higher inflation (by about 2 percentage points), higher trade deficit (by about 0.5 percentage point of GDP), and a mild crowding out of private investment, relative to a counterfactual of no discretionary policies. These results can be extrapolated for working as a demand stimuli in the current depressed environment.

*Source: The 2010/11 Annual submission can be downloaded from the FFC website: <http://www.ffc.co.za/>*

- Although the Commission did not go on to make a specific recommendation in Chapter 3 of its Annual Submission on an assessment of social grants, the Chapter confirmed that South Africa has a well-developed social assistance system and its social grants are very well targeted and have a significant mitigating impact on poverty. It pointed out though that considerable uncertainty remains about some of the incentive effects of these grants and their long term sustainability. Government to some extent has taken into account this long term sustainability. Other than interest payments, the highest proposed functional growth is for housing and community development rather than for social services such as education, health and welfare.
- The Commission is however concerned about the unanticipated wage bill. While the Commission understands and supports Government in honouring its commitments to pay the rising wage bill, the Commission is of the view that such increases should not use a blanket approach but be targeted to specific employees and retraining those that are not in possession of the requisite skills in their employment so as to improve efficiency. The Commission's view is that there should be a deliberate attempt to synchronise the centralized bargaining process of the public sector with the budget process to ensure that provinces and municipalities are not unnecessarily overburdened by decisions over which they have no direct control. This assumes greater importance during a period of recession wherein the country should not borrow to fund personnel costs but rather benefit infrastructure development which will result in job creation. There is a need for collective responsibility to be taken if a balance is to be struck between bargaining chamber agreements and investments that create jobs.

#### **4. PROVINCIAL AND LOCAL GOVERNMENT FISCAL FRAMEWORK**

- Table 4.2 of the MTBPS shows the provincial and local government fiscal framework. Transfers to provinces from national government have in the past had a healthy growth of more than 10 per cent on average. Provincial baselines are expected to grow by only 7.5 per cent over the 2010/11 Medium Term. With an assumed CPI of 6.5 per cent, the real growth of the provincial fiscus is therefore only 1.0 per cent. A year on year growth gives a true picture of the extent of the slowdown in the growth especially the outer year which show a 4.7 per cent growth from 8.9 per cent in 2010/11. Government projects a growth of 8.9 per cent in 2010/11, 8.5 per cent in 2011/12 and 5.0 per cent in 2012/13.

- The Table below is also a representation of the division of revenue or expenditure allocation between the three spheres of government. The table shows that the total expenditure by the three spheres is R692.5 billion as at 2009/10, broken down in to 50.1 per cent for National, 42.6 per cent to provinces and 7.3 per cent to local government. This position changes slightly in to the new MTEF, with national declining in share as and both provinces and local government steadily increase. The overall expenditure is projected to be R833.2 billion in 2012/13, after a total baseline addition of R78 billion. Of this R78 billion, provinces receive the highest amount at R39 billion, National R25 billion and Local government R12.4 billion.

**Table 4.2 Division of revenue, 2009/10 – 2012/13**

	2009/10	2010/11	2011/12	2012/13	2010	Average annual growth
R million	Revised	Medium-term estimates			MTEF	2009/10 – 2012/13
<b>National</b>	<b>346,642</b>	<b>356,350</b>	<b>368,986</b>	<b>390,531</b>		<b>4.1%</b>
<b>Provincial</b>	<b>295,353</b>	<b>321,369</b>	<b>348,720</b>	<b>366,983</b>		<b>7.5%</b>
Equitable share	236,878	260,623	280,317	294,386		7.5%
Conditional grants	58,475	60,747	68,403	72,597		7.5%
<b>Local</b>	<b>50,533</b>	<b>59,322</b>	<b>67,964</b>	<b>75,718</b>		<b>14.4%</b>
Equitable share	24,356	30,468	34,390	37,984		16.0%
Conditional grants	19,377	21,312	25,043	28,776		14.1%
General fuel levy sharing with metropolitan municipalities	6,800	7,542	8,531	8,958		9.6%
<b>Total</b>	<b>692,528</b>	<b>737,042</b>	<b>785,670</b>	<b>833,232</b>		<b>6.4%</b>
<b>Percentage shares</b>						
<i>National</i>	50.1%	48.3%	47.0%	46.9%		
<i>Provincial</i>	42.6%	43.6%	44.4%	44.0%		
<i>Local</i>	7.3%	8.0%	8.7%	9.1%		
<b>Changes to baseline</b>						
<b>National</b>	<b>3,565</b>	<b>3,730</b>	<b>8,200</b>	<b>13,788</b>	<b>25,718</b>	
<b>Provincial</b>	<b>10,834</b>	<b>11,670</b>	<b>12,800</b>	<b>15,412</b>	<b>39,882</b>	
Equitable share	8,995	10,330	10,930	11,530	32,790	
Conditional grants	1,839	1,340	1,870	3,882	7,092	
<b>Local</b>	<b>835</b>	<b>1,600</b>	<b>3,000</b>	<b>7,800</b>	<b>12,400</b>	
Equitable share	509	1,200	2,500	4,500	8,200	
Conditional grants	326	400	500	3,300	4,200	
General fuel levy sharing with metropolitan municipalities	–	–	–	–	–	
<b>Total</b>	<b>15,233</b>	<b>17,000</b>	<b>24,000</b>	<b>37,000</b>	<b>78,000</b>	

Source: National Treasury

- As far as the division of revenue amongst the three spheres is concerned, revenue allocated to national government will continue to decline steadily over the MTEF from 50.1% to 46.9% of the budget between 2009/10 and 2012/13. The revenues allocated to local government will steadily rise from 7.3% in 2009/10 to 9.1% 2012/13. Finally, the provincial share of revenue rises from 42.6% to 44.0% over the same period.
- A larger portion of the R39.9 billion added to the provincial framework sees the equitable share rise by an additional R32.7 billion (or 8.6 percent) off its baseline of the revised R236.9 billion in 2009/10, conditional grants increase by R7.1 billion (or 28.3 per cent), of the revised baseline of R58.4 billion. This signifies a considerable increase in the pace at which non-discretionary funding increases compared to the discretionary part over the MTEF.

- The Commission notes in particular the revision in the Provincial Equitable Share (PES) baseline due to the shifting of the Further Education Training (FET) colleges funding to the national sphere of Government. There is an immediate downward revision of the PES baseline.
- If this funding reverts to national government in the form of a conditional grant. It would be important for government to indicate what the quantum or amount is that will be taken from the PES and what criteria will be followed to allocate it back to provinces. The Commission further advises that the positive lessons learnt when Social Security was transferred to the national sphere of government should be used.
- Another possible challenge is the budgetary procedure. If such a shift was to be made in-year, consideration must be given to minimizing disruption of provincial budgets. If possible, Government may need to defer such a shift until the economic outlook improves as this may impose further pressure on current provincial baselines especially if provinces were using this funds to cross subsidise other services.
- Another dimension that the Commission would wish to raise is that of a constitutional nature if the conditional grant route is taken. Work on the review of the Provincial Equitable Share formula has led to the realisation that the outright ring fencing of the Equitable Share can be unconstitutional in terms of the provisions of Section 227 (3) of the Constitution of the Republic of South Africa Act 108 of 1996 as amended. That provision requires a prompt and without deduction approach to allocation of the provincial equitable share.
- The full extent of the economic pressure on provincial finances is already evident from the Treasury's 2009 Early Warning System (Summary of Provincial Budgets and Expenditure as at 31 August 2009) which shows a projected overall over expenditure of R12 billion by provinces.
- As pointed out earlier, except for roll-overs in conditional grants and accruals from the previous financial year, the biggest challenge is that budgetary pressures emanate from the area of personnel. Given its nature and if allowed to grow out of control, personnel costs could be difficult to contain due to the nature of the carry through and mandatory costs associated with it. As a result, it's not uncommon that provinces redirect funds away from "non core" to education and health within which the main cost drivers is personnel. The consequence of this is that service delivery can be expected to slow down in preference to wage agreements.
- Going forward the Commission would wish to suggest that the current trend as displayed in the current MTBPS should be maintained. National policy priorities should be limited and be stable for a particular period to avoid a situation where new priorities erode older ones in terms of focus and funding commitment. These result in under-provision of services or piecemeal implementation of policies, especially because future funding streams or allocations do not usually find expression in subsequent budgets and more importantly are not adequately monitored. Again, provinces are at different stages of development or capacity levels. Therefore national policy priorities, in an attempt to achieve uniformity, must also recognise the capacity of various provinces to implement.

## **5. ISSUES AROUND THE LOCAL GOVERNMENT OVER THE NEXT THREE YEARS**

- Unlike the provincial transfers, allocations to local government have grown by a resilient 14.5 per cent over the MTEF. Assuming that the CPI is 6.5 percent, the real growth of the local government fiscus is 8.0 per cent. The biggest increase is in the equitable share (16 per cent) to mainly assist municipalities deal with electricity increases, while local government conditional grants framework (14.8 per cent) are the fastest growing to mainly expand the basic infrastructure services to households. Revisions to this effect are directed towards the Municipal infrastructure Grant (MIG). Of the total R12.4 billion added to the local government fiscal framework, R8.2 billion or 66 percent goes to the equitable share.
- In making allocation to this sphere, the Commission would like to caution against increased allocation to non-performing grants, including the MIG. The Commission would like to re-iterate its previous recommendation that there be link

between MIG and the LES. This is such that as infrastructure is rolled out through MIG, allocations to municipalities in the form of the LES should reflect the need associated with the infrastructure that is been rolled out.

- As with the provincial framework, though the LES allocation illustrates positive growth over the period, the pace of growth becomes progressively slower, particularly over the outer years of the medium term as a result of the economic down turn. According to National Treasury, Category B and C municipalities are particularly reliant on transfers from the centre. The number of Category B municipalities in particular, who rely on national transfers for 50% of their revenues has grown from 69 in 2004/05 to 97 in 2008/09. For Category C municipalities, the situation is as grim with 38 of the total 46 Category C municipalities now reliant on national transfers for more 50% of their revenues.
- The Commission commends government for the recognition it has given to ensuring that there is expansion of access to free basic services including the upgrading and rehabilitation of key municipal infrastructure. The Commission has raised the issue of the quality of services / spending in its Submission for the Division of Revenue for 2010/11 recommendations and would wish to reiterate the points made there within this context. The Commission suggested programme restructuring to improve outcomes in local government capacity building and for the built environment. The thrust here is effective functional allocations and programme design in achieving value for money and improving outcomes, rather than merely increasing allocations.
- A related issue underlying the MTBPS is the replacement of the RSC levies for district municipalities. This raises the important issues of local government revenue enhancement and whether sub-national tax incentives such as property rates rebates would be appropriate. The Municipal Fiscal Power and Functions Act 12 of 2007 addresses issues relating local government tax. Municipalities can individually or collectively through SALGA implement taxes assigned to them as long as they follow the prescripts of this Act.
- The overspending of operational budgets versus the underspending of capital budgets presents two additional areas of concern reflecting poor financial management practice and which negatively affects the performance of municipalities. Over or underspending of budgets runs contrary to the principles of sound budgeting practice and reflects lack of credible budgets (in the case of operational expenditure) and poor planning with respect to capital projects. Given that changes to the baseline allocation to conditional grants are projected to increase by R3 billion by the end of the MTEF, the Commission raises concern around whether municipalities will be able to adequately absorb such an increase in the absence of a radical approach to fundamentally reform and strengthen them or whether current inefficiencies will persist, with significant proportions of resources being unspent..
- Adequate capacity is a critical concern for municipalities. The availability of appropriately skilled human capital, capable of ensuring solid financial management practices and strategic planning, is an asset for any municipality. Lack of capacity in this regard has a definite impact on the performance of a municipality. Constant growth in capacity building grants should, as noted in the Commission Submission on the Division of Revenue for 2010/11, take into consideration current weaknesses in the framework underpinning capacity building initiatives. The concern is that interventions are fragmented, uncoordinated and largely unresponsive to the nature and underlying causes of the challenges experienced. Thus, allocating additional funding within this context would not be fiscally prudent and would certainly not adequately address current capacity challenges.
- Finally, the recapitalisation of the Development Bank of Southern Africa (DBSA) (allowing an increase in its callable capital) is a significant development as it constitutes the first recapitalisation in over a decade. This raises significant issues in terms of the current focus of DBSA lending (largely on highly creditworthy municipalities). The issue is whether it has exhausted its current lending capacity and the nature of the impact that it has had on the overall debt market. This may have the unintended consequence of squeezing out private lenders or actually growing the size of lending to municipality. The Commission wishes to highlight these risks, as well as the need for the communication of clear policy objectives to the DBSA.

- The Commission further re-iterates its previous recommendation that the DBSA should have a role to play in building the creditworthiness of low capacity municipalities.

The Commission finally recommends that allocations flowing through the Bank including Siyenza Manje, must be subjected to the prescripts and reporting requirements of the Division of revenue Act.

## 5.6 COMMISSION SUBMISSION ON 2010/2011 FISCAL FRAMEWORK AND REVENUE PROPOSALS

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

This submission is made in terms of Section 4 (4c) of the Money Bills Amendment Procedure and Related Matters Act (Act 9 of 2009) which requires Parliamentary Committees to consider any recommendations of the Financial and Fiscal Commission (hereafter the Commission) during their deliberations on Money Bills.

The Commission's Submission is structured in four distinct but intertwined areas. The first section gives a brief description of the fiscal framework and how it has evolved since inception. The second section looks at the economic outlook and suggests areas for further enhancement. Section 3 looks at specific revenue and tax proposals in the 2010 budget. Section 4 raises what the Commission considers as important issues pertaining to consolidating transparency and addressing contingent liabilities.

It is important to point out that 2010 Appropriation Bill is the first ever of its kind and as such this submission to the Committees has not benefited from any previous experience gained by the Commission. The submission should therefore be viewed as the beginning of a learning experience not only for the executive and legislature, but also for the Commission and indeed all stakeholders in helping with the implementation of this very important legislative mandate.

