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ANNUAL REPORT

For an Equitable Sharing of National Revenue

FINANCIAL
AND FISCAL
COMMISSION

For an Equitable Sharing of National Revenue

2012/2013
Annual Report

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CHAPTER 1

Legislative Mandate

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LEGISLATIVE MANDATE

The Financial and Fiscal Commission (the Commission) derives its mandate from the **Constitution of the Republic of South Africa Act No. 108 of 1996 as amended.** Sections 220, 221, 222 of the South African Constitution (as amended) and related Sections 214(2), 219(5), 228(2)(b), 229(5), 230(2), 230A(2) provide, among others, that the Commission is an independent and impartial advisory institution, which the Government has to consult with regard to the 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 as amended.**

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CHAPTER 2

Chairperson's Review

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CHAIRPERSON'S REVIEW

The country is still suffering from the prolonged aftermath of the 2008 global economic crisis, which is fuelled by the Eurozone crisis, a slowdown in emerging markets and the fallout of US quantitative easing, compounded by internal domestic shocks. All of this is happening at a time when the fiscal space has been eroded and, given our debt situation, fiscal consolidation is likely to be the order of the day over the medium term; there are increased pressures for higher quality service delivery in education and health (among others) at provincial level and in basic services from local government. A decisive response is required from the intergovernmental system, in a context of huge variations in poverty, unemployment, fiscal capacity and institutional capacity across sub-national jurisdictions. In addition to the compelling equity dimensions and the realisation of socio-economic rights, the intergovernmental system also has to create incentives for performance and economic growth to fulfil the aspirations of the National Development Plan (NDP). It is against this background that the Financial and Fiscal Commission (the Commission) continues to make its contribution through evidence-based recommendations, grounded in quality research.

The year 2013 marks the end of my first term as Deputy Chairperson and the third year in the position of Acting Chairperson/Chief Executive (CE) of the Commission. It also marks the end of term for Commissioners David Savage and Krish Kumar. We are very grateful for their contribution, and for that of the other Commissioners, We have managed to achieve many of the key strategic objectives identified in the first-ever Five-Year Research Strategy that the Commission adopted in 2008 when we were first appointed.

In February, 2013, the President reappointed both me and Commissioner Kumar, and we are grateful for the confidence that has been shown in us.

For the year under review, the Commission fulfilled all its legal obligations and, with respect to its core mandate, timeously tabled not only the Submission for the Division of Revenue 2013/2014 but also submissions on the 2012 Medium Term Budget Policy Statement, 2013 Division of Revenue Bill, 2013 Fiscal Frameworks and Revenue Proposals, and the 2013 Appropriations Bill. In addition, the Commission briefed Parliament on the restructuring of the electricity distribution industry, the backlogs in issuing title deeds, progress in attaining the Millennium Development Goals, and the financing of housing. The Commission was also part of government policy task teams (review of the demarcation process, regulations and conditions of service for municipal staff and senior managers) and the Reference Group on the review of the local government equitable share formula.

Over the past year the Commission has continued to engage with and build capacity among stakeholders. Workshops on intergovernmental fiscal relations were held for Parliamentary researchers and two provincial legislatures (Eastern Cape and Gauteng), while two municipal councils were trained in council oversight tools. The Commission held a second round of public hearings on the local government fiscal framework (LGFF) and on housing finance, both of which attracted numerous stakeholders from the public, private and non-profit sectors. The final report on the LGFF was received with great interest by stakeholders both in and outside government. Parliament, SALGA and the Department of Cooperative Governance Technical MINMEC have been briefed on the LGFF report, and a briefing of the Department of Cooperative Governance Political MINMEC is scheduled for September 2013. The Commission has held bilaterals with key stakeholders to solicit their inputs on the housing finance options analysis, and the report is in the process of being finalised. The passion for the provision and funding of child welfare services was evident at the public hearings organised by the Commission. All stakeholders – from the private, public and non-profit sectors – agreed that child welfare services are crucial to the future of the country. The Commission has met with key stakeholders to solicit additional inputs on the draft report, which is in the process of being finalised.

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The Commission continues to fulfil its mandate supported by (among others) the research team, despite ongoing capacity constraints that are a result of the highly competitive market for financial and economic researchers and analysts. The under-resourced research function is complemented by other research networks and collaboration with similar institutions. In this regard, the Commission has concluded (or is in the process of concluding) Memoranda of Understanding (MOUs) with a number of institutions, including the Human Sciences Research Council of South Africa. MOUs provide a means of extending the limited human and financial resources available to the Commission.

The Commission has continued with the prudent management of its finances and, as a result, has managed to reduce its accumulated deficit by 51 per cent. We will continue to pursue this path and hope to eliminate the balance of the deficit in the current financial year. It is important to add here that this reduction in the accumulated deficit has been achieved without compromising delivery, as detailed in the Commission's strategic and annual performance plan.

In the period under review, the Commission has moved to a significantly higher plane, in terms of both its operations and its relationships with stakeholders in and outside of the state organs. The current Commissioners have delivered on the responsibilities entrusted to them by the President and the South African taxpayers, by using the allocated resources in a transparent, efficient and accountable manner. Yet the high vacancy rate within the Commission remains a challenge. Another challenge is that the position of Chairperson/CE of the Commission has remained vacant since 2010, when Dr Bethuel Setai's term of office expired. This, coupled with the legislated governance structure that conflates the position of Chairperson and Accounting Officer, imposes an enormous directing and administrative burden on the Deputy Chairperson. The other Commissioners are non-executive and do not always have sufficient time to devote to the Commission's work, which means that there are inadequate checks and balances in the exercise of directing and executing authority. In this regard, I would like to thank Commissioner Tania Ajam for the time that she has selflessly dedicated to assisting me in the business of the Commission, at no concomitant compensation. I also acknowledge the contribution of the other Commissioners who have indeed dedicated more than expected in terms of their appointment. Thank you in particular to Commissioner David Savage, for the dedication and effort that he put into building the local government capacity at the Commission.

In conclusion I would also like to thank the Minister of Finance for the work that he has been doing in trying to address and review the challenges of governance in the Commission emanating from the Financial and Fiscal Commission Act. I am looking forward to the amendment of the Act, as this would go a long way in addressing the governance challenges faced by the Commission.

Bongani Khumalo (Mr.)

Acting Chairperson / Chief Executive

CHAPTER 3

Approach, Achievements, Challenges and Way Forward

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APPROACH, ACHIEVEMENTS, CHALLENGES AND WAY FORWARD

3.1 Approach

The strategic direction of the Commission is reflected in its Corporate Strategic Plan and in the Estimates of National Expenditure. It is informed by, among others, the Commission's strategic outcomes-oriented goals of a sustainable and equitable system of Intergovernmental Fiscal Relations (IGFR); a "No surprises" and future-oriented approach to its endeavours; the making of evidence-based recommendations on effective policies; comprehensive and value-added engagement with stakeholders; the creation of knowledge that is relevant and enhances the developmental impact of public resources, through mobilising a balance of internal and external specialist talent that is commensurate with the needs of the Commission; creating and nurturing a dynamic, productive organisational culture; and balancing present and future demands so that effective performance ensues within the constraints of available resources.

3.2 Key Developments

The theme for the Commission's efforts for the year under review was Fiscal Levers for National Development, and the primary aim was to identify a set of fiscal levers that could be used to spur economic and social development over the next two decades. All spheres of government are empowered with fiscal levers and play important roles in economic development. As powers are increasingly devolved to the sub-national governments, some central questions remain: To what extent do the IGFR systems support poverty eradication? What can public and private interests do about the marginalisation of the poor? Can innovative investments, scaled-up successful projects and new institutions be designed to ensure inclusion and help manage the negative consequences of disparity and deprivation? The carefully coordinated role of the different spheres of government will be vital for attaining the NDP objective to eliminate poverty by 2030. However, achieving the NDP goals will not be possible without a greater understanding of the impact on the poor of emerging trends in intergovernmental relations and Government's fiscal policy stance in an increasingly uncertain global economic environment.

3.3 Achievements

Mandate

With respect to its mandate, the Commission successfully and timeously tabled, briefed, advised and participated in the following among others:

Subject	Parliament	Provincial Legislatures	Local Government	Other Organs of State
2013/ 2014 Submission for the Division of Revenue	Tabled and briefed	Tabled and briefed	Tabled and briefed	
2012 Medium Term Budget Policy Statement	Tabled and briefed			
Submission on the 2013 Division of Revenue Bill	Tabled and briefed	Tabled and briefed		
2013 Fiscal Frameworks and Revenue Proposals	Tabled and briefed			
2013 Appropriations Bill	Tabled and briefed			
Readiness of Metropolitan Municipalities to implement the Human Settlements Development Grant				Department of Cooperative Governance and Traditional Affair (CoGTA) Advisory
Urban Settlement Development Grant	Briefing			
Rural Households Infrastructure Grant	Briefing			
Backlog in the issuing of title deeds fast-tracking of process	Briefing			
Restructuring of the electricity distribution industry	Briefing			
The funding strategy and model for the maintenance, upgrading and rehabilitation of the electricity infrastructure, with specific reference to its impact on municipalities, on the practice of cross-subsidizing municipal services and on the agentisation of electricity distribution services	Briefing			
Progress in the attainment of the Millennium Development Goals	Briefing			
Governance arrangements of public entities	Briefing			
The financing of housing	Briefing			
The strategic plans, annual performance plans, budgets and audit outcomes of various national departments	Briefing			
Ministerial Task Teams on the review of the demarcation process				CoGTA Task Team
Ministerial Task Teams on the development of municipal staff regulations				CoGTA Task Team
Ministerial Task Teams on the development of regulations for the appointment and conditions of service of senior managers in local government				CoGTA Task Team

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Subject	Parliament	Provincial Legislatures	Local Government	Other Organs of State
Reference group on the review of the Local Government Equitable Share Formula				CoGTA Task Team
On In-year changes to budgets				CoGTA Task Team
The assignment of the administration of national housing programmes to six Metropolitan Municipalities by MECs				CoGTA Task Team
eNaTIS fees				CoGTA Task Team
Implementation of the Administrative Adjudication of Road Traffic Offences Act, 2008				CoGTA Task Team
Local Government Equitable Share				CoGTA Task Team
December 2011 National Government Intervention in the administration of financially distressed Provincial Government Departments	Parliament			

Research

The Commission's 2014/2015 Submission for the Division of Revenue was informed by in-depth and empirical research conducted in terms of the Commission's approved 2012/2013 Research Cycle Project Portfolio. The Submission was tabled before Parliament on 24 May 2013 and each completed research project resulted in a technical report and a policy brief.

Members of the Commission's research team presented papers at international workshops; authored several book chapters in international publications; had their papers accepted in a peer-reviewed working paper series (recognised by the Journal of Economic Literature) and several accredited and peer-reviewed working papers for the Social Sciences Research Network (SSRN) and Research Papers in Economics (RePEc). Further, the work of the Commission has received substantial coverage in the print and online media, including the Sunday Times, Daily Maverick, Business Day and Eye Witness News.

Capacity Building

As part of a stakeholder outreach programme, the Commission has sought to build capacity among stakeholders by providing training in IGFR to:

- Parliamentary researchers (on budget analysis, policy costing and the Millennium Development Goals);
- the Eastern Cape Provincial Legislature (on budget analysis);
- the Gauteng Provincial Legislature (on the fiscal framework, the division of revenue, and the Budget Review and Recommendations reports).

Further, and at the instance of Parliament, the Bushbuckridge and Nama Koi Municipal Councils were trained and certificated on council oversight tools.

Stakeholder Engagement

As reported previously, public hearings are expected to become a permanent feature of the Commission's annual stakeholder engagement programme. Public hearings about particular issues enable views to be solicited not only from government, but also from a plurality of stakeholders who have an interest in the issues but never the opportunity or platform to voice them. To that end, in the early part of the current financial year, the Commission held public hearings on the ***Provision and Funding of Child Welfare Services in South Africa*** and continues to engage with stakeholders regarding the Commission's initial proposals.

Collaboration

The Commission has concluded, or is in the process of concluding, Memoranda of Understanding (MOU) with a variety of institutions. This is in response to a shrinking resource envelope, the scarcity of skills and the general move to extensive networking in research. MOUs are already operational with the Human Sciences Research Council of South Africa (HSRCSA), the Municipal Demarcation Board (MDB) and the Food, Agriculture and Natural Resources Policy Analysis Network (FANRPAN). Work on child support grants and integrated spatial planning and development is ongoing with the HSRCSA; collaborative research on household vulnerability to climate change in South Africa is planned with FANRPAN, using a Household Vulnerability Index (HVI) developed by FANRPAN; and work with the MDB on the impact of the demarcation process on municipal viability is being considered.

Finally, the Commission continues to be a member and participate in the affairs of the Forum for Institutions Supporting Democracy, as recommended by the 2007 Report of the Parliamentary Ad Hoc Committee on the Review of Chapter 9 and Associated Institutions.

Facilities

One of the more notable successes of the cost-cutting measures introduced by the Commission in 2007 was a further substantial decrease in rental costs, through reducing the Commission's Cape Town office space by approximately 50 per cent.

Finance

During the financial year under review, the Commission managed to reduce its accumulated deficit of R3,735,992 by 51 per cent, through ongoing cost efficiencies and fiscal discipline. Reducing the office space in Midrand and Cape Town resulted in a total cost saving of R371,232 for the year. Other measures included the reduction of travelling costs and internal audit fees.

The Commission will continue to implement fiscal discipline in the current financial year.

Audit Outcomes

The opinion of the Auditor-General on the Commission's financial statements is unqualified, and there were no findings on the Report on Performance against Predetermined Objectives. This represents and is testimony to the fact that a great deal of effort has gone into improving systems and controls.

3.4 Challenges

Governance

Vacant Commission positions have still not been filled, and the situation has been exacerbated by an additional vacancy, which has put further strain on the Commission.

Research

As stated earlier, the Commission has limited resources to discharge its broad mandate. As a consequence, the Commission's research team is operating below capacity. This situation has been exacerbated by a skills shortage and the highly competitive market for financial and economic analysts, who are central to the delivery of quality and relevant products by the Commission.

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Stakeholder Engagement

Ever-increasing requests for advice from legislatures, government and other organs of state continue to exert pressure on the Commission's limited resources. There are not enough Commissioners and researchers to deal with an onerous stakeholder engagement workload; travelling and accommodation requirements are substantial; and funds dedicated to this function are insufficient.

Facilities

The Commission has no plans to renew its Midrand office lease, which expires at the end of March 2014, because of the challenges experienced with the management of the premises. In this regard, the Commission is already in discussion with the Public Investment Corporation and other providers to source alternative office accommodation.

Most of the Commission's moveable assets have been fully depreciated but remain serviceable. This carries with it a considerable burden in terms of time and money spent on the valuations that are required for accounting purposes.

The Commission's conferencing facilities are inadequate which has meant transport, accommodation and related costs have been incurred in circumstances where engagement using current communication technologies would have been appropriate and more cost effective.

Finance

The revenue allocated for 2013/14 financial year was R38,767,000. This represents a growth of four per cent from the previous year and is one per cent less than the original allocation, a decline that will continue over the Medium Term Expenditure Framework (MTEF) because of National Treasury's cuts to all baseline allocations. The Commission will therefore have to continue to implement and improve on its fiscal discipline during 2013/2014 and over the MTEF.

CHAPTER 4

The Commission

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4.1 Introduction: Commission Operating Environment

4.1.1 Internal Dynamics

The Commission's key competences remain its knowledge of the South African IGFR system, its position as one of the premier IGFR research institutions in the world and its ability to draw on the intergovernmental body of knowledge on international and local good practice. It also maintains strong links with the Executive, the legislatures, academia and other relevant stakeholders.

Furthermore, the Commission has a nuanced understanding of relevant policy matters. As Government moves towards its developmental agenda, a key concern of the Commission is how to make recommendations that enable the IGFR system to evolve in a manner that supports constitutional and developmental goals in a financially and fiscally sustainable manner.

As previously reported, the value for money and impact of the Commission's work continues to be evaluated, and the Commission's delivery model continues to be reviewed in the light of ongoing severe budget constraints. There is a need for a "leaner and meaner" and more efficient organisation. The review process is still unfolding, and an organisation development exercise and a risk assessment are work in progress.

In a knowledge-intensive domain, the Commission remains critically dependent on its key staff. Suitable research expertise is difficult to retain, and the specialist technical skills required mean that the pool from which to recruit talent is small. The Commission still struggles to develop a critical mass of research experience. Therefore, a priority of the Commission is to attract, manage and retain talent.

An important concern remains the unfilled position of Chairperson/CE of the Commission. This is an area that requires the intervention of the President of the Republic, and the Commission will continue to engage through the Minister of Finance in order to address this challenge.

Another concern is the continued conflation of the directing (Chairperson) and executive (Accounting Officer) authorities of the Commission in the Financial and Fiscal Commission Act. This is antithetical to good governance and requires an amendment to the Financial and Fiscal Commission Act. The separation of these roles will advance the good governance of the Commission enormously.

4.1.2 External Dynamics

During most of the 1990s and until 2007, South Africa's economy and government revenue grew steadily, thereby increasing the volume of financing for sub-national government. The higher government spending did not cause fiscal problems thanks, in part, to the thorough overhaul of tax administration and collection in the second half of the 1990s and to sustained positive economic growth from 1994 until 2008. In the late 1990s, rapid growth in tax revenues enabled Government to expand spending steadily and to reduce (and thereafter keep at manageable levels) budget deficits and the public debt burden.

The recent global economic and financial crisis dramatically changed the fiscal situation in the country. The sharp slowdown in economic activity and fears of a second recession led to reduced national government tax revenue. Yet government expenditures have increased, boosted by countercyclical outlays and the capitalisation of Eskom, among others. As a result, the national government's budget balance has deteriorated sharply, from a surplus of 0.9 per cent of gross domestic product (GDP) in 2007/08 to a deficit of 6.9 per cent in 2009/10[1]. Today the economy remains vulnerable to slow global recovery (slowdown in China's economic growth and decreased demand for South African exports by the European Union, South Africa's largest trading partner) and to domestic factors, such as the recent labour unrest.