### 2. Review of basic fiscal framework principles

1. The South African constitution is the supreme law upon which the underpinnings of the fiscal framework are enshrined. Various chapters of the constitution set out the legal framework for the collection and estimation of revenue, expenditure, borrowing and contingency reserves within the prevailing macroeconomic fundamentals.
2. The Money Bills Amendment Procedure and Related Matters Act defines the fiscal framework for a specific financial year that gives effect to the national executive's macro-economic policy to include:
  - a. Estimates of all revenue, budgetary and extra-budgetary specified separately, expected to be raised during that financial year;
  - b. Estimates of all revenue, budgetary and extra-budgetary specified separately, for that financial year;
  - c. Estimates of borrowing for that financial year;
  - d. Estimates of interest and debt servicing charges; and
  - e. An indication of the contingency reserve necessary for an appropriate response to emergencies or other temporary needs, and other factors based on similar objective criteria.
3. The national fiscal framework, as defined above, can be specified for a single financial year. With the acceptance of the Medium Term Expenditure Framework (MTEF) process by cabinet in 1998, the national fiscal framework now forms part of the rolling three year budgeting cycle. In addition to the current financial year, a three year forward estimate of the fiscal framework is also tabled so as to improve fiscal planning over the medium term.
4. The MTEF set out to improve the allocation of resources to priority services, enable spending agencies to plan ahead with certainty, provide a framework within which policy proposals are assessed, improve transparency, reduce roll over's and demonstrate how fiscal targets will be met. The ultimate aim of these reforms has been to deliver a more stable environment in which firms and households could plan and make decisions with confidence.

5. The fiscal framework complements the monetary policy framework of inflation targeting that is run by the (independent) Reserve Bank. Both frameworks sought to reconcile commitment to medium term objectives with the need for short term flexibility through the principle of constrained discretion. While the monetary policy framework is reliant on interest rate adjustments, fiscal policy has three fiscal targets as follows:
  - a. Taxation raising, spending and borrowing for each organ of the public sector consistent with the underlying macroeconomic conditions. Within this broad objective, government further aims to achieve fiscal sustainability, that is, ability to finance a given level of expenditure for an extended period of time and without shifting the burden to future generation and stifling future economic growth prospects.
  - b. Allocation of expenditure across different spheres of government that matches the distribution of functions and their relative priority, as well as across and within various sectors.
  - c. Within each sphere of government, utilise resources in a manner that minimise costs and maximise delivery of services. This encompasses both fiscal discipline (staying within budget constraints and not underspending) as well as eliminating unproductive, wasteful and fruitless expenditures (increasing operational efficiency).
6. Upon the end of a period of fiscal consolidation associated with Growth, Employment and Redistribution (GEAR) policy, government adopted discretionary stimulus fiscal policy as opposed to revenue, debt and deficit restraining fiscal rules. The post fiscal consolidation period, that is the period between 2002/03 and 2008/09, was somewhat conducive to expansionary fiscal policy due to buoyant economic conditions. As a result, the budget deficit averaged 0,6 percent of Gross Domestic Product (GDP) while revenue averaged around 30 percent of GDP. This healthy fiscal situation has over time lessened the need to impose explicit tighter fiscal rules or targets on the fiscal framework.
7. For the 2010 MTEF, government has set itself an implicit and maximum budget deficit of 7,3 percent of GDP. The increased government borrowing requirement is necessary in part as a counter cyclical instrument and also to fulfil government commitment to services delivery. Some countries tend to employ the golden rule that over the economic cycle, government only borrows to invest in capital and not to fund current spending (current consumption)
8. The current political nature of the vertical division of revenue makes it difficult to determine with certainty the expenditure items to which the debt finance is apportioned. This makes the determination of rules rather difficult. However, in future government may wish to make explicit fiscal rules in order to ensure time-consistency of policy and reduce political rent-seeking. Fiscal rules should apply to all policy areas which may affect future resources. Both the Public Finance Management Act and the Municipal Finance Management Act are a step in that direction, particularly by adding a rule for public investment, or to allow policy makers to borrow for public investment.

### **3. Responding to exceptional circumstances – the macroeconomic outlook underlying 2010 Budget**

1. As set out in the 2010 Budget Speech of the Minister of Finance Pravin Gordhan, a major economic shock that has hit the economy has been the global recession. That shock has brought out the point that economic prospects are subject to exceptional uncertainty.
2. The Financial and Fiscal Commission's economic outlook based on a dynamic computable general equilibrium model suggests that the world economic crisis produces a huge drop in GDP (Figure 1). For both assumptions made about the severity of the scenario (mild and severe), GDP falls in 2008 and 2009 and then increases again, but it does not return to its business as usual (BAU) value even by 2015. In other words, without positive shocks or deliberate and successful interventions that stimulate the economy and counteract the negative impact of the world economic crisis, GDP will not recover to what it would have been in the absence of the crisis, that is, the BAU scenario.
3. Government is somewhat more optimistic regarding South Africa's GDP growth performance, in the near future. National

Treasury forecasts that GDP will contract by 1.9% in 2009, where after growth will start to pick up. Growth of 1.5% was forecast for 2010 rising to 3.2% by 2012 in the most recent issue of the Medium Term Budget Policy Statement (MTBPS) (National Treasury, 2009). The 2010 Budget is even more optimistic. Based on the belief of a pick up in growth in China, government's growth expectation for 2010 is now 2.3 per cent, rising to 3.6 per cent by 2012.

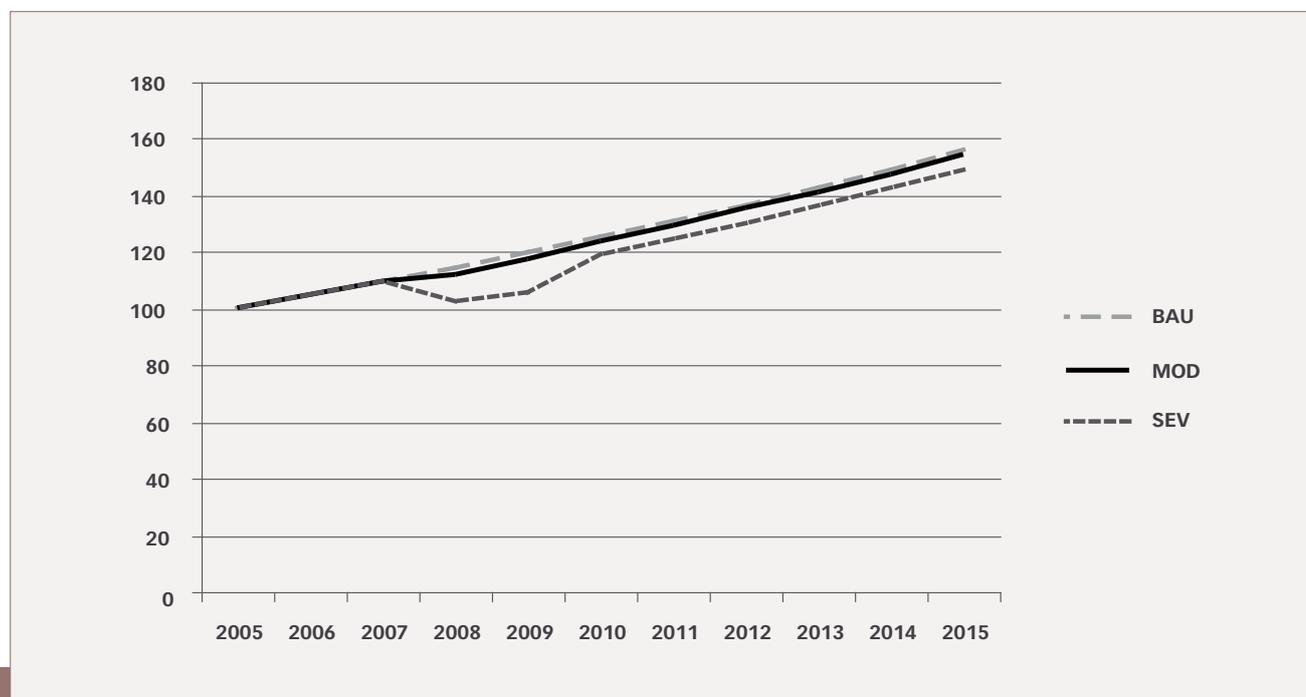


Figure 1: Evolution of Real GDP in BAU, Moderate and Severe scenarios

4. In these circumstances, the role of the fiscal framework is to ensure fiscal policy has the flexibility to respond appropriately, while remaining committed to clear, transparent long term goals. So, to achieve its objectives as outlined in the 2010 Budget, the government will depart temporarily from the fiscal rules until the global shocks have worked their way through the economy in full.
5. Irrespective of minor differences in projections between the Financial and Fiscal Commission and government, it is clear that South Africa entered into an economic downturn, with the first recession in over 17 years. This will no doubt have persistent implications for the public finances. To this end, government has developed a substantial fiscal stimulus package, supported by a big budget deficit.
6. The Commission agrees with this fiscal policy stance at this point in time. However, an important issue is really not in the minor differences between our projections but rather on whether the country should explicitly adopt a temporary operating rule such as measures to improve cyclically adjusted current budget each year once the economy emerges from the downturn so that it reaches balance and debt is falling as a proportion of GDP once the global shocks have worked their way through the economy in full. This could be formalised in some kind of a fiscal pact or stability pact. For instance the pact will clearly establish the level of debt and what the debt can or cannot finance, possibly guarantee a move towards current budget surplus (cyclically adjusted). The point is that a successive government will have to agree to cutting debt incurred by the previous government.
7. The Commission has raised already in its response on the Division of Revenue Bill the point that national government's net loan debt is to rise sharply from R526 billion at end-2008-09 to R1,3-trillion in 2012-13. Consolidated government debt service costs are to rise from 2,4 percent of GDP, or R57,6 billion, in 2009-10 to 3,2 percent, or R104 billion, in 2012-13 (see Business Day of 19 February 2010). The public sector wage bill had almost doubled in five years. This scenario might

imply that significant amounts of the debt service cost increases are driven by personnel expenditure. If this is indeed the case, it would be important that this development is reversed as soon as possible. Large amounts of debt that are driven by current consumption as opposed to the financing of capital assets are known to ultimately compromise economic growth and destabilise the domestic financial system. Setting clearly fiscal rules pertaining to debt in a crisis would be one way of increasing transparency in this way.

#### 4. Revenue estimates and tax proposals

1. With a recession of the magnitude just witnessed, government revenue is expected to decrease. Indeed, based on the modelling exercise of the Financial and Fiscal Commission mentioned above, direct taxes are decreasing (as a share of households and firm income), and taxes on products are also decreasing for most sectors (due to the decreases in imports and production). Half of government income comes from direct taxes and around a third from indirect taxes on products. Thus one can expect its revenue to decrease. Figure 2 represents the variations of the share of government income in GDP as well as government savings as a percentage of GDP for the BAU anticipated by the Commission.

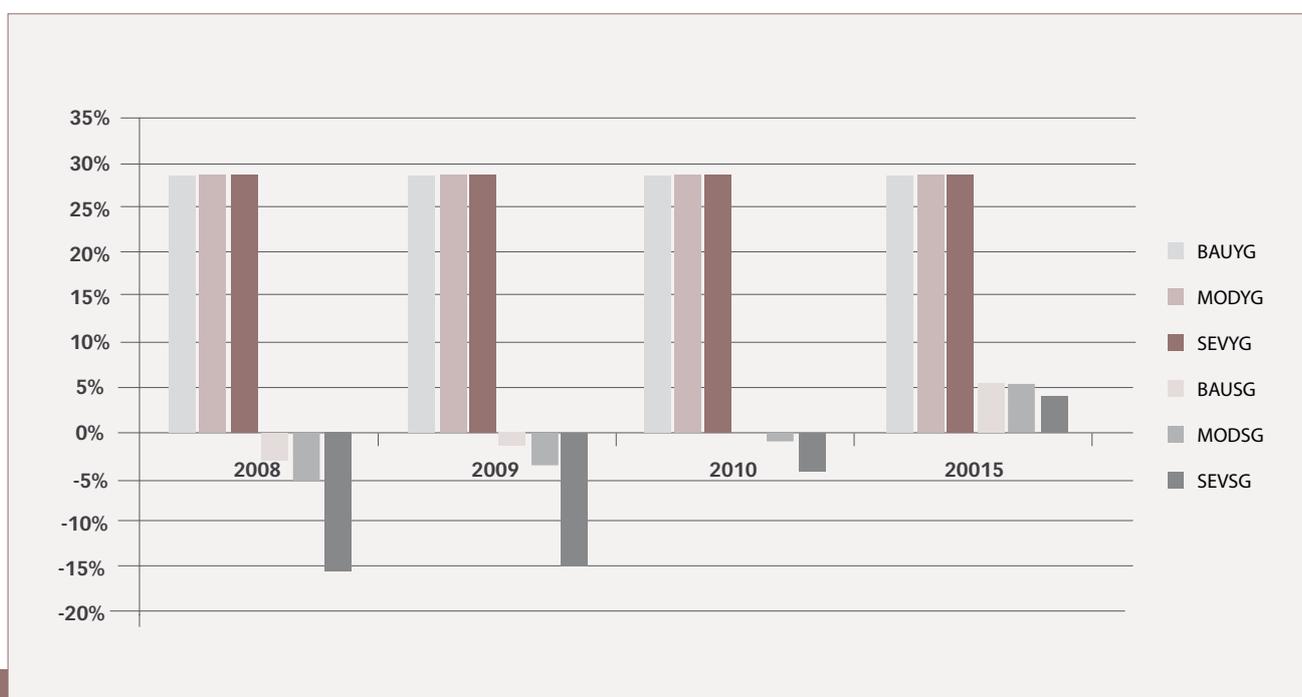


Figure 2: Revenue/GDP and Savings /GDP for government<sup>2</sup>

2. The 2010 Revenue Estimates tabled by government does acknowledge these depressive effects of the recession on government revenue. The expectation now is that government will raise R69 billion less in tax this year than was budgeted for. Consolidated revenue will be R658 billion in 2009/10, which is R32 billion less than in the past fiscal year with the drop coming from Value-added tax (R22 billion less than the February budget estimate and 5.1 per cent lower than last year), Corporate income tax (R30 billion less than expected, and over 20 per cent less than the amount we collected in 2008/09), Customs duties (R6 billion below target) and personal income tax (R4 billion lower and secondary tax on companies R3 billion less). The Commission did raise this possibility of larger than anticipated revenue shortfalls in its commentary on the 2009 MTBPS that it tabled to Parliament in October 2009. The Commission is happy that Government has revised its projections downward in line with its 2009 predictions and this downward revision brings in more credibility to the forecasts.

<sup>2</sup> We compute here, Government income / Gross Domestic Product (YG/GDP) as well as Government Savings/ Gross Domestic Product (SG/GDP). BAU refers to the situation without crisis (Business As Usual), MOD and SEV respectively refer to Moderate scenario and severe scenario.