Economic growth (in real terms) decreased from 2.8 per cent in 2010 to 2.5 per cent in 2012. Although the economy is growing and expected to recover slowly in the medium term, economic forecasts fall

[1]Government budget is an itemised accounting of the payments received by government (taxes and other fees) and the payments made by government (purchases and transfer payments). A budget deficit occurs when the government spends more money than it receives.

below the 5.4 per cent growth rate cited by Government as necessary to achieve its job-creation and poverty-reduction goals by 2030. Against this backdrop of slower-than-anticipated economic growth, a subsequent decline in revenue collection and a widening of the deficit, Government tabled a total national budget of R1.2 trillion, to be spent between the three spheres in 2013, growing to R1.3 trillion in 2015/2016.

National and provincial general elections are scheduled for the year 2014 and local government general elections for the year 2016.

National and provincial government elections in 2014 and local government 2016 which bring with them problems of paralysis in the period leading to the elections, and post-election transition issues such as new legislators and members of the executive who are not familiar with intergovernmental relations policy and practice.

4.1.3 Organisational Environment

Demand from stakeholders for the Commission's services has increased, placing a great deal of pressure on the already oversubscribed time of Commissioners and the Commission's limited financial and human resources (HR).

Following the 2009 national and provincial elections, new legislative and executive government structures, such as the Parliamentary Budget Office and the National Planning Commission, have been created, while the mandates of certain existing structures, such as the Department of Education, have been altered. The role of these entities and their relationship with the Commission have yet to be properly defined.

4.2 Composition

The Commission comprises of the following nine persons:

1. A Chairperson and Deputy Chairperson;

2. Three persons, appointed after consultation with the provincial premiers, from a list compiled in accordance with a process prescribed by national legislation;

3. Two 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 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 (IGFR) system. The Commission's shared values include empowerment, pro-activity, communication, teamwork, creativity, cooperation, integrity, objectivity, innovation and leadership excellence.

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4.3 Commissioners

Deputy Chairperson, Acting Chairperson/CE

Bongani Khumalo

Bongani Khumalo is the Acting Chairperson/CE of the Financial and Fiscal Commission. He was previously the Programme Manager for Fiscal Policy in the Secretariat of the Commission. He has worked on a variety of areas within the South African IGFR system, including the design of revenue-sharing formulae, sub-national fiscal frameworks, the financing of education, health care and social assistance, sub-national borrowing and taxation issues, and the design of conditional grants. Bongani lectured in economics at undergraduate and graduate levels at the University of Zimbabwe in Harare and at Rhodes University in Grahamstown South Africa. He joined the Commission in 1999 as a Researcher and in 2008 was appointed as the Deputy Chairperson of the Commission. He has published articles and contributed book chapters on IGFR and on public finance. His term of office expired on 28 February 2013 and has been extended until 28 February 2015. He has been acting as the Chairperson/CE of the Commission since 1 September 2010.

Commissioner

Tania Ajam

Tania Ajam is a public finance economist with broad experience in the design, analysis and implementation of fiscal policy, sectoral public budget management and government-wide monitoring and evaluation systems. Her principal areas of interest and expertise are IGFR, fiscal decentralisation, budget and public expenditure management reform, the restructuring of fiscal institutions and processes, monitoring and evaluation, and the role of information technology in enhancing performance orientation, accountability and public oversight. While lecturing at the School of Economics, University of Cape Town, in 1999 she set up the Applied Fiscal Research Centre (Pty) Ltd, a research-based training and consulting company affiliated to the University of Cape Town, and was its CEO until 2011. During that period she was also the Managing Director of PBS (Pty) Ltd, a company that designs performance information systems. Tania currently serves on the Financial and Fiscal Commission as a part-time Commissioner and is the chairperson of its Research Committee. She is also a non-executive director of the Reserve Bank of South Africa. Tania serves on the Financial and Fiscal Commission as a provincial nominee. She was reappointed as a Commissioner as of 1 July 2009 and her extended term of office ends on 30 June 2014.

Commissioner

Nelisiwe Shezi

Neli Shezi holds a Master's in Social Science (Economics) from the University of Natal (Pietermaritzburg). She is currently the Divisional Manager for Performance Reporting and Monitoring at Ithala Development Finance Corporation Limited. 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 reappointed as a Commissioner as of 1 July 2009 and her term of office expires on 30 June 2014.

Commissioner

David Savage

David Savage is specialist in IGFR and local service delivery. He has worked in the NGO sector, for 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 Master's in Public Administration and Policy from the London School of Economics, and a Master's in City and Regional Planning from the University of Cape Town. He is a national nominee appointed as of 1 March 2008 and his initial term of office expired on 28 February 2011. He was reappointed on 1 March 2011and his term of office expired on 28 February 2013. He is no longer a Commissioner.

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 become City Treasurer of the North and South Central Local Councils in 1997. In addition, in 1999 he was appointed City Treasurer of the Durban Metropolitan Council and in 2001 Deputy City Manager: Treasury. Krish is a member of the South African Local Government Association's (SALGA) Finance Working Group, Fellow of the Institute of Municipal Finance Officers (IMFO), Chairperson of the Municipal Chief Financial Officers (CFO) Forum, past President of IMFO, and member of the Accounting Standards Board. He is also chair of the eThekwini Risk and Managing the Municipality Committee. He was appointed as a Commissioner commencing on 1 March 2008 and his initial term ended on 28 February 2011. He was reappointed on 1 March 2011 and his term of office expired on 28 February 2013. He has been reappointed for a second five-year term until 28 February 2018.

Commissioner

Lucienne (Luci) Abrahams

Luci Abrahams is Director of the LINK Centre of the University of the Witwatersrand (Johannesburg), a public interest research centre, focusing on themes of 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 is on the Council on Higher Education and 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 1 July 2009 and her term of office expires on 30 June 2014.

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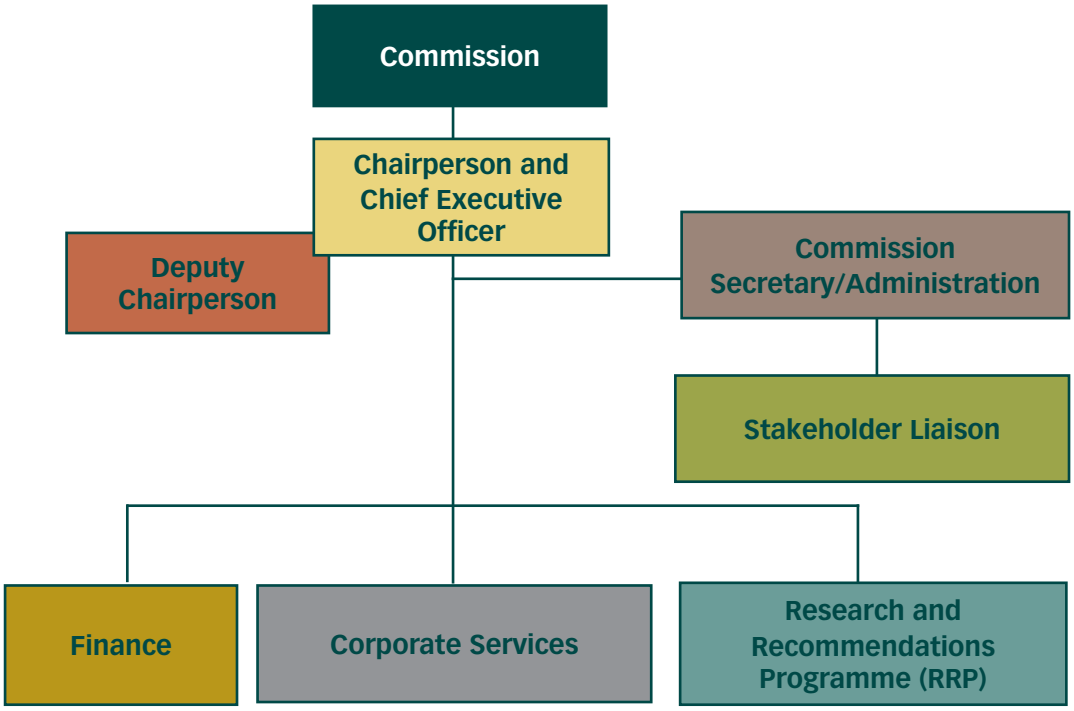
4.4 Structure



4.5 Corporate Governance

Since its inception, the Commission has put in place sound corporate governance structures and processes. These 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, which is benchmarked against the recommendations of the 2010 King Report on Governance for South Africa. The Commission also considers corporate governance to be a priority that requires more attention than merely establishing the steps to be taken to demonstrate compliance with legal and regulatory requirements.

During the year ahead, governance issues will continue to receive the Commission's and its committees' consideration and attention.

4.6 Commission Committees

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

4.6.1 Audit Committee

Membership

Jerry Sithole	Independent Chairperson of Committee
Tania Ajam	Commissioner
Mkuseli Bashe	Independent Member
Thembeka Semane	Independent Member
Duncan Ntuli	Independent Member

All Audit Committee members have extensive audit committee experience and are financially literate. The Chairperson/CE of the Commission attends Audit Committee meetings by invitation.

The Audit Committee was established primarily to assist the Commission in overseeing the 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 mandate of the Committee also includes oversight of the Commission's performance against predetermined objectives and the Commission's non-financial risk management and fraud prevention efforts.

4.6.2 Remuneration and Performance Review Committee (REMCO)

Membership

Nelisiwe Shezi	Part-time Commissioner and Chairperson
Krish Kumar	Part-time Commissioner
Andrè Michaux	Independent Member
Caleb Mabaso	Independent Member

The role of REMCO is to provide human resource (HR) guidance to the Commission. REMCO facilitates and promotes communication regarding HR-related matters and expedites matters referred to it by, or requiring decision on behalf of, the Commission. It also receives, processes and interprets inputs, reports and advice from Commissioners, the Commission's committees or the Chairperson/CE, and undertakes any other activity as may be required by the Commission or Chairperson/CE in the pursuance of its mandate

4.6.3 Research Committee

Membership

Tania Ajam	Commissioner and Committee Chairperson
Nelisiwe Shezi	Commissioner
Bongani Khumalo	Deputy Chairperson of the Commission and currently acting as Chairperson/CE of the Commission
Krish Kumar	Commissioner
David Savage	Commissioner
Lucienne Abrahams	Commissioner

The mandate of the Committee is to provide strategic 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 monitoring research plans, resources, outputs and external inputs, accepting and reviewing research proposals, and providing strategic direction and guidance during the research process. Equally critical is the Research Committee's role in managing the policy impact of the Commission's recommendations.

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4.7 Attendance of Meetings

Commissioners	Commission	Research	Audit	REMCO	Strategy	Parliamentary Briefing
Number of Meeting Days	**7**	**3**	**4**	**3**	**1**	**38**
Bongani Khumalo	7	3	3	1	1	31
Tania Ajam	7	3	4	-	1	8
Nelisiwe Shezi	2	3	-	3	1	-
Krish Kumar	2	2	-	3	1	-
David Savage	3	1	-	-	1	1
Lucienne Abrahams	6	3	-	-	1	2
Non-Commissioners	**Commission**	**Research**	**Audit**	**REMCO**	**Strategy**	**Parliamentary Briefing**
Number of Meeting Days			4			
Jerry Sithole			3			
Mkuseli Bashe			3			
Thembeka Semane			3			
Duncan Ntuli			3			

4.8 Remuneration of Commissioners

Section 221(3) of the Constitution and Section 8 of the Financial and Fiscal Commission Act deal with the tenure of office of Commissioners. Section 9 of the Financial and Fiscal Commission Act and Section 219(5) of the Constitution covers the remuneration, allowances and other benefits of the Commissioners, although the provisions of Section 219(5) have not been used.

4.9 Sustainability

4.9.1 Funding

The funds of the Financial and Fiscal Commission consist of money appropriated by Parliament for the purpose of the Commission, money earned on investments, money obtained by the alienation or letting of movable or immovable property, money accruing to the Commission from any other source, and money otherwise becoming available to the Commission.

4.9.2 Risk Management

The Commission has developed a comprehensive Risk Management Framework and a comprehensive Risk Management Plan that were reviewed during the financial year under review and are being implemented. The Commission conducts an annual Enterprise Risk Assessment.

4.9.3 Fraud Prevention

The Commission has developed and is implementing a comprehensive Fraud Prevention Plan, which is reviewed annually.

4.9.4 Performance Budgeting and Management

The Commission has customised and adopted the May 2007 National Treasury Framework for Managing Programme Performance Information and the August 2010 National Treasury Framework for Strategic Plans and Annual Performance Plans.

4.9.5 Balanced Scorecard Business Planning

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

4.9.6 Code of Ethics

The Commission has developed and adopted a Code of Ethics which was reviewed during the year under review.

4.9.7 Internal Controls

The Commission has developed and implemented a comprehensive system of internal controls.

4.9.8 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 and a detailed Communication/Stakeholder Management Programme. All of these were reviewed during this financial year.

4.9.9 Research Programme

The responsibility of the Research function of the Commission is to translate and implement the strategic direction of the Commission for research.

4.9.10 Corporate Services

The responsibility of the corporate services function is to translate and implement the strategic direction of the Commission for HR management, information and communication technology (ICT) and facilities management

4.9.11 Finance

The responsibility of the finance function of the Commission is to assist the Chairperson/CE of the Commission in the effective financial management of the Commission, including the exercise of sound budgeting and budgetary control practices, the operation of internal controls and the timely production of financial reports.

4.9.12 Performance Against Predetermined Objectives

Chapter 5 deals with the Commission's Performance Against Predetermined Objectives in more detail.

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CHAPTER 5

Performance

1. Statement of Responsibility for the Performance Information
2. Introduction
3. 2012/2013 Performance Information
4. Submission for the 2013/2014 Division of Revenue
5. Government Response to the Commission's 2012 Submission for the 2013/2014 Division of Revenue
6. Strategy to Address Areas of Under performance
7. In-year Changes to Planned Targets

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Performance

5.1 Statement of Responsibility for Performance Information

The Chief Executive Officer is responsible for the preparation of the public entity's performance information and for the judgements made in this information.

The Chief Executive Officer is responsible for establishing, and implementing a system of internal control designed to provide reasonable assurance as to the integrity and reliability of performance information.

In my opinion, the performance information fairly reflects the operations of the public entity for the financial year ended 31 March 2013.

Bongani Khumalo (Mr.)

Acting Chairperson/Chief Executive

31 May 2013

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5.2 Introduction

This chapter describes the achievements of the Commission in relation to the measurable strategic objectives outlined in the Commission's Strategic Plan:

1. To profile the Commission with a special focus on the Commission's Mandate, Vision, Mission and Role, the Commission's Short- and Long-Term Strategy, the Commission's position on specific issues, the Commission's Challenges and Achievements (objective 5.1.1).

2. To ensure that Commission research is converted to policy advice and recommendations written in a language that is accessible to policymakers (objective 5.1.2).

3. To ensure that policy advice and recommendations respond to the needs of stakeholders (objective 5.1.3).

4. To ensure the generation of quality, innovative, pioneering research that informs key IGFR strategic debates and choices (objective 5.1.4).

5. To produce evidence-based results (objective 5.1.5).

6. To ensure the progressive and innovative management of human resources that attracts, develops and retains key talent, and leverages external expertise (objective 5.1.6).

7. To ensure the coordinated, coherent, high-quality, innovative and cost-effective approach to ICT that meets the needs of the Commission, the Commission Secretariat and stakeholders (objective 5.1.7).

8. To ensure the coordinated, cost-effective and innovative management of Commission assets in support of delivery on the Commission's mandate (objective 5.1.8).

9. To ensure compliance with legislation and adherence to relevant corporate governance best practice (objective 5.1.9).

10. To ensure the creation of new knowledge, the institutionalization of such knowledge and its transfer to other role players within the intergovernmental fiscal relations system (objective 5.1.10).

11. To ensure the coordinated, cost-effective and innovative acquisition and management of Commission data, information and knowledge resources in support of delivery on the Commission's mandate (objective 5.1.11).

12. To ensure prudent and transparent management of the financial resources of the Commission (objective 5.1.12).

13. To ensure access to alternative sources of funding (objective 5.1.13).

The detailed performance information provided below indicates that the Commission has made significant progress in relation to its medium term goals, while at the same time showing improvement in its financial condition, as reflected in the audited financial statements.