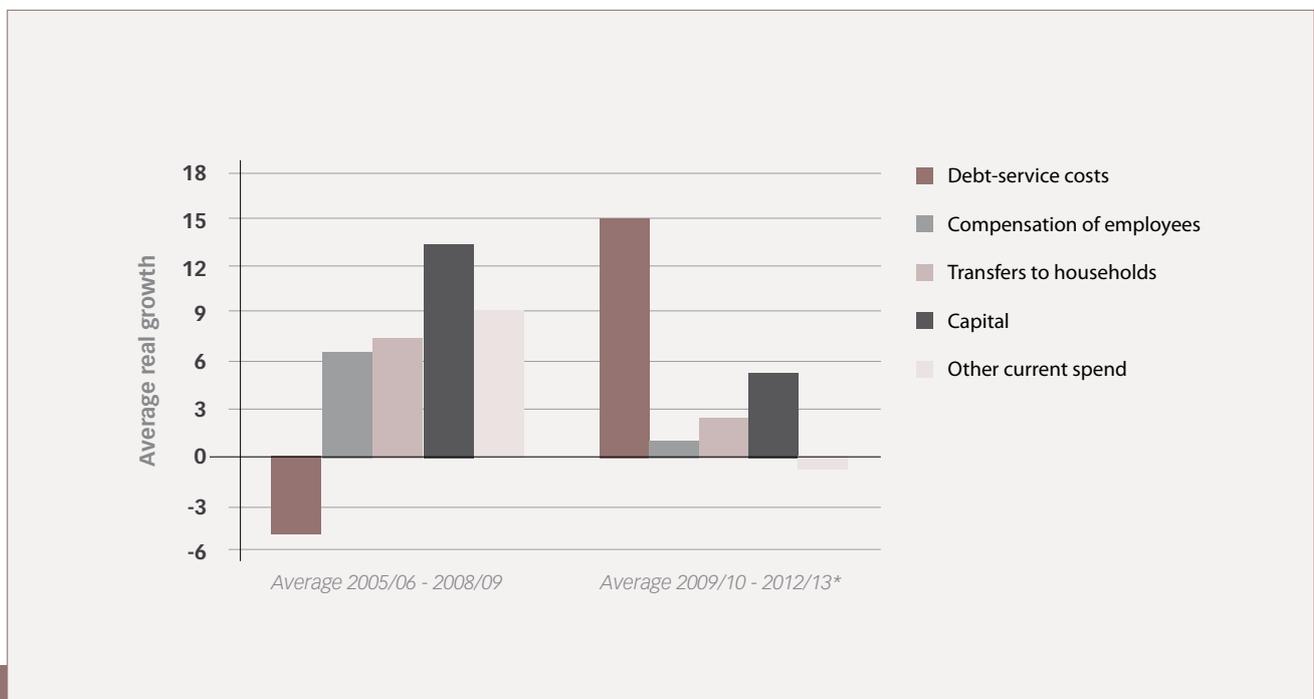
3. A related question that the Commission feels the Standing and Select Committees on Finance should be concerned about is the evolution of the budget deficit. According to our modelling scenarios up to 2015 and shown in Figure 2, in the absence of a globally induced recession the government income/GDP would have stayed around 28 percent. This share increases in the recession scenarios due to the huge drop of GDP. Because our modelling assumptions were based on the actual revealed policy stance of government that transfers national government makes to other agents are fixed, this leads to a sharp decrease in its savings (government's expenditure is fixed as well as transfers) or more conventionally an increase in the budget deficit presently observed. As shown in Figure 2 therefore, savings over GDP of about 3 percent of GDP in 2008 would have decreased to reach a small surplus in 2015 had there been no shock. Note that in the base year, the deficit is quite low, and then there is a decrease in prices in the absence of a globally induced recession (as the economy is becoming more and more efficient through time). It is therefore easy to understand why government savings become positive in the long run. With the crisis of course, we do not observe the same pattern in the short run. Indeed, the deficit reaches 15 percent of GDP in 2008 and 2009 in the severe scenario, and around 5 percent for the moderate scenario. In the long run, the situation improves somewhat, but remains far below what it would have been had there been no global crisis.
  - a. With sub-national government spending slower to decelerate than revenue, deficits at all levels of government are expected to widen significantly. Fiscal policy responses to the dilemma of deficit financing include raising tax revenue, reducing or deferring expenditure and improving spending efficiencies.
  - b. In order to stabilize their fiscal environment, the sub-national governments will need to undertake a combination of these three responses over the coming three years.
4. Government's preferred method of achieving higher revenues spelt out in the 2010 Budget is through base broadening, closing loopholes and improving tax compliance. Additional environmental taxes will be explored both to raise more revenue and to meet environmental objectives. Government could also raise taxes in the future to fund public spending commitments. Government therefore makes the following revenue proposals:
  - Personal Income Tax relief for individuals valued at R6.5 billion
  - Discontinuation of the SITE system
  - Increase in fuel taxes of 25.5 cents per litre
  - A carbon emissions tax on new vehicles
  - An increase in taxation on smoking (a packet of 20 cigarettes will cost R1.24 more)
  - An increase in taxation on alcohol consumption (a 750ml bottle of wine will cost R0.12 more, a 750ml bottle of spirits will cost R2.22 more while a can of beer will cost R0.07 more).
5. The Commission views these proposed measures as credible given the environment in which the country finds itself in. It is sensible to postpone any major tax reform exercise to a period when the economic environment is stable. The rest of the Commission's commentary on the tax proposals are as follows:
  - a. Tax Relief on individuals – In times of low economic activity, tax cuts are an important fiscal instrument to curb the impacts of a recession and increase aggregate demand in an economy. With consumption spending being one of the economic variables most impacted by the recession, increasing an individual or household's disposable income will ensure increased buying power and demand in the economy. An important attractive feature of the proposal is that most of the tax relief is provided to lower income tax payers, thereby enhancing the progressivity of the tax regime.

Having said that, there is an issue of bracket creep that has not been explicitly explained in the received documentation. The Commission would wish to advise the Committees to seek clarification on whether bracket creep due to inflation may actually outweigh the direct effects of the relief offered. Some estimates quoted in a recent issue of the Star newspaper claim that this phenomenon may have the effect of increasing individuals' tax bill by R22 billion compared to the R6.5 billion relief that was granted. This would reverse the intended effects of the tax relief policy. More generally, government needs to explain explicitly how the issue of bracket creep has been attended to if at all.

- b. Fuel levy increase – The proposal is to raise fuel taxes by 25.5 cents per litre. In the Commission's previous work on fuel taxes published in the South African Journal of Economic and Management Sciences recently, an assessment of the economic effects of a hypothetical fuel levy increase was explored. The welfare effects of increasing the fuel levy by 10 per cent are negative but very small. Similarly, the marginal excess burdens for efficiency and equity (poverty) are quite low, suggesting much smaller impacts of the intervention on both economic activity and equity. Furthermore, a fiscal policy reform that raises fuel levy by 10 per cent is progressive as it has stronger negative effects on higher income households than the lower income households. On the basis of this, it is the Commission's view that the proposed measure is reasonable. However, continued increases in the fuel levy need to be heeded with caution, given the large increases in the tax in last year's budget as well as South Africa's high dependence on oil.
- c. 'Sin' taxes – The proposal to raise revenue through increasing sin taxes should generally be supported as sin taxes are an important revenue source for national government and an instrument of improving social living standards and curb the negative social impacts of alcohol and cigarette abuse. However, government needs to review the potency of the tax instrument to achieve the latter goal. Alcohol and cigarettes are addictive goods. Government should not run the risk of over increasing taxes on these goods to such an extent that it impacts negatively on household expenditure and promote instances where individuals spend most of their disposable incomes on these goods due to addiction. There would thus be negative social returns to the tax as household expenditure on food and other necessities are sacrificed. A further more subtle issue is the differential treatment of the alcoholic beverages that can have distortionary effects on the system and the fiscal framework needs to clarify that. In particular the Committees may wish to request further explanation of why the alcoholic beverages are treated differently when the idea is to discourage this harmful consumption? Is it the policy to encourage wine consumption at the expense of spirits and beers for example? Or put more forcefully is it government policy to prefer jobs in wine industries over those generated in beer and whisky industries/breweries? The simple point is that differential taxation can have distortionary effects that need to be anticipated and explained clearly to the public.
- d. Carbon dioxide tax on new vehicles – The proposed carbon dioxide emissions tax on new vehicles is welcome as it is meant to alter behaviour of individuals towards cutting down of environmentally damaging expenditures.
- e. Mineral Royalties - The introduction of mining royalties, which is considered a non tax revenue source, was postponed by a year due to the recession to lessen the burden on the mining sector. The royalty is to be imposed on disposal of or exported minerals on 1 March 2010. The Commission feels that this could be too soon for the imposition of the royalty given the fact that the mining sector and domestic imports were severely impacted on by the global recession and the fall in commodity prices.
- f. Further research on broader environmental tax reforms – The Commission welcomes the stance of further research on a broader environmental tax reform. The Commission feels that introducing broad sweeping environmental taxes in the midst or aftermath of a recession would have sent wrong signals that government's intentions are revenue raising when in fact the idea is to encourage desirable behavioural change. The Commission is also carrying out work on environmental fiscal reform for the next research cycle.
- g. Local Business Tax as replacement for RSC Levy: The Commission is aware that SALGA has been doing some work

on this as a potential revenue source and will be making it's recommendations in terms of the Municipal Fiscal Powers and Functions Act provisions

6. While the Commission agrees with this broad stance of tax policy proposed by government, we think the bigger and more important question that needs to be clarified is the need for there to be consistency with long-run fiscal objectives: Spending increases and tax cuts in the face of a recession lead to budget deficits in the short term as we have seen. Because government debt tends to "crowd out" capital, higher deficits, if persistent, slow economic growth in the long term. Given the large projected fiscal imbalance in the medium and long run under the Commission's two scenarios above, new fiscal actions will need to be spelt out that best meet the country's long-run fiscal needs if our present actions are to avoid enlarging the long term fiscal gap. To achieve that goal, near-term increases in government spending or reductions in taxes would need to be followed by offsetting reductions in spending (which have not been spelt out and seems unlikely given political pressures not to do so) or increases in taxes after the economy recovers (which again have not been spelt out except that government reserves the right to increase taxes in the future).
7. A related and perhaps more important point pertains to the fiscal risk perceived or real related to personnel expenditure and transfers to households. These have increased considerably in recent years (7 percent and 8 percent in real terms respectively from 2005/06 – 2008/09). Over the next few years, that is, 2009/10 – 2012/13 growths in these items is expected to decline to approximately 1.5 percent for personnel costs and approximately 3 percent for transfers to households in real terms in order to account for increased debt payments, which is predicted to increase by approximately 15 percent in real terms. There are concerns over these predictions as personnel expenditure and social grants are fiscally rigid expenditure items. With increased volatility on the revenue collection side, this could exacerbate perceptions of increased fiscal risk, which could also impact on the country's credit rating. Government has already taken some hard choices (e.g. the coverage of social grants versus the level of entitlement), but will have to also balance expansion of the public service including addressing the high vacancy rates with wage increase expectations.



## **5. Further issues on fiscal frameworks, transparency and contingent liabilities**

1. The exceptional uncertainty at present underlines the importance of providing the public with key information on the fiscal position. Underlying assumptions should be set out in detail and subjected to audit, in particular those that make up for the fiscal forecast. This will enhance further the credibility of revenue forecasts used for equitable distribution among the three spheres of government.
2. In line with international best practice it may be important to explore the establishment of an independent office along the lines suggested by the Commission in its submission on the Division of Revenue Bill for 2007.
3. The fiscal situation in South Africa, especially for provincial and local governments, is very weak. Stimulus money from the national fiscus, prevented massive public employee layoffs this year, but given the current state of revenue projections sketched above, it is highly questionable whether additional funds will be forthcoming soon. Given the slow state of the economic recovery and the inherent lag in provincial and local government tax revenue growth, many provinces and local governments will eventually be forced to enact large cuts in public spending. Unfortunately, public education and health are likely to be hit very hard. It is here that the Commission wishes to ensure that cuts will be limited to non-core areas, and done in a reasonable way so that basic service delivery is not compromised, nor the progressive realisation of socio-economic rights.
4. Looking at the non financial sector public enterprises, we note that there is increased funding for parastatals. The public sector borrowing requirement rises cumulatively over the three years by R331 billion compared with what was budgeted for in February or a large R1.11 trillion over the next four years. The substantially bigger borrowing requirement is partly linked to large infrastructure investment projects that would be key for long term growth and well being of future generations. However, the Commission is increasingly concerned about contingent liabilities associated with increased guarantees to parastatals as well as increased levels of concessionary finance in the industrial policy strategy. These contingent liabilities might become an actual liability and a loss and depend on something in the future, which may be beyond government's control. These should therefore be monitored carefully.
5. Finally and related to this, the recapitalisation of the Development Bank of Southern Africa (DBSA) (allowing an increase in its callable capital) is a significant development as it constitutes the first recapitalisation in over a decade). This raises significant issues in terms of the current focus on DBSA lending (largely on highly creditworthy municipalities). The issue is whether it has exhausted its current lending capacity and the impacts of the recapitalisation on the overall debt market. This may have the unintended consequence of squeezing out private lenders or actually growing the size of lending to municipalities. The Commission would wish to point out these risks involved, as well as the need for clear policy objectives to be transmitted to the DBSA.

## 5.7 COMMISSION'S RESPONSE TO THE 2010 APPROPRIATION BILL

### 1. Introduction

The submission on the Appropriation Bill<sup>3</sup> is made in terms of sect 4 (4) 2 of the Money Bill Amendment procedure and Related matters act of 2009. The section requires the Committee to consider any recommendations of the Commission.

For the 2010 Budget Process the Commission has already made submissions on the Division of Revenue in terms of the IGFR Act and on the Fiscal Framework in terms of the Money Bills Amendment Procedure and Related Matters Act.

### 2. Commission's Approach to this Submission

The approach followed in analyzing and making comment on the appropriation Bill includes;

- An analysis of the table of Priorities contained in the Division of Revenue Bill 2010 (table W1.1)
- Last year and current expenditure by data as contained in the;
  - Estimates of National Expenditure 2010 and
  - Provincial Budget and Expenditure Review 2009.

All figures that are used in the analysis are expressed in real terms or stripped off inflation.

An assumption made in tracking the funding of priorities within government program was that the Appropriation Bill publishes only a single year budget allocation for all votes whilst the state incorporates the agreed priorities over a three year Medium Term Expenditure Framework. It can be expected that although the priorities are identified, they can not necessarily be expected to be fully funded in the first year from additional funding.

### 3. National (Executive's) priorities Versus the State's (MTEF) Funding.

In this year's Division of Revenue Bill, government identified top five policy priorities for the 2010/11 financial year namely;

1. Job creation and infrastructure;
2. Education and skills development;
3. Health care;
4. Rural development;
5. Justice, crime prevention and policing.