5.3 Performance Information 2012 - 2013

Project/Activities (Input)	Output (Deliverable)	Key Performance Measure/Indicator	2011/2012 Actual	2012/2013 Annual Target	2012/2013 Actual	Variance
Measurable Strategic Objective 5.1.1: Profile the Commission with a special focus on the Commission's Mandate, Vision, Mission and Role; the Commission's Short- and Long-Term Strategy; the Commission's position on specific issues; and the Commission's Challenges and Achievements						
Legislature and Government Plan	Dissemination of Commission profferings, engagement with stakeholders and issues management	Number of Q2 to Q3 briefings on 2013/2014 Recommendations for the Division of Revenue by March 2013	5 Parliament	5 Parliament	Achieved	
			8 Provincial Legislatures	9 Provincial Legislatures	Achieved	
			1 SALGA	1 SALGA	Achieved	
			1 Government	1 Government	Achieved	
		Number of Q3 briefings on 2012 Medium Term Budget Policy Statement by March 2013	2 Parliament	1 Parliament	Achieved	Select and Standing Committees on Appropriations sitting separately in 2011/2012 and jointly in 2012/2013
		Number of Q4 briefings on Commission Submission to 2012 Division of Revenue Bill by March 2013	4 Parliament	2 Parliament	Achieved	Select and Standing Finance and Appropriations Committees sitting separately in 2011/2012 and jointly in 2012/2013
			1 Provincial Legislatures	9 Provincial Legislatures	Not achieved	Commission not called upon to comment by 8 Provincial Legislatures as required by legislation[2]
		Number of Q3 briefings on 2011/2012 Commission Annual Report in Q3	1 Parliament	1 Parliament	Not achieved	Not requested to brief Parliament
		Number of Q4 briefings to Fiscal Framework and Revenue Proposals by March 2013	4 Parliament	2 Parliament	Achieved	Select and Standing Finance and Appropriations Committees sitting separately in 2011/2012 and jointly in 2012/2013
		Number of Q4 Briefings on 2013 Appropriations Bill	1 Parliament	1 Parliament	Not achieved	Briefing only requested and made in May 2013
		Number of TCF[3] Meetings by March 2013	6	6	Achieved	
		Number of MINMECs[4] by March 2013	0	2	Achieved	
		Number of Budget Council Meetings by March 2013	2	2	Achieved	

[2] Section 4(4)(c) of the Money Bills Amendment Procedures and Related Matters Act

[3] Technical Committee on Finance

[4] Minister's and Members of Provincial Executives Committee on the Budget

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Project/Activities (Input)	Output (Deliverable)	Key Performance Measure/Indicator	2011/2012 Actual	2012/2013 Annual Target	2012/2013 Actual	Variance
Legislature and Government Plan cont ...	Dissemination of Commission profferings and engagement with stakeholders	Number of Public Hearings by March 2013	2	1 in Q1 and 1 in Q2	Achieved	
		Number of IGFR Workshops by March 2013	2	2	Achieved	
		Number of other (ad hoc[5]) Legislature and Government briefings by March 2013		8 briefings @ 2 briefings per Quarter	Achieved	Included for the first time in 2012/2013 because of exponential increase in stakeholder requests
Media, ISDs, NGOs, CBOs, Academia, and Peers Management Plan	Dissemination of Commission profferings and engagement with stakeholders	Number of dissemination of information initiatives by March 2013	3 Media Briefings	3 Media Briefings by March 2013	7 Achieved	
			Updated Website every 7 days	Updated Website every 7 days	Achieved	
		Revised Communication and Stakeholder Management Strategy and Policy by March 2013		Revised Policies and Procedures Document in Q4	Achieved	
		Stakeholder Information Manual by March 2013	Partially achieved	Manual by March 2013	Not achieved	Need to repeatedly revise because of changes in environment.
Measurable Strategic Objective 5.1.2: To ensure that Commission research is converted to policy advice and recommendations written in language that policymakers can understand						
Plain Language Editing	Accessible Commission profferings	Number of clear language edited Submissions, Reports and Policy Briefs by March 2013		1 2013/2014 Submission for the Division of Revenue in Q1	Achieved	
				1 2013/2014 Submission for the Division of Revenue Technical Report in Q2	Achieved	
				9 2013/2014 Submission for the Division of Revenue Policy Briefs in Q2	Achieved	
				1 2011/2012 Annual Report in Q2	Achieved	

[5] Section 3(2)(b)(ii) of Financial and Fiscal Commission Act

Project/Activities (Input)	Output (Deliverable)	Key Performance Measure/Indicator	2011/2012 Actual	2012/2013 Annual Target	2012/2013 Actual	Variance
Measurable Strategic Objective 5.1.3: To ensure that policy advice and recommendations respond to the needs of stakeholders						
Environmental Scan and Issues Management	Research, policy advice and recommendations that deal with IGFR issues that are relevant and topical	Number of State and Government fora attended by March 2013		Medium Term Budget Policy Statement in Q3	Achieved	
				State of the Nation Address in Q4	Achieved	
				Budget Speech in Q4	Achieved	
Measurable Strategic Objective 5.1.4: To ensure the generation of quality, innovative, pioneering research that informs key IGFR strategic debates and choices						
Research and Recommendations Programme	Advancement of IGFR Knowledge-generation and dissemination	Number of peer-reviewed publications in an accredited journals by March 2013	11.6	10.6	11.6 Achieved	
		Number of recognised book chapters or working papers or Technical Reports published by March 2013	22	16	22 Achieved	
	Better stewardship of public funds/ Value for Money	2014/2015 Annual Submission for Division of Revenue by March 2013	1	1	Achieved	
		2012 Medium Term Budget Policy Statement Submission by March 2013	1	1	Achieved	
		Division of Revenue Bill Submission by March 2013	1	1	Achieved	
		2013 Fiscal Frameworks and Tax Proposals Submission by March 2013	1	1	Achieved	
		2013 Appropriations Bill Submission by March 2013	1	1	Achieved	
Measurable Strategic Objective 5.1.5: To produce evidence-based results						
Research and Recommendations Programme	Policy advice based on reliable and verifiable information	Number of Policy Briefs published by March 2013		9 Policy Briefs in Q2	Achieved	
		Technical Report published by March 2013		2013/2014 Technical Report published in Q2	Achieved	

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Project/Activities (Input)	Output (Deliverable)	Key Performance Measure/Indicator	2011/2012 Actual	2012/2013 Annual Target	2012/2013 Actual	Variance
Measurable Strategic Objective 5.2.1:To ensure the progressive and innovative management of human resources that attracts, develops and retains key talent, and leverages external expertise						
Human Resource Management	People organised effectively for performance	Number of reviewed Human Resource Management Policies and Procedures by March 2013		Revised Disciplinary Policies and Procedures by Q4	Achieved	
			Revised Performance Management Policy Document by March 2012	Revised Performance Management Policies and Procedures by Q4	Achieved	
		Remuneration of staff at rates not below DPSA published rates by March 2013	Per DPSA rates in July 2011	Remuneration of non-SMS staff at rates not below rates published by DPSA by Q2	Achieved Per DPSA rates	
		Remuneration of staff at rates not below DPSA published rates by March 2013	Per DPSA rates in February 2012	Remuneration of SMS staff at rates not below DPSA published rates by Q4	Achieved DPSA rates commencing April 2013	
		Recognition and reward of staff per normal distribution curve by April 2012	SMS 28.6% Non SMS 82.6%	SMS 20% Non SMS 25%	Achieved SMS: 28.6% Non SMS: 78.3%	
		Number of employees that meet competence standards set in Commission Policy by March 2013	100%	No less than 80% of total number of employees by Q4	Achieved 100%	
		Number of unoccupied but budgeted posts by March 2013	11.8%	No more than 15% of total number of budgeted positions by end of March 2013	Achieved 3%	
		Number of days in training per organisational training and development plan per employee by the end of the year	4.5 days year per employee	3 days year per employee by March 2013	Partially achieved 2.1 days p.a. per employee	A Progamme Manager was unable to attend a Management Development Programme that had been planned due to work commitments.
		Rate of absenteeism[6] by March 2013	2.82%	<5% by March 2013	Achieved 2.27%	
		Number of employees[7] disciplined for unacceptable levels of misconduct by March 2013	21%	<3% by March 2013	Achieved 1.1%	

[6] Total Days Absent/Total Working Days%

[7] Incidents/Total Staff Compliment%

Project/Activities (Input)	Output (Deliverable)	Key Performance Measure/Indicator	2011/2012 Actual	2012/2013 Annual Target	2012/2013 Actual	Variance
Human Resource Management cont...	People organised effectively for performance	Ratio of male to female staff by March 2013	SMS 85.7/14.3	SMS 60/40	Not achieved SMS: 88.9% / 11.1%	No suitably qualified female candidate could be found for a position that was advertised. Candidates that were interviewed did not meet the minimum requirements for the position.
			Professional 33.3/67.7	Professional 60/40	Achieved 30.8%/69.2%	
			Non-SMS 14.3/85.7	Non- SMS 60/40	Achieved 12.5%/87.5%	
			Organisation 40/60	Organisation: 60/40	Achieved 43.3%/56.7%	
Measurable Strategic Objective 5.2.2: To ensure the coordinated, coherent, high-quality, innovative and cost-effective approach to ICT that meets the needs of the Commission, the Commission Secretariat and stakeholders						
ICT Management	ICT organised effectively for performance	Revised ICT Strategy by March 2013	Strategy document by March 2013	Revised Strategy Document in Q4	Achieved	
		Revised ICT Policies and Procedures by March 2013r	Policies and Procedures by March 2012	Revised Policies and Procedures Document in Q4	Achieved	
	Integrated business solutions	Appointment of ICT Network and Connectivity Provider by March 2013	Partially achieved	Appointment of ICT Network and Connectivity Provider in Q2	Achieved	
		Number of incidents reported by desktop users by March 2013		Not more than 90 per quarter (30 per month) by March 2013	Achieved 19 per month	
		Duration of downtime per incident by the end of March 2013		Not more than three (3) hours per incident for desktop support by March 2013	Achieved 1h45m per incident	
Measurable Strategic Objective 5.2.3: To ensure the coordinated, cost-effective and innovative management of Commission assets in support of delivery on the Commission's mandate						
Facilities Management	Space, infrastructure, people and organization effectively coordinated for performance	Office Space commensurate with requirements of Commission by March 2013	Not achieved	42% reduction in office space at Midrand Offices in Q1	Achieved	
				50% reduction in office space at Cape Town Offices in Q4	Achieved	

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Project/Activities (Input)	Output (Deliverable)	Key Performance Measure/Indicator	2011/2012 Actual	2012/2013 Annual Target	2012/2013 Actual	Variance
Measurable Strategic Objective 5.2.4: Compliance with legislation and adherence to relevant corporate governance best practise						
Compliance	Commitment to legal and ethical standards, and doing the right thing	Strategic Plan to NT by due date	Draft 1 submitted to NT in Q2	Draft 1 to NT in Q2	Achieved	
			Draft 2 submitted to NT in Q3	Draft 2 to NT in Q3	Achieved	
			Final Strategic Plan submitted to NT in Q4	Final Strategic Plan to NT in Q4	Achieved	
		Strategic Plan to Parliament by due date	Strategic Plan submitted to Parliament in Q4	Final Strategic Plan to Parliament in Q4	Achieved	
		Tabling of Submission for the Division of Revenue per IGFR Act[8]	Tabled Submission for the Division of Revenue by May 2011	Tabling of Submission by May 2012	Achieved	
		Submission of monthly Financial Performance Information to NT by due date	Monthly financials submitted to NT by due date	Monthly financials to NT by due date	Achieved	
		Submission on Quarterly Financial and Non-Financial Performance Information to NT by due date	Submitted Q4 2010/2011 Financial and Performance Information Reports to NT by April 2011	Q4 2011/2012 Reports to NT by April 2012	Achieved	
			Submitted Q1 2011/2012 Financial and Performance Information Report to NT by July 2011	Q1 2012/2013 Reports to NT by July 31 2012	Achieved	
			Submitted Q2 2011/2012 Financial and Performance Information Reports to NT by October 2011	Q2 2012/2013 Reports to NT by 31 October 2012	Achieved	
		Submission on Quarterly Financial and Non-Financial Performance Information to NT by due date	Submitted Q3 2011/2012 Financial and Performance Information Reports to NT by January 2012	Q3 2012/2013 Report to NT by January 31 2013	Achieved	
		Submission on Financial and Non-Financial Performance Information to AG by due date	Submitted unaudited 2011/2012 AFS and Performance Information to AG by 31 May 2011	Unaudited 2012/2013 AFS and Performance Information to AG by 31 May 2012	Achieved	
		MTEF Submission to NT by due date	Submitted MTEF Submission to NT by July 2011	Submission to NT in Q2	Achieved	

[8] Intergovernmental Fiscal Relations Act No 97 of 1997

Project/Activities (Input)	Output (Deliverable)	Key Performance Measure/Indicator	2011/2012 Actual	2012/2013 Annual Target	2012/2013 Actual	Variance
Compliance cont ...	Commitment to legal and ethical standards, and doing the right thing	Submission and tabling of Annual Report before Parliament, Provincial Legislatures, Organised Local Government and NT by due date	Submitted Draft Annual Report to AG in Q2	Submission of Draft Annual Report to AG in Q2	Achieved	
			Submitted Annual Report to NT by September 15 2011	Annual Report to NT by September 15 2012	Achieved	
		Submission and tabling of Annual Report before Parliament, Provincial Legislatures, Organised Local Government and NT by due date	Tabled Annual Report by September 2011	Tabling of Annual Report by September 30 2012	Achieved	
		Budget Adjustment Estimates Submission to NT by due date	Submitted Budget Adjustment Estimates to NT September 2011	Budget Adjustment Estimates to NT in Q2	Achieved	
		Enterprise Risk Assessment by March 2013	Conducted Organisation-wide Enterprise Risk Assessment in October 2011	Revised Risk Management and Fraud Prevention Framework and Profile in Q3	Achieved	Crowded out in Q3 because of Parliamentary commitments and rescheduled for Q4
		Estimates of National Expenditure (ENE) Submission to NT by due date	Submitted ENE to NT in November 2011	ENE Submission to NT in Q3	Achieved	
		Commission Governance as prescribed by the Financial and Fiscal Commission Act and approved Terms of Reference	5 scheduled Commission Meetings held	5 Commission Meetings[9] as per Schedule	Achieved	
			10 Scheduled Commission Committee meetings held	10 Commission Committee Meetings as per Schedule	Achieved	
			12 EXCO Meetings held	12 EXCO[10] Meetings	Achieved	
			12 EXCO Meetings held	12 MANCO[11] Meetings	Achieved	
		Stakeholder advisories in terms of Section 3(2)(i)(b) of the Financial and Fiscal Commission Act and other applicable legislation	Researched and made Submission on Analysis of Local Government Revenue and Expenditure: Free State Municipalities	Xhariep Advisory	Achieved	

[9] April, July, and November 2011; January and March 2012
[10] Monthly Executive Committee
[11] Monthly Management Committee

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Project/Activities (Input)	Output (Deliverable)	Key Performance Measure/Indicator	2011/2012 Actual	2012/2013 Annual Target	2012/2013 Actual	Variance
Compliance cont ...	Commitment to legal and ethical standards, and doing the right thing			eNaTIS RTMC Advisory	Achieved	
				SALGA/AARTO Advisory	Achieved	
		Stakeholder advisories in terms of Section 3(2)(i)(b) of the Financial and Fiscal Commission Act and other applicable legislation		Nama-Koi Advisory	Achieved	
				DoHS[12] Advisory	Achieved	
				WDM[13] Advisory	Achieved	
Measurable Strategic Objective 5.2.5: Effective and responsible leadership with specific focus on integrity, transparency and accountability, as well as on the development a positive organisational culture						
Performance Management	Consistent attainment of organisational goals	Number of Performance Reviews in terms of Commission Policy by March 2013	June and December Touchbase Reviews held	June and December Touchbase Reviews	Achieved	
			September and March Performance Assessment held	September and March Performance Assessments	Achieved	
		Level of employee satisfaction twice annually by March 2013		70% level of satisfaction in September 2012	Not achieved	Deferred pending Organisational Development exercise
				75% level of satisfaction in March 2013	Not achieved	
Measurable Strategic Objective 5.3.1: To ensure the creation of new knowledge, the institutionalization of such knowledge and its transfer to other role players within the intergovernmental fiscal relations system						
Information Management, Enterprise Content Management, and Knowledge Management	Identification, creation, representation, distribution and adoption of insights and experiences	File Plan for electronic and paper-based documents by March 2013		Procurement of Service Provider by Q4	Not achieved.	Terms of reference finalised procurement of service provider work in progress. Resource constraints.
	Identification, creation, representation, distribution and adoption of insights and experiences	Digitisation of documents by March 2013 Digitisation of documents by March 2013		Procurement of OCR Scanner by March 2013	Achieved	

[12] Department of Human Settlements
[13] West Rand District Municipality

Project/Activities (Input)	Output (Deliverable)	Key Performance Measure/Indicator	2011/2012 Actual	2012/2013 Annual Target	2012/2013 Actual	Variance
Measurable Strategic Objective 5.3.2: To ensure the coordinated, cost-effective and innovative acquisition and management of Commission data, information and knowledge resources in support of delivery on the Commission's mandate						
Library	Unrestricted access to information in many formats from a variety of sources	Revised Strategy document by March 2013	Not achieved	EXCO approval of Revised Strategy document by Q2	Achieved	
		Revised Policies and Procedures by March 2013	Not achieved	EXCO approval of Revised Policies and Procedures by Q2	Achieved	
		Number of successful Library transactions by March 2013		9000	Achieved 12 995	
		Number of reference works acquired by March 2013	44	4	Achieved 13	
Measurable Strategic Objective 5.3.2: To ensure the coordinated, cost-effective and innovative acquisition and management of Commission data, information and knowledge resources in support of delivery on the Commission's mandate						
Financial Management	Organizational agility through the allocation of scarce resources amongst competing interests and opportunities	Revised Policies and procedures document for financial management by March 2013	Rollout of revised financial management policies and procedures	Review and rollout of revised Policies and Procedures by Q4	Achieved	
		AG Audit Report with no matters of emphasis by year end		2011/2012 AG Audit Report with no matters of emphasis	Achieved	
		Percentage deviation from budget allocation by March 2013	0.32%	No more and no less than 5% of allocation by March 2013	Partially achieved 6.28% surplus	Use of fiscal discipline to encourage savings so as to facilitate reduction of deficit
		Targeted reduction of legacy deficit through bidding for allocations, budget adjustments and implementation of austerity measures by March 2013	5.9%	25% reduction of deficit by Q4	Achieved 62% reduction in accumulated deficit	
Measurable Strategic Objective 5.4.2: To ensure access to alternative sources of funding						
Collaboration and Partnerships	Cooperating to create and/or acquire knowledge	Number of partnerships, sponsorships, collaboration agreements or special projects by March 2013	2 Memoranda of Understanding	2 partnerships, sponsorships, collaboration agreements or special projects by March 2013	Achieved[14]	