The Division of Revenue bill 2010 also includes the funding for Human Settlement and Local government as budget priorities.

Table 1, provides a clear indication which and by how much the National Executive's priorities are funded.

A sectoral categorization of the budget priority table indicates that a total additional R112 billion was added to the fiscus this year as per table W1.1 of the DOR Bill 2010. At a National Executive level five key priorities were identified, and these are encapsulated by the State into its plan over the Medium Term Expenditure Framework (MTEF). The executive will need to

<sup>3</sup> The Appropriation Bill is piece of legislation that serves to appropriate money from the National Revenue Fund for the requirements of the national government in order to provide for subordinate matters incidental thereto.

recognise that because the budget was made under a recessionary environment most of the funding towards the identified priorities is deferred towards the latter two years of the MTEF.

The funded priorities that would help track consistency between the Executive's priorities and State funding are:

### **3.1 Improvement in Education and Skills Development**

The quality of educational spending can only be judged in terms of learner performance. Short-term funding inputs are directed at programmes such as the Dinaledi schools, increased funding to Higher education subsidies, improvement of conditions of service for educators and recapitalisation of Further Education and Training colleges. These programmes receive an additional R14.1 billion. The Commission views this as a fulfilment of the executive mandate by the state, and an investment in human capital.

### **3.2 Enhancing the quality of Health Care**

The health sector receives R12.4 billion, to mainly maintain a frontline attack on HIV and Aids and ensure improved quality of service through better payment to health workers and infrastructure funding to hospitals.

### **3.3 Fight against Crime and Corruption**

An amount of R4.8 billion is added by the State to the sector Justice, crime prevention and policing. This amount is earmarked for additional policing personnel, OSD for correctional service workers, and a review of defence force's remuneration. Also included is the modernization of landward defence; and the implementation of the Children's, Child Justice and Sexual Offences acts.

### **3.4 Job creation, Infrastructure and Environment**

An amount of R16.3 billion or 14 percent is added to the fiscus in the area of Job creation, infrastructure and Environment as a direct response to employment creation priority. Job creation and infrastructure is reflected through conditional grants and public utility subsidies designed to provide regional or municipal water, electricity, road and sanitation infrastructure, public transport and national fuel pipelines, by means of labour-intensive techniques.

Also included are subsidies to the clothing and textile and automotive industries to preserve jobs. An inclusion in the clauses of the Appropriation Bill 2010 allows for subsidies to non-state entities such as private companies.

### **3.5 Rolling out a Comprehensive Rural Development Strategy**

An amount of R2.4 billion is added to the fiscus to assist with the rural development programme alongside the funding for the Land Bank to recapitalise its finances.

However in this case the commission has expressed its concern that due to lack of a cluster coordination of this priority, it might be difficult to attain the desired goal for this priority.

Table 1: 2010 Budget priorities – additional MTEF allocations, 2010/11 – 2012/13

R million	2010/11	2011/12	2012/13	Total
<b>Provincial equitable share</b>	6,400	7,000	7,600	<b>21,000</b>
Includes general adjustment and wage increases				
<b>Compensation of employee adjustments</b>	3,600	4,000	4,400	<b>12,000</b>
<b>Social grants</b>	1,785	3,598	6,809	<b>12,192</b>
<b>Education and skills development</b>				
Workbooks	750	930	1,000	<b>2,680</b>
Dinaledi schools	–	70	100	<b>170</b>
Higher education subsidies	–	300	700	<b>1,000</b>
Further education and training colleges grant	400	430	450	<b>1,280</b>
Occupation-specific dispensation for educators	3,000	3,000	3,000	<b>9,000</b>
<b>Health care</b>				
Comprehensive HIV and Aids grant	1,700	2,800	3,900	<b>8,400</b>
Hospital revitalisation grant	140	–	–	<b>140</b>
Occupation-specific dispensation for health professionals	1,281	1,302	1,324	<b>3,907</b>
<b>Justice, crime prevention and policing</b>				
Additional policing personnel	200	230	250	<b>680</b>
Military skills development system	50	70	100	<b>220</b>
New SA National Defence Force remuneration system	600	730	850	<b>2,180</b>
Implementation of Children's Act, Child Justice Act and Sexual Offences and Related Matters Act	30	60	90	<b>180</b>
Landward defence modernisation	–	100	500	<b>600</b>
Occupation-specific dispensation for correctional services workers	300	300	300	<b>900</b>
<b>Rural development</b>	260	300	300	<b>860</b>
Land Bank recapitalisation	750	750	–	<b>1,500</b>
<b>Job creation, infrastructure and environment</b>				
Expanded public works programme incentive	567	800	1,100	<b>2,467</b>
Clothing and textile production incentive	400	600	750	<b>1,750</b>
Automotive production and development programme	450	600	700	<b>1,750</b>
Regional bulk infrastructure	54	200	300	<b>554</b>
Municipal infrastructure grant	–	–	2,500	<b>2,500</b>
Public transport, roads and rail infrastructure	468	1,052	1,329	<b>2,849</b>
Transnet fuel pipeline	1,500	1,500	1,500	<b>4,500</b>
<b>Human settlements and local government</b>				
Rural households infrastructure grant	100	350	750	<b>1,200</b>
Human settlements development grant	–	–	1,000	<b>1,000</b>
Local government equitable share	900	2,050	3,750	<b>6,700</b>
<b>Other adjustments</b>	2,145	2,134	3,793	<b>8,072</b>
<b>Total</b>	<b>27,831</b>	<b>35,256</b>	<b>49,144</b>	<b>112,231</b>

Source: Division of Revenue Bill 2010.

#### 4. Analysis of the Funded Priorities

Table 2: The proportional shares of priorities within the Budget

Percentage Contribution: Proportion on National Revenue Fund Top Priorities	Estimates of National Expenditure 2010 or Provincial Budget and Expenditure Review 2009			
	2009/10 to 2010/11	2010/11 to 2011/12	2011/12 to 2012/13	2009/10 to 2012/13
Job creation, infrastructure and environment	5.79%	5.97%	6.08%	5.96%
Education and skills development	21.89%	21.63%	21.00%	20.32%
Health care	9.41%	9.45%	9.14%	8.83%
Rural development	1.30%	1.17%	1.21%	1.03%
Justice, crime prevention and policing	10.35%	10.16%	9.66%	9.11%
<b>Human settlements and local government</b>	<b>6.44%</b>	<b>7.04%</b>	<b>7.14%</b>	<b>6.92%</b>
Total - Top 5 Policy Priorities	49%	48%	47%	45%
Total - Budget Priorities	70%	70%	69%	66%
Debt Servicing Costs	10%	11%	12%	13%
Other	20%	19%	19%	21%

According to table 2, the proportion of the National Revenue Fund to be used in government's top five priorities is estimated to be 49 percent in 2009/10, 48 per cent 2010/11, 47 per cent in 2011/12 before slowing down to 45.2 per cent the outer year 2012/13. This implies that the share of revenue for the priority areas declines slightly over the 2010 MTEF, despite growth in the share of other items. One of these is the debt servicing cost, which rise from 10.per cent in 2009/10 to 13 per cent in 2012/13.

The component Other, which can be classified as the "non-prioritized" components of spending, decline slightly to 19 per cent in 2011/12 from 20 per cent in 2009/10 before recovering to 21 per cent in 2012/13. Such a fluctuation could be set aside to create fiscal space for policy and hence budget reprioritization in the outer years of the 2010 MTEF.

The proportion of national revenue budgeted for priority job creation and infrastructure programmes remains stable around 6 per cent over the MTEF. That for education and skills development priorities though falls from 21.9 percent to 20.3 per cent over the medium-term.

Despite a relative decline in the health sector from 9.4 per cent to 8.2 per cent, the HIV-Aids sub programme receives a significant boost which might mask the depreciation of this programme over the medium-term.

The share devoted to rural development indicates a steady decline over both the short-term and the medium-term. There is an evident decline from 1.3 percent to 1.0 per cent between 2009/10 and 2012/13.

The proportion of national revenue devoted to the justice, crime prevention and policing priority also steadily declines from 10.3 per cent to 9.1. per cent over the MTEF.

However, contrary to the above, budgets for human settlements and local government increase from 6.4 per cent in 2009/10 to 7.1 per cent in 2011/12 before slightly declining to 6.9 per cent in outer year of the MTEF.

**Table 3: Trends in funded priorities over the MTEF**

<b>Growth Trends</b> <b>Top Priorities</b>	<b>Estimates of National Expenditure 2010 or Provincial Budget and Expenditure Review 2009</b>			
	<b>2009/10 to 2010/11</b>	<b>2010/11 to 2011/12</b>	<b>2011/12 to 2012/13</b>	<b>2009/10 to 2012/13</b>
Job creation, infrastructure and environment	9.19%	7.42%	3.78%	6.77%
Education and skills development	4.60%	2.40%	2.45%	3.15%
Health care	6.37%	1.98%	2.34%	3.54%
Rural development	-4.42%	9.03%	-9.33%	-1.87%
Justice, crime prevention and policing	4.01%	0.26%	-0.19%	1.34%
<b>Human settlements and local government</b>	<b>15.80%</b>	<b>6.89%</b>	<b>2.71%</b>	<b>8.33%</b>
Total - Top 5 Policy Priorities	5%	3%	2%	3%
Total - Budget Priorities	6%	3%	2%	4%
Debt Servicing Costs	17%	17%	11%	15%
Other	0%	7%	17%	8%

National revenue is projected to grow at 5.8 per cent over the 2010 MTEF. This is against that for the debt servicing costs, which rises by an average 14.7 per cent over the medium-term (Budget Review-2010). The debt service cost however slows in growth from 17 per cent in 2009/10 to 11 per cent in 2011/12 before resurging to 15 per cent in 2012/13.

The impact of this growth in debt results in a relatively low growth spending of 4.7 per cent over the short- and medium-term.

The human settlements and local government priority experience a healthy 15.8 per cent growth in the 2009/10 financial year but sharply declines to a minimum 2.7 per cent in 2011/12 before recovering to 8.3 per cent in the outer year of the MTEF. This can be expected due to the nature of infrastructure related projects that are funded under this portfolio.

Job creation and infrastructure displays the second highest growing priority at an average of 6.8 percent over the MTEF, an amount higher the average.

Education and skills development priority grow at below average rate of 4.6% between 2009/10 and 2010/11 and 3.2 per cent over the medium-term. This result is heavily influenced by budgeted wage restraint on the personnel budgets. Maths and science teaching is consistently emphasized over the medium-term but FET college grants decline in the outer years.

Health spending receives above average growth in the short-term (6.4 per cent) but real declines in the Hospital Revitalization grant in the outer years. The HIV-Aids grant grows strongly over the medium-term.

Real average annual growth for justice, crime prevention and policing is slow at 1.3 per cent over the medium-term, while that for Poverty-reducing social grants grow at a below average rate of 3.3 per cent over the medium-term.

### **5. Commission's General Observations on the Bill**

The appropriations bill is fairly thin on content. The bill should be viewed as an evolving document that will most certainly be strong both in terms of the clause contained and attached schedules.

- Except for the first clause, clause 2, the commission finds the rest of the clauses as only providing a guide as to what the state needs to do and these may be covered or are already covered by other pieces of legislation like the PFMA.

The state can improve on the way it presents the attached schedule of budget vote and main divisions in the future.

- It is challenging to determine whether the responsible department really did incorporate the funded priorities into the respective votes and main division unless the bill provides further detail as to whether these priorities are currently funded and how the votes and main divisions express these priorities. For this reason, the Commission therefore limits its comment to the relationship it can draw between the priorities and the attached funding and which sphere is to execute the implementation of such priorities.

## **6. Conclusion**

The commission concedes that the appropriations for 2010/11 address government's top priorities and therefore supports the passing of the 2010 Appropriation Bill as tabled.

## 5.8 ADDITIONAL 2009/2010 COMMISSION SUBMISSIONS

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

- 5.5.1 Funding of Traditional Leadership Government Act, 2003: Limpopo Treasury April 2009
- 5.5.2 Alternative Intergovernmental Fiscal Relations System in South Africa: COGTA August 2009
- 5.5.3 Local Government Policy Recommendations: SALGA Executive Management August 2009
- 5.5.4 Financial Management of Gauteng Provincial Legislature Bill: Gauteng Legislature August 2009
- 5.5.5 Eighteenth Constitution Amendment Bill: Department of Justice and Constitutional Development Bill September 2009
- 5.5.6 Strategic Planning: Standing Committee on Appropriations September 2009
- 5.5.7 Possible Continuation and/or Lapsing of Municipal Taxes (other than Property Rates) that Existed prior to the Municipal Fiscal Powers and Functions Act: Department of Finance February 2010
- 5.5.8 Seventeenth Constitution Amendment Bill: Department of Justice and Constitutional Development March 2010  
Comment on the Money Bills Amendment Procedures and Related Matters Bill 2008
- 5.5.9 Comment on the National Policy for an Equitable Provision of an Enabling School Physical Teaching and Learning Environment Notice No. 1438 Gazette No. 31616 dated 21 November 2008.

# CHAPTER 6

## ANNUAL FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 MARCH 2010

### 6.1 APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The annual financial statements which appear on pages 83 to 99 have been approved and authorised for issue on date of signature by the Commission and is signed on its behalf by:



Dr Bethuel Setai  
Accounting Officer  
31 May 2010

## 6.2 REPORT OF THE ACCOUNTING OFFICER FOR THE FINANCIAL YEAR ENDED 31 MARCH 2010

Report by the Accounting Officer to the Parliament of the Republic of South Africa.

### 1. General review of the state of financial affairs

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

This however has been achieved at a price. The ongoing financial crises and the demands that have been placed on the Commission by the implementation of the Money Bills Amendment Procedures and Related Matters Act of have placed an ever increasing burden on the Commission's resources and its ability to deliver fully on its mandate.

### 2. Services rendered by the department

Not applicable.

### 3. Trading activities

Not applicable.

### 4. Trading entities

Not applicable.

### 5. Public entities

Not applicable.

### 6. Public/private partnerships

Not applicable.

### 7. Risk management and fraud prevention

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

### 8. Discontinued activities/activities to be discontinued

Not applicable.

### 9. New/proposed new activities

The Commission plans to embark on a comprehensive stakeholder management programme.

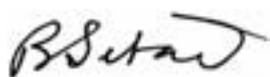
### 10. Events after the accounting date

None.

### 11. Other

None.

### Approval



Dr Bethuel Setai  
Chairperson/Chief Executive  
31 July 2010

## 6.3 REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS OF THE FINANCIAL AND FISCAL COMMISSION FOR THE YEAR ENDED 31 MARCH 2010

### REPORT ON THE FINANCIAL STATEMENTS

#### Introduction

1. I have audited the accompanying financial statements of the Financial and Fiscal Commission, which comprise the statement of financial position as at 31 March 2010, the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 83 to 99.

#### Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 25 of the Financial and Fiscal Commission Act of South Africa, 1997 (Act No. 99 of 1997) (FFC Act), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and General Notice 1570 of 2009 issued in Government Gazette No. 32758 of 27 November 2009. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

#### Opinion

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Financial and Fiscal Commission as at 31 March 2010, and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and in the manner required by the PFMA.

#### Emphasis of matters

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

### Restatement of corresponding figures

8. As disclosed in note 20 to the financial statements, the corresponding figures for 31 March 2009 have been restated as a result of an error discovered during 31 March 2010 in the financial statements of the Commission at, and for the year ended, 31 March 2009.

### Fruitless and wasteful and irregular expenditure

9. As disclosed in note 15 to the financial statements, fruitless and wasteful expenditure of R147 955 was incurred, as result of interest and penalties being levied for the late submission of EMP201 returns and late payments to the South African Revenue Service.
10. As disclosed in note 15 to the financial statements, irregular expenditure of R53 196 was incurred, as a result of an incorrectly authorised long-term service bonus payment made by the Commission.

### REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

11. In terms of the PAA and General Notice 1570 of 2009, issued in Government Gazette No. 32758 of 27 November 2009, I include below my findings on the report on predetermined objectives, compliance with the PFMA, the FFC Act, the Treasury Regulations of 2005 (TR) and financial management (internal control).

#### Findings

#### Predetermined objectives

12. No matters to report.

#### Compliance with laws and regulations

*Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) and Treasury Regulations of 2005 (TR)*

#### Non adherence to legislation

13. Contrary to the requirements of section 38(1)(e) of the PFMA, the Commission did not comply with tax legislation, as they did not submit the EMP201 returns and effect payments to the South African Revenue Service by the prescribed due dates.
14. Contrary to the requirements of the National Treasury Practice Note No.8 of 2007/2008 and section 38(1) (a)(iii) of the PFMA, the accounting officer did not always obtain a valid tax clearance certificate from suppliers.
15. Contrary to the requirements of the National Treasury Practice Note No.8 of 2007/2008 and section 38(1)(a)(iii) of the PFMA, the accounting officer did not compile a list of prospective suppliers to be used for their procurement requirements.
16. Contrary to the requirements of TR 16A8.2 and section 38(1)(a)(iii) of the PFMA, the officials involved in supply chain management, did not adopt the National Treasury's Code of Conduct.

*Financial and Fiscal Commission Act of South Africa, 1997 (Act No. 99 of 1997) (FFC Act)*

#### Non adherence to legislation

17. Contrary to the requirements of section 9(1) of the FFC Act, the Commission did not obtain approval from the President's office prior to paying a long-term service bonus to a Commissioner.

## INTERNAL CONTROL

18. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives and compliance with the PFMA, the FFC Act and the TR, but not for the purposes of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the deficiencies identified during the audit.

### *Leadership*

#### **Oversight responsibility over reporting**

19. The Financial and Fiscal Commission did not have sufficient monitoring controls to ensure adherence to the operational policies and procedures and as a result, instances of non-compliance with the PFMA, TR and the FFC Act were noted as detailed under the report on compliance with laws and regulations section of this report.

*Auditor-General*

Pretoria

30 July 2010



A U D I T O R - G E N E R A L  
S O U T H A F R I C A

## 6.4 REPORT OF THE AUDIT COMMITTEE FOR THE YEAR ENDED 31 MARCH 2010

### Introduction

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

### Membership and attendance

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

Name	Attended
Jerry Sithole	4
Tania Ajam	3
Mkuseli Bashe	1 <sup>4</sup>
Martin Kuscus	1 <sup>5</sup>

### Audit Committee Responsibility

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

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

### The Effectiveness of Internal Control

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

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

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

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

### Risk Management

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

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

<sup>4</sup> Appointed in January 2010

<sup>5</sup> Retired 30 June 2009

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

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

### **Evaluation of Financial Statements**

The Audit Committee has:

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

The Audit Committee concurs and accepts the Auditor-General's conclusions on the annual financial statements, and is of the opinion that the audited annual financial statements be accepted and read together with the report of the Auditor-General.



Jerry Sithole  
Chairperson of Audit Committee

31 July 2010

## 6.5 STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2010

	Notes	2010 R	2009 R
<b>ASSETS</b>			
<b>Non-current assets</b>		919,104	1,474,134
Property, Plant and Equipment	2	867,060	1,444,901
Intangible Assets	3	52,044	29,233
<b>Current assets</b>		182,426	705,543
Trade and other receivables	4	52,335	116,539
Cash and cash equivalents	13	130,091	589,004
<b>Total assets</b>		<b>1,101,531</b>	<b>2,179,677</b>
<b>CAPITAL, RESERVES AND LIABILITIES</b>			
<b>Capital and reserves</b>		(1,402,482)	-889,629
Capital contribution	5	918,752	918,752
Accumulated (deficit)		(2,321,234)	(1,808,381)
<b>Current liabilities</b>		2,315,327	2,866,465
Trade and other payables	6	1,955,374	2,532,581
Provisions	7	359,953	333,884
<b>Non current liabilities</b>		188,686	202,841
Financial Obligation	8	188,686	202,841
<b>Total capital reserves and liabilities</b>		<b>1,101,531</b>	<b>2,179,677</b>

## 6.6 STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 MARCH 2010

	Notes	2010 R	2009 R
<b>Operating revenue</b>	9	26,580,000	26,125,000
Government Grant		26,580,000	26,125,000
<b>Other revenue</b>		97,255	239,966
Interest received	10	96,053	218,557
Sundry income		1,202	21,409
<b>Total revenue</b>		26,677,255	26,364,966
<b>Operating expenses</b>			
Employee costs		(17,640,745)	(15,189,205)
Depreciation and amortisation		(780,328)	(976,687)
Professional services		(2,500,802)	(3,913,251)
Other operating expenses		(6,110,540)	(6,992,718)
Loss on sale of plant and equipment		-	(3,548)
<b>Total operating expenses</b>		(27,032,416)	(27,075,409)
<b>Surplus/(deficit) before interest and finance charges</b>	11	(355,161)	(710,443)
Interest paid	12	(157,692)	(141,002)
<b>Net (deficit) / surplus for the year</b>		(512,853)	(851,445)

## 6.7 STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 31 MARCH 2010

	<b>Capital contribution R</b>	<b>Accumulated surplus/(deficit) R</b>	<b>Total R</b>
At 1 April 2008	918,752	(266,920)	651,832
Deficit for the year 2009		(851,445)	(851,445)
Balance at 1 April 2009	918,752	(1,118,365)	(199,613)
Prior period error		(690,016)	(690,016)
Balance at 1 April 2009 as restated	918,752	(1,808,381)	(889,629)
Deficit for the year 2010		(512,853)	(512,853)
Balance at 31 March 2010	918,752	(2,321,234)	(1,402,482)

## 6.8 CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2010

	Notes	2010 R	2009 R
<b>Cash flow from operating activities</b>			
<b>Receipts</b>			
		26,677,255	26,364,966
Grants		26,580,000	26,125,000
Interest Received		96,053	218,557
Other Receipts		1,202	21,409
<b>Payments</b>			
		26,910,868	25,856,894
Employee Costs		17,614,676	15,158,487
Suppliers		9,138,500	10,557,405
Interest paid		157,692	141,002
<b>Net Cash flows from operating activities</b>	13	<b>(233,613)</b>	<b>508,073</b>
<b>Cash flows from Investing Activities</b>			
Purchase of property, plant and equipment		(159,275)	(58,094)
Proceeds from sale of property, plant and equipment		-	3,210
Purchase of Intangible assets		(66,025)	(36,268)
<b>Net Cash flows from investing activities</b>		<b>(225,300)</b>	<b>(91,152)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		(458,913)	416,921
<b>Cash and cash equivalents at beginning of year</b>		589,004	172,083
<b>Cash and cash equivalents at end of year</b>	13	<b>130,091</b>	<b>589,004</b>

## 6.9 STATEMENT OF ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2010

### ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

#### 1. Basis of preparation

The financial statements have been prepared in accordance with South African statements of Generally Recognised Accounting Practice (GRAP) including any interpretations of such statements issued by the Accounting Practices Board, with the effective Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board replacing the equivalent GAAP statement.

#### 1.1 Revenue recognition

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

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

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

#### 1.2 Property, plant and equipment

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

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

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

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

#### 1.3 Intangible Assets

Acquired computer software is classified as finite assets and capitalised on the basis of cost incurred to acquire and bring to use the specific software and is amortised on a straight-line basis over their estimated useful lives of three years less any impairment cost. The amortisation method applied is reviewed and adjusted if appropriate. If there has been a change in the expected pattern of consumption, the amortisation method is changed to reflect the changed pattern. After initial recognition, an intangible asset is carried at its cost less any accumulated amortisation and any accumulated impairment loss.

#### **1.4 Use of Estimates**

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

#### **1.5 Leases**

Leases under which the risks and benefits of ownership are effectively retained by the lessor, are classified as operating leases. Obligations incurred under operating leases are charged to the statement of financial performance on a straight line basis over the period of the lease, except when an alternative method is more representative of the time pattern from which benefits are derived.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

#### **1.6 Provisions**

Provisions are recognised when Commission has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

#### **1.7 Employee benefits**

The Commission operates a defined contribution plan, the assets of which are generally held in separate trustee- administered funds. This plan is funded by payments from employees and the Commission.

##### *Defined contribution plans*

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

#### **1.8 Foreign currencies**

##### *Transactions*

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

#### **1.9 Financial instruments**

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

##### *Recognition*

Financial instruments are initially recognised at fair value when the Commission becomes party to the contractual arrangements of the instrument.

### *Measurement*

Subsequent to initial recognition these instruments are measured as set out below:

#### *Trade and other receivables*

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

#### *Cash and cash equivalents*

Cash and cash equivalents are carried at cost.

#### *Financial liabilities*

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

### **1.10 Cash and cash equivalents**

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

## 6.10 NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010

### 2. Property, plant and equipment

2010	Paintings R	Computer Equipment R	Motor Vehicle R	Furniture & Fittings R	Leasehold Improvement R	Total R
<b>Opening Balance</b>						
Cost	38,806	1,848,669	65,494	2,744,307	351,443	5,048,720
Accumulated depreciation	-	(1,591,316)	(58,944)	(1,660,695)	(292,864)	(3,603,819)
<b>Net Book Value</b>	<b>38,806</b>	<b>257,353</b>	<b>6,550</b>	<b>1,083,613</b>	<b>58,579</b>	<b>1,444,901</b>
<b>Movement for the year:</b>						
Additions	-	159,275	-	-	-	159,275
Disposals	-	(373,798)	-	(6,922)	-	(380,720)
Depreciation on disposed asset	-	373,798	-	6,922	-	380,720
Depreciation	-	(245,096)	-	(433,446)	(58,574)	(737,116)
	-	<b>(85,820)</b>	-	<b>(433,446)</b>	<b>(58,574)</b>	<b>(577,841)</b>
<b>Closing Balance</b>						
Cost	38,806	1,634,147	65,494	2,737,385	351,443	4,827,275
Accumulated depreciation	-	(1,462,614)	(58,944)	(2,087,219)	(351,438)	(3,960,215)
<b>Net Book Value</b>	<b>38,806</b>	<b>171,533</b>	<b>6,550</b>	<b>650,166</b>	<b>5</b>	<b>867,060</b>

2009	Paintings R	Computer Equipment R	Motor Vehicle R	Furniture & Fittings R	Leasehold Improvement R	Total R
<b>Opening Balance</b>						
Cost	38,806	2,766,537	65,494	2,795,433	351,443	6,017,713
Accumulated depreciation	-	(2,176,363)	(58,944)	(1,348,905)	(175,716)	(3,759,928)
<b>Net Book Value</b>	<b>38,806</b>	<b>590,174</b>	<b>6,550</b>	<b>1,446,528</b>	<b>175,727</b>	<b>2,257,785</b>
<b>Movement for the year:</b>						
Additions	-	31,296	-	26,798	-	58,094
Disposals	-	(949,164)	-	(77,923)	-	(1,027,087)
Depreciation on disposed asset	-	942,405	-	77,923	-	1,020,329
Depreciation	-	(357,358)	-	(389,713)	(117,148)	(864,219)
	-	<b>(332,821)</b>	-	<b>(362,915)</b>	<b>(117,148)</b>	<b>(812,884)</b>
<b>Closing Balance</b>						
Cost	38,806	1,848,669	65,494	2,744,307	351,443	5,048,720
Accumulated depreciation	-	(1,591,316)	(58,944)	(1,660,695)	(292,864)	(3,603,819)
<b>Net Book Value</b>	<b>38,806</b>	<b>257,353</b>	<b>6,550</b>	<b>1,083,613</b>	<b>58,579</b>	<b>1,444,901</b>

	2010 R	2009 R
<b>3. Intangible assets</b>		
<b>Computer software</b>		
<b>Opening Balance</b>		
Cost	795,691	771,977
Accumulated amortisation	(766,459)	(666,544)
<b>Net Book Value</b>	<b>29,232</b>	<b>105,433</b>
<b>Movement for the year:</b>		
Additions	66,025	36,268
Disposals		(12,554)
Amortisation on disposed assets		12,554
Amortisation	(43,213)	(112,469)
	<b>22,812</b>	<b>(76,200)</b>
<b>Closing Balance</b>		
Cost	861,716	795,691
Accumulated amortisation	(809,672)	(766,459)
<b>Net Book Value</b>	<b>52,044</b>	<b>29,233</b>
<b>4. Trade and other receivables</b>		
Rental deposit	52,154	52,154
Other receivables	180	64,385
	<b>52,334</b>	<b>116,539</b>
<b>5. Capital contribution</b>		
Value of assets acquired from National Treasury	918,752	918,752

	<b>2010 R</b>	<b>2009 R</b>
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## 6. Trade and other payables

Trade creditors	1,407,644	1,842,565
Accruals	547,730	690,016
	1,955,374	2,532,581

## 7. Provisions

	<b>Opening balance</b>	<b>Utilised during the year</b>	<b>Additions</b>	<b>Closing balance</b>
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### Reconciliation of the provisions - 2010

Leave pay benefits	333,884	(29,469)	55,537	359,953
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### Reconciliation of the provisions - 2009

Leave pay benefits	203,720	(50,527)	180,691	333,884
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## 8. Financial Obligation

Accrual in respect of straight line lease	188,686	202,841
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## 9. Revenue

Revenue comprises grants received from National Treasury	26,580,000	26,125,000
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## 10. Interest received

This is interest on available funds held in current accounts with financial institutions.