[14] Kenyan Commission on Revenue Allocation Memorandum of Understanding and FinMark Trust Sponsorship

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Summary of Divisional Budgets and Expenditure

Division	Budget 2011/2012	Actual Expenditure 2011/2012	Over (Under) Expenditure 2011/2012	Budget 2012/2013	Actual Expenditure 2012/2013	Over (Under) Expenditure 2012/2013
Research and Recommendations Programme	11,105,635	12,005,678	-900.043	15,894,688	11,455,458	4,439,230
Corporate Services	7,397,039	7,040,356	356.683	7,897,407	8,522,778	-625.371
Finance	4,785,511	3,982,018	803.493	4,436,124	4,891,338	-455.214
Commission Secretary	9,747,815	9,899,744	-151.929	9,039,781	10,493,729	(1,453,948)
Total	**33,036,000**	**32,927,796**	**108.204**	**37,268,000**	**35,363,303**	**1,904,697**

5.4 2012 Submission for the 2013/2014 Division of Revenue

The Commission made this submission in terms of Section 214(1) of the Constitution of the Republic of South Africa 1996, Section 9 of the Intergovernmental Fiscal Relations Act of 1999 and and Section 4(4)(c) of the Money Bills Amendment Procedure and Related Matters Act of 2009 and the background was as follows:

South Africa is trapped in a cycle of modest growth, high inequality and record unemployment. With unemployment at unprecedented levels the stakes are high. With fiscal policy constituting the main weapon at government's disposal, the battle on the very high unemployment in South Africa will be won (or lost) in this area. To help government and communities in this process, this Submission contributes both to bringing the frontiers of knowledge forward, and developing recommendations to enhance capacities of policy makers to implement innovative policy initiatives to enhance economic development. To gain greater insights into the impacts of intergovernmental relations policy on economic development more broadly and the equitable distribution of public resources in particular, this year's Annual Submission is based on the theme:

"Moving People Out of Poverty: Supporting Innovation in Intergovernmental Financing"

This Submission is in formed by rigorous research focused on major cross-cutting issues ranging from job creation, e-education, higher education, disaster management, climate change management, revenue and expenditure assignments and economic growth, capacity to gender issues in budgeting. In line with the mandate of the Commission, the Submission highlights the impact on the poor of emerging trends in intergovernmental relations and fiscal policy stance of government in an increasingly uncertain global economic environment. With increased devolution of powers to the sub national governments, a central question remains to what extent the IGR systems supports poverty eradication and, to the extent that marginalization occurs, what public and private interests will do about it. Can innovative investments, scaled-up successful projects and new institutions be designed to ensure inclusion and help manage the negative consequences of disparity and deprivation? The sum of these questions is that all spheres of government have a significant role to play in South Africa's efforts to promote inclusive growth and development and their role may be critically vital to progress towards the Government Strategic Outcomes and Millennium Development Goals which summarize consensus around advancing human development and securing a country with less poverty.

With respect to unemployment and the intergovernmental transfer system, the Commission recommends that government should:

- Re-direct government spending towards those activities that directly or indirectly create jobs through enhancing productivity performance. Activities such as healthcare, durable goods manufacturing, agriculture, community services, and hospitality and food service should also form the basis of much of the expanded infrastructure expenditure plan which traditionally have gone chiefly to construction activities (e.g., building highways and bridges, dams and flood control structures).

- Promote lower-paying positions, which have the highest potential for the most job gains, including those found in the informal service sector (which can help undo the losses felt by groups hardest hit by the recession of 2008–2009).

- Reduce unemployment by addressing factors other than the weak demand for goods and services. This should be done by:

    - Re-designing the state procurement framework to incorporate and grow the informal economy and formal micro-enterprises, e.g. requiring recipients of large government contracts to include an informal sector partner in their tender submissions. In addition, the Department of Performance Monitoring and Evaluation should stringently monitor the outcomes of these contracts.

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- o Earmarking government procurement contracts for low-technology or service-oriented contracts (e.g. catering) for informal sector companies or micro-enterprises.

- o Better targeting of supply-side interventions for re-skilling, mobility. These policies could be implemented using mechanisms such as block grants (e.g. transport subsidy for unemployed vulnerable groups (women, youth and the disabled) so that they are better connected to employment opportunities and improving labour market information availability).

- Encourage, particularly through the relevant Departments of Labour and Performance Monitoring and Evaluation, those companies that are yielding the highest employment levels both directly and indirectly. This would entail:

  - o setting up an employment performance-reward scheme for enterprises that excel in job creation

  - o publicising the scheme widely and giving it a high profile.

- Develop and implement credible job plans for each sphere of government. To unblock prisoner's dilemma scenarios and work towards amicable social compacts:

  - o Provide clarity on permitted and non-permitted economic activity through the job plans

  - o Ensure coherence and coordination of the plans across boundaries

  - o Ensure collaboration across a broad set of actors – not only employers, but also unions, economic development agencies, Sector Education and Training Authorities (SETAs), secondary schools, colleges, universities, vocational training centres and business support providers and

  - o Ensure the plans are used in the budget process

  - o Use the criteria proposed by the Commission to evaluate job plans.

With respect to financing e-education and achieving policy goals in public ordinary schools in South Africa:

- The e-education policy should be funded as a part of government's operating budget for the programme, just like teacher salaries, school buildings and other teaching aids.

- A well-structured inter-governmental financing mechanism should be established with explicit guidelines to provincial departments of education regarding the budget line items that require prioritization in terms of the annual provincial education budget allocations, as well as those budget line items that will be contained in the national budget allocation. Decisions on the particular line items can be informed by a review of policy documents and various studies that have been conducted on e-education over several years and can also be informed by a broader review of the available knowledge of e-education financing across the globe.

- The national and provincial education sector requires firm and expert guidance on designing e-education, and such expertise should relate to e-education, not merely to information technology. In order to promote advances in e-education, it may be necessary to consider the establishment of an e-Education Commission, constituted of government officials and e-education specialists to act as an advisory body.

- There is limited data available on e-education expenditure and specifically on e-learning expenditure, despite clear policy goals having been adopted in 2004 and targets established for 2013. This should be remedied through reporting on budget allocations and expenditure on e-learning and more broadly on e-education in the annual reporting process. Such data can inform national and provincial planning, curriculum design, and education human resources development. It can

also inform the work of an **e-Education Commission**, enabling such a structure to effectively advise government. Furthermore, explicit reporting on financial data will enable a better analysis of the strengths and weaknesses relevant to achieving the policy goals of the White Paper on e-Education. As a baseline, the data set out in the Table in Chapter 2 would be required.

- In addition to the above, continuous assessment of the impact of e-education policy and financing should take place, taking into account cross departmental issues and supporting measures from a range of government departments and relevant public sector bodies (Department of Basic Education, Department of Higher Education and Training, Department of Labour, Department of Science and Technology, Department of Communications, metropolitan municipalities, ICASA, other).
    - Such assessment would consider both school level and economy wide impacts. From an analytical perspective, the requirements would be twofold:
    - To understand how students' decisions with respect to ongoing skills acquisition in the education system are affected by e-education (econometric analysis coupled with case studies, repeated over time);
- Consider interactions between e-education and the rest of the economy. Quantifying these interactions allows comparison of the value of various policy and financing options.
- When the delivery agreement on "Outcome 5: Build a skilled and capable labour force" is next reviewed, greater emphasis should be given to overseeing the implementation of the e-education policy, noting in particular the sub-output "Enhance research, development and innovation in human capital for a growing knowledge economy". Most of the relevant departments are already signatories to the agreement, and the delivery forum can be expanded to include other relevant role players such as those mentioned in (4) (b) above. Thus, using existing coordination structures, progress on e-education can be reported to Cabinet on a quarterly basis thereby raising the profile of e-education.

With respect to funding higher education and the post-school system as a whole, it is recommended that:

- Government should introduce a differentiated funding framework for a differentiated public university system by shifting from a unitary system to three funding frameworks – one for each cluster.
    - For Cluster 1: this funding framework would reward further advances in equity, development and improved performance in the input and output indicators;
    - For Cluster 2: this funding framework would reward improved performance in the input and output indicators, and moving up into Cluster 1; and
    - For Cluster 3: this funding framework would reward improved performance in the input and output indicators, and moving up into Cluster 2, pushing for performance in order to win reward.
- In order to better understand and analyse the performance and funding of the FET sector, Government should expand the HEMIS system to incorporate FET sector data, or a parallel system should be introduced to collect relevant data for analysis of the FET sector, a FEMIS (further education management information system). The 2011 HSRC report "Further Education and Training (FET) colleges at a Glance 2010" is a useful foundational document to better understand the sector, but readily available financial, funding and performance data is needed to inform a future funding framework and annual funding allocations, and to support decision-making by FET colleges.

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With respect to addressing impacts of climate change in rural areas, it is recommended that government should:

- The DEA and the NDMC should develop a municipal vulnerability index and disaster-risk modelling tools to assist municipalities assess their vulnerability to climate change and non-climate change disasters and determine associated contingent liabilities.