Bank Interest	95,875	217,921
Interest on staff loan	178	636
	96,053	218,557

	<b>2010 R</b>	<b>2009 R</b>
<b>11. Deficit</b>		
<i>Net deficit for the year has been arrived at after</i>		
Debiting		
Auditors remuneration	792,081	584,278
Current year fee	792,081	584,278
Professional services	2,500,802	3,913,251
Commissioners' expenses	192,068	51,439
Operating leases:		
Office premises/equipment	896,536	676,936
Depreciation and amortisation	780,328	976,687
Employee costs	15,524,701	13,801,734
Included in staff costs are:		
Defined contribution plan expense (See note 17)	2,116,044	1,387,470
<i>And after crediting:</i>		
Interest received:		
Bank Current account	95,876	217,921
Staff loans	177	636
	96,053	218,557
Number of employees at year end	34	30
<b>12. Interest paid</b>		
Interest	9,737	130,074
Late payment of tax	147,955	10,928
	<b>157,692</b>	<b>141,002</b>

	<b>2010 R</b>	<b>2009 R</b>
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### 13. Notes to the Cash flow statement

#### (a) Cash and cash equivalents

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

Cash on hand	2,601	4,124
Bank balance	127,490	584,880
	130,091	589,004

#### (b) Property, plant and equipment

During the year, the Commission acquired property, plant and equipment with an aggregate cost of R255 300 which was acquired by means of operational grant from National Treasury. Cash payment of R 159 275 and R66 025 were used to purchase plant and equipment and software respectively.

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

Deficit	(512,853)	(851,445)
<b>Non-cash Movements</b>	279,240	1,359,519
Depreciation	737,116	864,218
Amortisation	43,213	112,469
(Decrease)/Increase in accounts payable	(577,207)	126,397
Increase in provisions relating to employee costs	26,069	130,167
Straight line lease	(14,155)	88,068
Loss on sale of asset	-	3,548
Decrease in accounts receivable	64,204	34,652
Net cash flows from operating activities	(233,613)	508,074

### 14. Related parties transactions

All National Departments of Government and State-controlled entities are regarded as related parties in accordance with Circular 4 of 2005. The Financial and Fiscal Commission is a constitutional institution reporting to Parliament and National Treasury from which it received grants in the current and prior years. The following transactions and balances were recorded relating to transactions with related parties as defined.

	2010 R	2009 R
<b>Grants Received</b>		
National Treasury	26,580,000	26,125,000
<b>Service provided by related parties</b>		
South African Broadcasting Corporation	500	450
South African Revenue Services	2,992,371	3,741,462
Telkom	122,117	199,620
	3,114,988	3,941,532
<b>Loans to Commissioners</b>		
B. Khumalo	53,196	
	53,196	

*The loan is unsecured, bears no interest and is payable on 31 July 2010.*

#### 15. Irregular expenditure, Fruitless and wasteful expenditure

Opening Balance	-	-
Add: irregular expenditure: current year	53,196	-
Add: Fruitless and wasteful expenditure: current year	147,955	-
Irregular expenditure awaiting for condonation	201,151	-
Analysis of expenditure awaiting condonation per age classificaton		
Current year	Late payment of tax	147,955
	Long services Bonus	53,196
Total		201,151

#### 16. Financial Risk Management

##### Credit risk

Financial assets which potentially subject the Commission to concentrations of credit risk is principally of receivables. Receivables are of a sundry nature and the credit risk is therefore limited, the credit risk is managed through periodic reviews of the level of bad debts. Accordingly the Commission has no significant concentration of credit risk and management has taken a decision not to implement any sensitivity analysis.

#### *Interest rate risk*

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

#### *Fair Values*

At 31 March 2010 the carrying amounts of cash and cash equivalents, accounts payable and accounts receivable approximated their fair value due to the short term maturities of these assets and liabilities.

### **17. Deficit**

The Commission recorded a deficit of R512 853, which is attributable to non-cash items such as depreciation and increase in the Commission's research and support activities. The Commission has not incurred any bank overdraft in 2009/10.

### **18. Retirement benefits information**

During the year, the Financial and Fiscal Commission contributed to Momentum Provident Fund for all its employees. This constituted a defined contribution fund governed by the Pension Fund Act (Act 24 1956, as amended). In terms of the rules of the fund, the Commission is committed to contribute 12.5% of pensionable emoluments towards the retirement fund and 3.5% of pensionable emoluments towards an accident compensation fund. An Amount of R 2 116 044 (2009: R1 387 470) was recognised as an expense during the year for contributions to the retirement fund. FFC has no liability to members beyond what is contributed to the fund.

### **19. Operating lease commitments**

	<b>R</b>	<b>R</b>
Not later than 1 year	637,765	849,949
Later than 1 year but not later than 5 years	1,108,752	1,557,831
	<b>1,746,517</b>	<b>2,407,780</b>

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

### **20. Prior Year Adjustments**

The management of Financial and Fiscal Commission approved the performance bonuses for staff in July 2010. Since the financial records for the year 2008/9 were finalised at the time such amounts were initially recorded in the 2010/11 financial year as it was the date on which the decision was made. During the audit it was agreed that the amount should be accounted for in the financial year 2008/9 as it relates to the performance of 2008/9. As this transaction pertains to the previous financial year, statement of financial position figures are restated as follows:

## CAPITAL, RESERVES AND LIABILITIES

### Balance Sheet Extract

	Actual 2008/9	Correction	Corrected Actual 2008/9
<b>Capital and reserves</b>			
Accumulated deficit	-1,118,365	(690,016)	-1,808,381
<b>Current liabilities</b>			
Trade and other payables	1,842,565	690,016	2,532,581

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

During the 2007/08 and 2008/9 financial year management changed the estimated useful lives of plant and equipment to comply with the International Accounting Standard (IAS 16) Property, Plant and Equipment. These changes were incorrectly recorded to the cost and depreciation of the individual assets (i.e. Computer equipment, Furniture and Fittings and Motor Vehicle). During the 2009/10 audit it was agreed that the correction be recorded in the respective years in which the error occurred. The restated figures are as follows:

	Computer Equipment R	Motor Vehicle R	Furniture & Fittings R	Total R
<b>2009</b>				
<b>Opening Balance</b>				
Actual Cost	1,932,929	72,044	2,875,814	4,880,787
Actual Accumulated depreciation	(1,681,193)	(65,494)	(1,786,582)	(3,533,269)
<b>Net Book Value</b>	<b>251,736</b>	<b>6,550</b>	<b>1,089,232</b>	<b>1,347,518</b>
<b>Correction</b>				
Correction of Adjustment Estimates	89,878	6,550	125,889	222,317
Correction of classification	5,618		-5,618	-
Restated Cost	1,848,669	65,494	2,744,307	4,658,470
Restated Accumulated depreciation	-1,591,315	-58,944	-1,660,693	-3,310,952
<b>Corrected Net Book Value</b>	<b>257,354</b>	<b>6,550</b>	<b>1,083,614</b>	<b>1,347,518</b>

## 21. Remuneration for Commission Members

Year ended 31 March 2010

	Salary R	Pension contributions R	Other contributions R	Total R
<b>Executive Commissioners</b>				
B Setai - Chairperson	1,087,490	123,334	54,288	1,265,112
B Khumalo- Deputy Chairperson	950,060	-	72,587	1,022,647
				-
	<b>2,037,550</b>	<b>123,334</b>	<b>126,875</b>	<b>2,287,759</b>
<b>Non Executive Commissioners</b>				
T Ajam	67,068	-	-	67,068
N Shezi	19,139	-	-	19,139
D Savage	30,855	-	-	30,855
L Abrahams	23,763			23,763
	<b>186,148</b>	<b>-</b>	<b>-</b>	<b>186,148</b>
<b>TOTAL</b>	<b>2,223,698</b>	<b>123,334</b>	<b>126,875</b>	<b>2,473,907</b>

## Year ended 31 March 2009

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

## 22. Reconciliation between budget and statement of financial performance

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

Net deficit per the statement of financial performance	(512,853)
<b>Adjusted for:</b>	
Depreciation and amortisation	780,328
Straight line lease	(14,155)
Net surplus per approved budget	<u>253,321</u>

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

# CHAPTER 7

## HUMAN RESOURCE MANAGEMENT

### 7.1 OVERVIEW OF HUMAN RESOURCE ACTIVITIES

The Financial and Fiscal Commission has utilised the 2009/10 reporting period to address implementation of aspects of the Human Resources Strategy and Policy that was aligned to the Commission's 2009 to 2014 Strategic Plan.

A key development in terms of human resources has been the implementation of a reconstituted Executive Manager division in the organisation. This post was originally accountable for the broad spectrum of Commission Services, corporate affairs and support services. The reconfigured structure that was implemented during the reporting period has made distinction between the Commission Services portfolio (now residing under the Commission Secretary post) and the corporate services component of the function, Human Resources, Information Technology and Facilities (under the recently appointed Corporate Services Manager).

These developments will ensure that implementation of the Commission Strategy receives appropriate focus and accountability within the designated functions.

During the reporting period the Commission also implemented a revision of the Finance Department structure. This revised structure was designed to improve the department's pivotal role in providing input, guidance and monitoring to the Commission.

A feature of this structural revision has been the identification and development of current internal resources, through the establishment of mentor-supported Trainee posts, to provide core functional expertise for Financial Accounting, Procurement and Accounts Clerical tasks.

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

Capacity expansion was evidenced through the appointment of ten staff members over the reporting period (including two Fixed-Term Contract employees). Six of these appointments were made to the Recommendations Research Program and four to Commission Support Services.

Seven of the 2009/10 appointments were at the Middle and Senior Management Levels – in line with the capacity building initiatives identified in the Strategy.

The Commission reported four terminations for the 2009/10 reporting period – two resignations and two expiries of fixed-term contracts. This is a decrease on previous reporting periods – staff terminations for 2008/09 were seven and eleven were reported for 2007/08.

This decrease in staff turnover is accounted for by initiatives implemented in terms of Staff Retention Policies.

These developments have resulted in an overall increase in the Commission Staff complement, which at the close of the reporting period was recorded at 36 staff members.

During the reporting period the Commission implemented a Revised Performance Management Framework based, in part, on the DPSA / National Treasury guidelines for Performance Management within the Public Sector.

The implementation process for the revised performance management system included Executive Committee and general staff consultative workshops.

All staff Performance Agreements for 2009/10 were drawn in line with the provisions of the revised policy.

Mid-term performance reviews were conducted and in March 2010 the first Annual Performance Evaluations, under the new system, were implemented for all applicable staff.

The FFC's Employment Equity Plan has identified the appointment of female staff at the Professional (09 – 12) and Senior Management Services (13 – 16) Levels as a key equity target. The Plan targets a Male / Female employee ratio of 60% / 40% for both these occupational categories.

During the 2009/10 reporting period this target was exceeded for the Professional Occupational Category – currently at 38.9% Male and 61.1% Female. In the Senior Management Occupational Category the ratio is currently 87.5% Male and 12.5% Female.

For the SMS category the FFC will need to implement a targeted selection strategy for future appointments to meet the gender ratio. Posts identified in the revised organisational structure and future recruitment strategy provide opportunity for this to be achieved.

The last Employment Equity report was submitted to the Department of Labour in October 2008 and the next report is due in October 2010.

For the 2009/10 reporting period the Commission invested a total of R142 583 (92 training day's equivalent) in employee skills training and development. This translates to average training days per employee of 2.5 at an average cost of R3 961 per employee for the reporting period. A further R11 110 was invested in employee part-time educational assistance.

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

## 7.2 OVERVIEW OF HUMAN RESOURCE ACTIVITIES

**Table 2.1: Personnel Costs by Salary Bands, 2009/10**

Salary Bands	Personnel Expenditure	% of Total Personnel Cost	Average Personnel Cost Per Employee
Salary levels 1 - 2	R 134 069.00	0.8	R 67 034.50
Salary levels 3 - 5	R 801 297.22	5.0	R200 324.31
Salary levels 6 - 8	R 475 568.29	3.0	R158 522.76
Salary levels 9 - 12	R7 344 984.53	46.2	R386 578.13
Salary levels 13 - 16	R7 147 386.39	45.0	R595 615.53
<b>Total</b>	<b>R15 903 305.43</b>	<b>100</b>	<b>R397 582.64</b>

**Table 2.2: Salaries, Overtime and Medical Assistance by salary bands, 2009/10**

Salary Bands	Salaries		Overtime		Medical Assistance	
	Amount (R'000)	% of personnel cost	Amount (R'000)	% of personnel cost	Amount (R'000)	% of personnel cost
Salary levels 1 - 2	R 80 371.18	60.0	0	0	R 37 866.00	28.2
Salary levels 3 - 5	R 552 453.38	68.9	0	0	R 160 213.00	20.0
Salary levels 6 - 8	R 395 777.27	83.2	0	0	R 12 828.00	2.7
Salary levels 9 - 12	R6 098 852.60	83.0	0	0	R 499 441.00	6.8
Salary levels 13 - 16	R6 220 250.96	87.0	0	0	R 402 067.00	5.6
<b>Total</b>	<b>R13 347 705.39</b>	<b>83.9</b>	<b>0</b>	<b>0</b>	<b>R1 112 415.00</b>	<b>7.0</b>

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

## 7.3 EMPLOYMENT AND VACANCIES

**Table 3.1: Employment and Vacancies by Salary Bands, 31 March 2010**

Salary Band	Number of Posts	Number of Posts Filled	Vacancy Rate %	Additional to the establishment
Salary levels 1 - 2	2	2	0	0
Salary levels 3 - 5	4	4	0	0
Salary levels 6 - 8	2	2	0	0
Salary levels 9 - 12	20	18	10%	0
Senior Management (13 – 16)	12	10	17%	0
<b>Programme Total</b>	<b>40</b>	<b>36</b>	<b>10%</b>	<b>0</b>

## 7.4 JOB EVALUATION

No Job Evaluation was conducted at the Financial and Fiscal Commission for the reporting period 2009/10.

**Table 4.1: Employment and Vacancies by Salary Bands, 31 March 2010**

Occupation	Number of Employees	Job Evaluation Level	Remuneration Level	Reason for deviation
Research Specialist	1	12	Between 12 - 13	Retention Strategy
Senior Researcher	2	12	Between 12 - 13	Retention Strategy
Manager: Library and KM	1	12	Between 12 - 13	Retention Strategy
Facilities Manager	1	11	12	Post previously benchmarked against Private Sector rates
Personal Assistant	1	09	10	As above
Driver / office Assistant	1	05	08	As above
Receptionist / Travel Desk	1	04	08	As above
General Office Assistant	1	03	06	As above

**Table 4.2 Profile of Employees whose Salary Level Exceeds the Grade Determined by Job Evaluation – 01 April 2009 to 31 March 2010**

Beneficiaries	African	Indian	Coloured	White	Total
Female	1	-	2	2	5
Male	4	-	-	-	4
<b>Total</b>	<b>5</b>	<b>-</b>	<b>2</b>	<b>2</b>	<b>9</b>

## 7.5 EMPLOYMENT CHANGES

**Table 5.1: Employment and Vacancies by Salary Bands, 31 March 2010**

Salary Bands	Number of employees per Level as at 01 April 2009	Appointments and Transfers In	Terminations and Transfers Out	Turnover rate
Salary levels 1 - 2	1	1	-	+1
Salary levels 3 - 5	4	-	-	-
Salary levels 6 - 8	3	1	1	-
Salary levels 9 - 12	13	5	1	+4
Senior Management 13 - 16	9	3	2	+1
<b>Total</b>	<b>30</b>	<b>10</b>	<b>4</b>	<b>+6</b>

**Table 5.2: Reasons why Staff is Leaving the FFC**

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

**Table 5.3: Promotions by Salary Band**

<b>Salary Band</b>	<b>Employees 01 April 2009</b>	<b>Promotions to another salary level</b>	<b>Salary Band promotions as a % of employees by salary level</b>
Salary levels 1 - 2	1	-	-
Salary levels 3 - 5	4	-	-
Salary levels 6 - 8	3	1	33.3%
Salary levels 9 - 12	13	1	7.7%
Senior Management (13 – 16)	9	-	-
<b>Total</b>	<b>30</b>	<b>2</b>	<b>6.7%</b>

## 7.6 EMPLOYMENT EQUITY

**Table 6.1: Total Number of Employees (FFC secretariat staff) in each of the following Occupational Categories as at 31 March 2010**

Occupational Categories	Male				Female				TOTAL
	African	Coloured	Indian	White	African	Coloured	Indian	White	
Legislators, senior officials and managers	5	-	-	1	1	-	-	-	7
Professionals	4	1	1	1	6	2	-	3	18
Technicians and associate professionals	-	-	-	-	-	-	-	-	-
Clerks	1	-	-	-	3	2	-	-	6
Service and sales workers	-	-	-	-	-	-	-	-	-
Skilled agricultural and fishery workers	-	-	-	-	-	-	-	-	-
Craft and related trades workers	-	-	-	-	-	-	-	-	-
Plant and machine operators and assemblers	-	-	-	-	-	-	-	-	-
Elementary occupations	-	-	-	-	2	-	-	-	2
<b>Total Permanent</b>	<b>10</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>12</b>	<b>4</b>	<b>-</b>	<b>3</b>	<b>33</b>
Non-permanent employees	1	-	-	-	-	-	-	-	1
<b>Total</b>	<b>11</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>12</b>	<b>4</b>	<b>-</b>	<b>3</b>	<b>34</b>

Persons with disabilities	-	-	-	-	-	-	-	-	0
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Note: the FFC does not provide a Home Owners Allowance benefit.

**Table 6.2: Total Number of Employees (FFC secretariat staff) in each of the following Occupational Levels as at 31 March 2010**

Occupational Bands	Male				Female				TOTAL
	African	Coloured	Indian	White	African	Coloured	Indian	White	
Top Management	-	-	-	-	-	-	-	-	-
Senior Management	5	-	-	1	1	-	-	-	7
Professionally qualified and experienced specialists and mid-management	3	1	-	1	2	2	-	1	10
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	1	-	1	-	4	-	-	2	8
Semi-skilled and discretionary decision making	1	-	-	-	3	2	-	-	6
Unskilled and defined decision making	-	-	-	-	2	-	-	-	2
<b>Total Permanent</b>	<b>10</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>12</b>	<b>4</b>	<b>-</b>	<b>3</b>	<b>33</b>
Non-permanent employees	1	-	-	-	-	-	-	-	1
<b>Total</b>	<b>11</b>	<b>2</b>	<b>-</b>	<b>2</b>	<b>12</b>	<b>4</b>	<b>-</b>	<b>3</b>	<b>34</b>

Persons with disabilities	-	-	-	-	-	-	-	-	0
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**Table 6.3: Recruitment for the Period 01 April 2009 to 31 March 2010**

Occupational Bands	Male				Female				TOTAL
	African	Coloured	Indian	White	African	Coloured	Indian	White	
Top Management	-	-	-	-	-	-	-	-	-
Senior Management	-	-	-	-	1	-	-	-	1
Professionally qualified and experienced specialists and mid-management	-	-	-	1	-	1	-	-	2
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	1	-	1	-	-	-	-	1	3
Semi-skilled and discretionary decision making	-	-	-	-	-	-	-	-	-
Unskilled and defined decision making	-	-	-	-	1	-	-	-	1
<b>Total Permanent</b>	<b>1</b>	<b>-</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>1</b>	<b>-</b>	<b>1</b>	<b>7</b>
Non-permanent employees	1	-	-	-	1	-	-	1	3
<b>Total</b>	<b>2</b>	<b>-</b>	<b>1</b>	<b>1</b>	<b>3</b>	<b>1</b>	<b>-</b>	<b>2</b>	<b>10</b>

**Table 6.4: Promotions for the Period 01 April 2009 to 31 March 2010**

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

Table 6.5: Terminations for the Period 01 April 2009 to 31 March 2010

Occupational Bands	Male				Female				TOTAL
	African	Coloured	Indian	White	African	Coloured	Indian	White	
Top Management	-	-	-	-	-	-	-	-	-
Senior Management	-	-	-	-	-	-	-	1	1
Professionally qualified and experienced specialists and mid-management	-	1	-	-	-	-	-	-	1
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	-	-	-	-	-	-	-	-	-
Semi-skilled and discretionary decision making	-	-	-	-	-	-	-	-	-
Unskilled and defined decision making	-	-	-	-	-	-	-	-	-
<b>Total Permanent</b>	-	<b>1</b>	-	-	-	-	-	<b>1</b>	<b>2</b>
Non-permanent employees	-	-	-	-	1	-	-	1	-
<b>Total</b>	-	<b>1</b>	-	-	<b>1</b>	-	-	<b>2</b>	<b>4</b>

Table 6.6: Disciplinary Action for the Period 01 April 2009 to 31 March 2010

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

Table 6.7: Skills Development for the Period 01 April 2009 to 31 March 2010

Occupational Bands	Male				Female				TOTAL
	African	Coloured	Indian	White	African	Coloured	Indian	White	
Legislators, senior officials and managers	2	-	-	-	-	-	-	-	2
Professionals	1	-	-	-	2	-	-	2	5
Technicians and associate professionals	-	-	-	-	-	-	-	-	-
Clerks	1	-	-	-	1	-	-	-	2
Service and sales workers	-	-	-	-	-	-	-	-	-
Skilled agricultural and fishery workers	-	-	-	-	-	-	-	-	-
Craft and related trades workers	-	-	-	-	-	-	-	-	-
Plant and machine operators and assemblers	-	-	-	-	-	-	-	-	-
Elementary occupations	-	-	-	-	-	-	-	-	-
<b>Total Permanent</b>	-	-	-	-	-	-	-	-	-
Non-permanent employees	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>4</b>	-	-	-	<b>3</b>	-	-	<b>2</b>	<b>9</b>

Persons with disabilities	-	-	-	-	-	-	-	-	0
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## 7.7 PERFORMANCE REWARDS

Table 7.1: Performance Rewards, by Race, Gender and Disability, 01 April 2009 to 31 March 2010

	Number of beneficiaries	Total Number of employees in group	% of total within group	Cost (R'000)	Average cost per employee
<b>African</b>					
Male	4	13	30.8%	115 865	28 966
Female	2	12	16.7%	38 548	19 274
<b>Indian</b>					
Male	0	1	0	0	0
Female	0	0	0	0	0
<b>Coloured</b>					
Male	0	1	0	0	0
Female	0	4	0	0	0
<b>White</b>					
Male	0	2	0	0	0
Female	2	3	66.7%	42 141	21 071
<b>Total</b>	<b>8</b>	<b>36</b>	<b>22.2%</b>	<b>196 554</b>	<b>24 819</b>
Employees with disability	-	-	-	-	-

Table 7.2: Performance Reward by Salary Band for Personnel below Senior Management Service, 01 April 2009 to 31 March 2010

Salary Band	Number of beneficiaries	Number of employees	% of total within group	Cost	Average cost per employee	Total cost as % of total personnel cost
Salary levels 1 - 2	0	2	0	0	0	0
Salary levels 3 - 5	1	4	25%	8 074	8 074	1.0
Salary levels 6 - 8	0	2	0	0	0	0
Salary levels 9 - 12	5	18	27.8%	108 422	21 684	1.5
<b>Total</b>	<b>6</b>	<b>26</b>	<b>23.1%</b>	<b>116 496</b>	<b>19 416</b>	<b>1.3</b>

Table 7.3: Performance Related Rewards by Salary Band, for Senior Management Service, 01 April 2009 to 31 March 2010

Salary Band	Number of beneficiaries	Number of employees	% of total within group	Cost	Average cost per employee	Total cost as % of total personnel cost
Salary levels 13 - 16	2	10	20%	80 058	40 029	1.1
<b>Total</b>	<b>2</b>	<b>10</b>	<b>20%</b>	<b>80 058</b>	<b>40 029</b>	<b>1.1</b>

## 7.8 FOREIGN WORKERS

**Table 8.1: Foreign Workers by Salary Band, 01 April 2009 to 31 March 2010**

Salary Band	01 April 2009		31 March 2010		Change	
	Number	% of Total	Number	% of Total	Number	% of Total
Salary levels 1 - 2	0	0	0	0	0	0
Salary levels 3 - 5	0	0	0	0	0	0
Salary levels 6 - 8	0	0	0	0	0	0
Salary levels 9 - 12	0	0	0	0	0	0
Senior Management (13 - 16)	0	0	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

**Table 8.2: Foreign Workers by Major Occupation, 01 April 2009 to 31 March 2010**

Major Occupation	01 April 2009		31 March 2010		Change	
	Number	% of Total	Number	% of Total	Number	% of Total
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

## 7.9 LEAVE UTILISATION FOR THE PERIOD 01 APRIL 2009 – 31 MARCH 2010

**Table 9.1: Sick Leave 01 April 2009 to 31 March 2010**

Salary Band	Total days	% certification	No. of employees using sick leave	% of total employees using sick leave	Average per employee	Estimated cost	Total days with medical certification
Salary levels 1 - 2	8.5	82%	2	100%	4.25	2 649	7
Salary levels 3 - 5	29	97%	4	100%	7.25	11 324	28
Salary levels 6 - 8	27	70%	3	100%	9	20 784	19
Salary levels 9 - 12	108.5	80%	16	84%	6.8	181 418	87
Salary levels 13 - 16	44	75%	8	67%	5.5	152 805	33
<b>Total</b>	<b>217</b>	<b>80%</b>	<b>33</b>	<b>82.5%</b>	<b>6.6</b>	<b>368 980</b>	<b>174</b>

**Table 9.2: Disability Leave (Temporary and Permanent), 01 April 2009 to 31 March 2010**

No Disability Leave for the reporting period.

**Table 9.3: Annual Leave, 01 April 2009 to 31 March 2010**

Salary Bands	Total days taken	Number of employees in grade	Average per employee
Salary levels 1 - 2	28.5	2	14
Salary levels 3 - 5	91.5	4	23
Salary levels 6 - 8	61.5	3	21
Salary levels 9 - 12	317	19	17
Salary levels 13 - 16	197	12	16
<b>Total</b>	<b>695.5</b>	<b>40</b>	<b>17</b>

**Table 9.4: Leave Payouts for the Period 01 April 2009 to 31 March 2009**

Reason	Total Amount (R'000)	Number of employees	Average payment per employee
Leave payout for 2009/10 due to non-utilisation	-	-	-
Current leave payout on termination of service	29 469	4	7 367
<b>Total</b>	<b>24 469</b>	<b>4</b>	<b>7 367</b>

## 7.10 HIV/AIDS AND HEALTH PROMOTION PROGRAMS

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

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

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

The 2009/2014 Human Resource Strategy includes the implementation of staff HIV/Aids Awareness and Health Promotion Programs. The organisation will be installing a first aid station on site and an official will trained in all aspects of first aid support. This resource will cover general occupational health and safety issues as well as HIV/Aids related support in the workplace.

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

## 7.11 LABOUR RELATIONS

**Table 11.1: Collective Agreements, 01 April 2009 to 31 March 2010**

Total Collective Agreements	None
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**Table 11.2: Misconduct and Disciplinary Hearings Finalised, 01 April 2009 to 31 March 2010**

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

**Table 11.3: Grievances lodged for the period 01 April 2009 to 31 March 2010**

Number of grievances lodged	None
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**Table 11.4: Disputes lodged with councils for the period 01 April 2009 to 31 March 2010**

Number of disputes lodged	None
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**Table 11.5: Strike actions for the period 01 April 2009 to 31 March 2010**

Strike actions for the period	None
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**Table 11.6: Precautionary suspensions for the period 01 April 2009 to 31 March 2010**

Precautionary suspensions for the period	None
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## 7.12 SKILLS DEVELOPMENT

### Training provided 01 April 2009 to 31 March 2010

Occupational Categories	Gender	No. of employees as at 01 April 2009	Learnerships	Skills programmes and other short courses	Other forms of training	Total
Legislators, Senior Officials and Managers	Female	1	-	-	-	-
	Male	8	-	2	-	2
Professionals	Female	8	-	2	2	4
	Male	5	-	1	-	1
Clerks	Female	6	-	1	-	1
	Male	1	-	1	-	1
Elementary Occupations	Female	1	-	-	-	-
	Male	-	-	-	-	-
<b>Total</b>		<b>30</b>	-	<b>7</b>	<b>2</b>	<b>9</b>

## 7.13 INJURY ON DUTY

### Injury on duty, 01 April 2009 to 31 March 2010

Nature of Injury	Number	% of total
Required basic medical attention only	0	0
Temporary total disablement	0	0
Permanent disablement	0	0
Fatal	0	0
<b>Total</b>	<b>0</b>	<b>0</b>

## 7.14 UTILISATION OF SUPPLIERS AND CONSULTANTS

### 14.1: Suppliers

Name	Historically Disadvantaged Individual (HDI) Status	Value
Adcorp Talent Resourcing	Yes	23,515.92
American Express Card	No	800,767.70
American Express Travel	Yes	397,558.65
Aquazania Premium Water	No	18,600.77
Astrotech	No	9,530.40
ASYST Intelligence	No	21,117.36
Atio Corporation (Pty) Ltd	Yes	83,847.00
Avis Rent-A-Car	No	105,652.28
Avion Information Systems & Services CC	No	56,279.52
B C Rens	No	750.00
Banathi Catering	Yes	72,296.00
Broll Property Management	Yes	722,004.27
Business Day	Yes	2,137.44
Butterworths Publishers LexisNexis	Yes	4,364.03
Bytes Technologies	Yes	175,142.30
Capello's	No	39,442.04
Cape Argus	Yes	1,046.13
Computer Consulting Services	No	65,538.60
CCTV Direct	No	10,260.00
CHM Vuwani	Yes	15,342.12
Churchills International Express	Yes	20,101.31
City of Johannesburg	N/A	246.00
College Campus	No	7,490.00
Damelin	No	8,160.00
Datapro	No	467,682.74
DataDeal	No	145,572.88
DHL International (Pty) Ltd	No	8,065.83

Name	Historically Disadvantaged Individual (HDI) Status	Value
Diverso Technology	No	11,472.80
The Document Warehouse	No	3,111.63
Don Gresswell Library Products cc	No	1,322.40
Dot Office Stationery	No	26,032.07
Mokotedi Mogadime	Yes	16,000.00
Early Worx	No	5,792.40
Econometrix	No	53,694.00
Europcar	No	6,048.67
Fax Fix Automotion	Yes	1,692.00
Fig Technology (Pty) Ltd	No	48,888.90
Financial Mail	Yes	4,009.50
Fleet Street Publications	No	1,489.66
Flower Spot	No	1,560.00
Forest Technologies	No	102,087.00
Gauteng Printing	Yes	6,086.81
Hencetrade195 (PTY)Ltd	Nio	45,144.00
Independent Newspapers	Yes	5,575.80
IS Fax	No	18,399.94
Jade Lee Electrical	Yes	2,227.76
Ken Malherbe	No	2,421.00
Kistan Office Removals	Yes	4,206.60
Kroll Background Screening (Pty) Ltd	No	4,180.38
La Chaumiere Guest House	No	6,624.00
Leriba Lodge	No	135,347.80
Mail and Guardian	Yes	1,786.00
Makro	No	17,006.73
Moments Frames & D' Articles	No	661.20
Nashua MBL	No	380,701.37
Nashua Kopano	Yes	70,022.36
Nedfleet	No	19,375.60
Nedbank Credit Card		33,743.78
New Generation Solutions	No	277,323.62
Northern Cleaners CC	No	400.00
Optiplan	No	1,704.30
Parliamentary Monitoring Group	No	5,300.00
Pat Wood Works cc	Yes	2,100.00
Public Investment Corporation	N/A	599,015.77
Quest Computer Skill	No	1,950.00
Rentokil: Cape Town	No	35,612.65
Rentokil: Midrand	No	154,574.09
Request		1,747.87
Sabinet	No	48,978.96

<b>Name</b>	<b>Historically Disadvantaged Individual (HDI) Status</b>	<b>Value</b>
SABC	N/A	500.00
Shauns Plumbing	No	1,339.15
Siphumelele Zacron	Yes	2,793.00
Softline Pastel	No	12,129.00
South African Reserve Bank	N/A	280.00
Stationery for Africa	No	1,216.38
Steiner Cape Town	No	21,799.90
Steiner Midrand	No	27,773.53
Steers Afrovan	No	8,327.70
South African Post Office	N/A	1405.00
Take Care	No	3,971.84
Tenaka's Tribe Interactive	Yes	82,541.05
Telkom	N/A	138,753.28
Tenaka's Tribe Productions (Pty) Ltd	Yes	541,388.36
Trisha Delisha	Yes	6,274.35
Unisa	N/A	2,640.00
University of Western Cape	N/A	165.00
Vendor International (Pty) Ltd	No	39,392.82
Waltons Stationery Midrand	No	8,917.34
Waltons Stationery Cape Town	No	5,159.58
Zenprop Property Holdings	No	46,511.56
Zimele Traders	Yes	23,780.00

#### 14.2: Consultants

<b>Name</b>	<b>Historically Disadvantaged Individual (HDI) Status</b>	<b>Value</b>
Auditor General	N/A	798,237.88
CL Machete	Yes	42,000.00
J K Sithole	Yes	20,051.00
Eugene Sklar	No	18,696.00
Hoosen Wadiwala Inc	Yes	15,390.00
Kristina Davidson	No	11,200.00
EVO Consulting Services	No	51,740.70
Ismael Fofana	Yes	203,040.00
Pierre Hugo	No	18,000.00
Leshiretse Mphahlele	Yes	25,320.00
Price Waterhouse Coopers	Yes	90,052.59
SE Makhubu and Associates	Yes	606,673.60
University of Stellenosch	N/A	1,120,000.00

## APPENDIX A: ABBREVIATIONS AND ACRONYMS

ABET	Adult Basic Education and Training
AFDC	Aid to Families with Dependent Children
AFS	Annual Financial Statements
AMPS	All Media and Products Survey
ASGISA	Accelerated and Shared Growth Initiative for South Africa
AusAid	Australian Aid
Capex	Capital Expenditure
CCT	Conditional Cash Transfer
CGE	Computable General Equilibrium Model
CMA	Catchment Management Agency
CMTF	Consolidated Municipal Transformation program
CPI	Consumer Price Index
CRUs	Community Rental Units
CSG	Child Support Grant
CWSS	Community Water and Sanitation Services
DBSA	Development Bank of Southern Africa
DFID	Department of International Development
DG	Disability Grant
DMTN	Domestic Medium Term Note
DoE	Department of Education
DoT	Department of Transport
DPLG	Department of Provincial and Local Government
DPW	Department of Public Works
DRZ	Designated Restructuring Zones
DSD	Department of Social Development
DWAF	Department of Water Affairs and Forestry
EITC	Earned Income Tax Credit
EMS	Emergency Medical Services
ENERGYS	Engineers Now to Ensure Roll-out by Growing Young Skills
EPWP	Expanded Public Works Programme
EU	European Union
FCG	Foster Care Grant
FIFA	Fédération Internationale de Football Association
FFC	Financial and Fiscal Commission
FMG	Financial Management Grant
GDP	Gross Domestic Product

GHS	General Household Survey
GSDM	Greater Sekhukhune District Municipality
HAART	Highly Active Antiretroviral Treatment
IDP	Integrated Development Plan
IES	Incomes and Expenditure Survey
IHHS	Integrated Housing and Human Settlement Development Grant
IGP	Infrastructure Grant for Provinces
ISRDP	Integrated Sustainable Rural Development Program
IWRM	Integrated Water Resources Management
LED	Local Economic Development
LES	Local Government Equitable Share
LGTP	Local Government Transformation Programme
LGNET	Local Government Network
LGRC	Local Government Resource Centre
LGSETA	Local Government Sector Education and Training Authority
LGSP	Local Governance Support Programme
MDGs	Millennium Development Goals
MFMTAP	Municipal Finance Management Technical Assistance Programme
MIG	Municipal Infrastructure Grant
MSIG	Municipal Systems Improvement Grant
MSP	Municipal Support Program
MTEF	Medium-Term Expenditure Framework
MTBPS	Medium-Term Budget Policy Statement
NALEDI	National Labour and Economic Development Institute
NCBF	National Capacity-Building Framework
nDoH	National Department of Housing
NDoH	National Department of Health
nDoT	National Department of Transport
NERSA	National Energy Regulator of South Africa
NGO	Non Governmental Organisation
NRB	National Roads Board
NRF	National Road Fund
NSDP	National Spatial Development Plan
NTC	National Transport Commission
OECD	Organisation for Economic Cooperation and Development
PALAMA	Public Administration Leadership and Management Academy
PES	Provincial Equitable Share
PFMA	Public Finance Management Act
PHC	Primary Health Care
PIG	Provincial Infrastructure Grant
PLTF	Provincial Land Transport Framework
PPP	Public Private Partnerships
PRWORA	Personal Responsibility and Work Opportunity Act
PTIS	Public Transport Infrastructure and Systems Grant
RDP	Reconstruction and Development Programme
RHA	Rental Housing Act
SAICE	South African Institute of Civil Engineers
SALGA	South African Local Government Association
SANRAL	South African National Road Agency Ltd

SARCC	South African Rail Commuter Corporation
SASSA	South African Social Security Agency
SDA	Service Delivery Agreement
SDF	Service Delivery Facilitator
SETA	Sector Education and Training Authority
SH	Social Housing
SHA	Social Housing Act
SHF	Social Housing Foundation
SHIs	Social Housing Institutions
SHRA	Social Housing Regulatory Authority
SHRCG	Social Housing Restructuring Capital Grant
SOCPEN	Social Pension System
SSP	Sector Skills Plan
StatsSA	Statistics South Africa
TANF	Temporary Assistance to Needy Families
UIF	Unemployment Insurance Fund
URP	Urban Renewal Programme
USAID	United States Agency for International Development
WHO	World Health Organisation
WISA	Water Institute of South Africa
WMA	Water Management Areas
WMI	Water Management Institutions
WSSCU	Water Sector Support Coordinating Unit

## APPENDIX B: PUBLICATIONS AND OUTPUT OF RESEARCH AND RECOMMENDATIONS PROGRAM

### Commission Papers

- Financial and Fiscal Commission Submission for the Division of Revenue 2010/11, a 126 page report submitted in terms of Section 214 (2) and Section 229 (5) of the Constitution, and Section 9 of the Intergovernmental Fiscal Relations Act, 1997 (No. 97 of 1997)
- Division of Revenue Bill 2010/11 response to recommendations
- Financial and Fiscal Commission Submission on Draft Money Bills Amendment Procedure and Related Matters Bill [B75-2008] in order to promulgate Money Bills Amendment Procedure and Related Matters Act, 2009 (No. 9 of 2009)
- Financial and Fiscal Commission Response to Medium Term Budget Policy Statement (MTBPS)
- Financial and Fiscal Commission Submission on Seventeenth Constitutional Amendment Bill [B8-2009]
- Financial and Fiscal Commission Submission on Eighteenth Constitutional Amendment Bill of 2009

### Journal Articles

- Amusa, H., Amusa, K., and Mabugu, R., (2009) "Aggregate demand for electricity in South Africa: an analysis using the bounds testing approach to cointegration", *Energy Policy*, 37 (10) Oct : 4167-4175
- Fofana, I. M Chitiga and R. Mabugu (2009). "Oil prices and the South African economy: a macro-meso-micro analysis." *Energy Policy*, 37 : 5509-5518
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- Mabugu, R., M. Chitiga and H. Amusa. (2009). "The economic consequences of a fuel levy reform in South Africa." *SAJEMS NS* 12(3): 280-296
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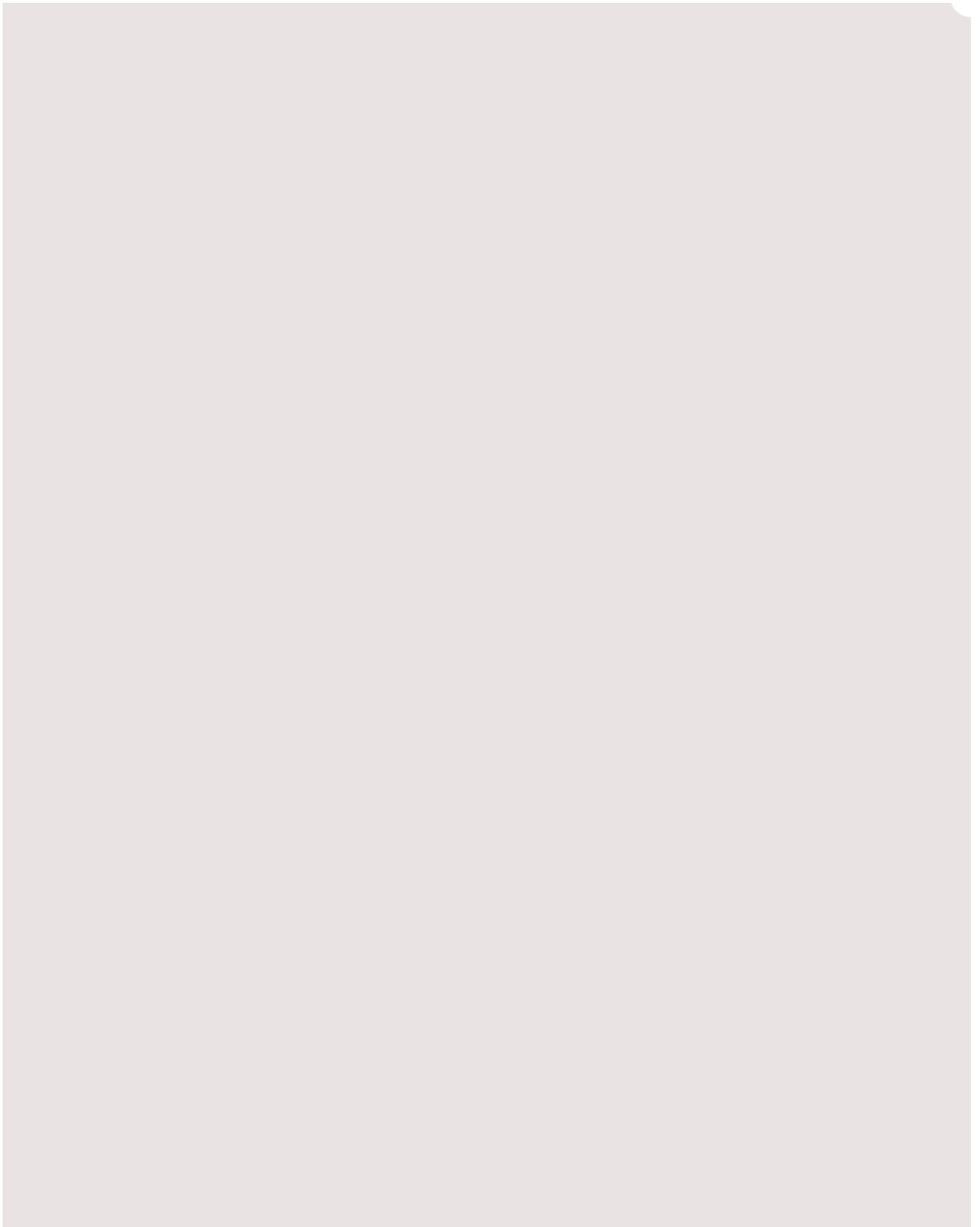
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The broad principles governing government's response include avoiding the risk of unfairly placing the burden of the global economic downturn on the poor and vulnerable.

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