- The DEA and NDMC should:

  - Develop a standardised **Vulnerability Index** for adoption by Government as the basis for:

    i. identifying and monitoring municipal jurisdictions and municipalities that are most vulnerable to disasters;

    ii. coordinating and providing targeted national and provincial support to vulnerable municipalities;

    iii. enabling improved planning and risk management by all municipalities;

  - The vulnerability index, at a minimum, should take into account the exposure, sensitivity and adaptive capacity of an area to disasters. Suggested indicators for these criteria are provided in the Technical Report that accompanies this Submission.

  - Standardise and use disaster-risk modelling techniques to project the potential damage of disasters to human life, livelihoods, infrastructure and property. For example, the estimated number of people who will become homeless, the number of buildings that will have to be rebuilt and the cost of reconstruction operations;

  - Develop and implement a government-wide national climate change programme, which includes monitoring climatic and oceanic parameters, ecosystem health (rivers, wetlands, estuaries, marine and terrestrial systems) and socio-economic variables.

- The Department of Cooperative Governance and Traditional Affairs (CoGTA) should adjust the objectives, terms and conditions, and procedures of the MIG to:

  - Permit municipalities to use grant funds for climate adaptation and mitigation investments involving the creation, rehabilitation or modification of municipal infrastructure and,

  - Ensure that these investments prioritise and directly address vulnerabilities faced by poor households.

- The Department of Cooperative Governance and Traditional Affairs (CoGTA) should restructure the Special Municipal Infrastructure Grant component of the MIG in order to:

  - Allow municipalities to acquire or rehabilitate ecological infrastructure (such as coastal dunes or mangroves that provide natural protection from excessive storm surge and other weather events) provided that the return on investment is greater than a comparable engineering solution;

  - Provide a funding window for rural municipalities to receive resources from the Green Fund and similar global resources (e.g. the World Bank Clean Technology Fund and the newly established Green Climate Fund) in accordance with their terms and conditions.

- The DAFF should expand support services for small-scale farmers to encourage them to adopt climate-resilient farming strategies aimed at adapting and mitigating the projected local effects of climate change through:

- o Advice on diversification, mixed-cropping, drought-resistant crops and efficient irrigation systems;

- o Improved access to financial services and instruments (such as micro-credit and weather-based insurance) that can help lower their risk exposures.

With respect to alternative financing mechanisms for disaster management, it is recommended that:

- The Minister for Cooperative Governance should streamline guidelines and gazette uniform standards governing and guiding the classification, declaration, assessment and response to disaster events in terms of the DMA and NDMF. The absence of a standardised and coordinated approach to damage assessment and providing relief to people affected by disasters results in unnecessary duplication of effort and funding across government and delays in response and rehabilitation efforts.

- The CoGTA should, through the DMA, require the Integrated Development Plans (IDPs) of municipalities, starting with the most vulnerable, to incorporate disaster risk reduction evaluations, strategies and measures, including:

  - o The development and enforcement of land-use planning and management measures so as to reduce infrastructure being built on seismic fault lines, in coastal regions subject to storm drainage and river shorelines subject to frequent floods;

  - o The development and enforcement of buildings standards (or retrofitting requirements) to ensure adequate robustness against earthquakes or cyclones.

  - o Engineering interventions to mitigate the degradation of environmental assets (such as soil erosion) through the creation of dams for flood control, fire breaks, and sea walls to break storm surges; and

  - o Financing strategies for these measures

- Government should develop a policy framework for municipal disaster risk financing that:

  - o Differentiates between municipalities based on their vulnerabilities and fiscal capacities;

  - o Leverages private resources to fund long-term disaster risk management by combining private risk financing, intergovernmental grant financing (including the Green Fund) and municipal own revenues;

  - o Encourages and incentivises, where appropriate, the use of innovative market-based financing of disaster relief and recovery. Instruments that can be considered include sovereign insurance, risk pooling, reinsurance, index-based insurance, weather derivatives, micro-insurance, and catastrophe bonds.

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

  - o Include the Integrated Housing and Human Settlement Development Grant, the Urban Settlements Development Grant, the Municipal Infrastructure Grant, the National Electrification Grant, the Public Transport Infrastructure and Systems Grant and the Regional Bulk Infrastructure Grant;

  - o Incorporate a statement of environmental and climate resilience objectives in each grant programme, together with measurable indicators;

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- Prioritise the most vulnerable municipalities in determining the horizontal division of available resources in each programme;
- Provide for beneficiary municipalities to conduct appropriate climate resilience evaluations on existing infrastructure over the medium term, subject to disaster risk reduction methods being incorporated in respective IDPs;
- Be accompanied by capacity support to and engagement with the most vulnerable municipalities to ensure they are able to comprehensively identify and address disaster risks.

With respect to financing of waste management, it is recommended that:

- By the end of the 2015/2016 financial year, Government should phase in **full cost accounting (FCA)** for solid waste management within municipalities. To achieve this goal:
  - Government should develop specific FCA guidelines for integrated municipal solid waste management that addresses the specific and inter-related environmental and service delivery needs of the sector, within the framework of activity-based costing that the National Treasury is introducing.
  - Government should develop a capacity support programme to implement the guidelines that allows a phased introduction of FCA starting with high-capacity municipalities that face major solid waste management challenges.
- Government should take greater advantage of the opportunities for **job creation** in the solid waste sector, by incentivising municipalities to create 'green' jobs through labour-intensive service delivery. In particular:
  - The Department of Public Works should review the Expanded Public Works Programme (EPWP), which may negatively impact on the ability of municipalities to support job creation in the sector due to the comparatively higher capital costs associated with solid waste collection and recycling activities;
  - The Department of Cooperative Governance and Traditional Affairs (CoGTA) should review the funding conditions of the Municipal Infrastructure Grant (MIG) to ensure that local-level municipal waste management assets are eligible for financing.
  - A portion of resources from the recently established Green Fund should provide transitional financial support to municipalities for introducing innovative, labour-intensive waste collection, reduction and recycling mechanisms to areas where services are currently inadequate. These might include the development of small waste collection and recycling contractors or community cooperatives to manage waste buy-back centres and materials recovery facilities;
  - The DEA should develop municipal guidelines and regulations that support community involvement in waste management activities through community-based trusts and partnerships.
- The DEA should delay implementing the policy on the **regionalisation of solid waste landfills** until the fiscal risks and benefits for municipalities are better understood, and adequate decision-support measures for municipalities are in place. In particular:
  - The DEA should commission a full cost-benefit analysis of regionalisation options to ensure appropriately scaled projects within a fiscally sustainable licencing and service delivery framework;
  - The DEA should develop adequate decision-support tools to guide municipal choices on appropriate investments and the associated governance frameworks, including the use of Multi-jurisdictional Municipal Service Districts where appropriate.

- The Commission notes its availability to assist the DEA, on request, to explore further the policy options and risk mitigation tools associated with regionalisation proposals.

- Government should **emphasise the expansion of access to solid waste services** to poor communities while strengthening the policy framework for the provision of refuse removal FBS. In particular:

  - The CoGTA should review the MIG guidelines to ensure that (i) adequate funding for solid waste assets is available to municipalities with weaker fiscal capacity; and (ii) expenditures on specialised vehicles and equipment required for solid waste management services are eligible for financing;

  - The DEA should prioritise support to municipalities seeking to expand services to poor communities using labour-intensive service delivery, including investigating potential fiscal instruments that might be incorporated with the EPWP or Green Fund;

  - The DEA should commission a review of the policy on refuse removal FBS, with a specific focus on its impacts on (i) expanding and sustaining service access to poor households; (ii) the affordability and quality of service to poor households; (iii) environmental impacts, such as the extent of reduction in illegal dumping.

With respect to alternative aggregate revenue and expenditure assignments for provinces and municipalities, it is recommended that:

- Key tenets of national strategies such as the New Growth Path (NGP) document and National Planning Commission's (NPC) Vision for 2030 need to permeate into provincial and local strategies. This can be achieved by translating these tenets into complete sub-national strategies with full details on sustained implementation, followed by commitment of provincial and local governments to achieve the goals identified in the these strategies.

  - In this regard, key components for subnational government to consider are capital and labour inputs, as well multifactor productivity. Provincial and municipal governments should continue to invest in physical and human capital, focusing specifically on issues such as lack of adequate skills as well as physical infrastructure needs (maintenance, better location, etc.). In addition, effective management and accountability mechanisms should be aimed at increasing multifactor productivity.

  - The Commission findings imply that economic development powers are well-placed at the provincial level while economic growth powers could be better placed at the municipal level.

- Municipalities, and particularly non-metropolitan municipalities, should be encouraged to play a more direct role in economic growth.

  - This can be achieved by the assignment of greater revenue and tax handles to the municipalities by the national sphere than is presently the case.

  - Furthermore, in reviewing the fiscal framework, all of the elements of the fiscal framework should be re-assessed to support the growth-enhancing roles of municipalities – this would include the local equitable share (LES), local own revenue sources (e.g. local business taxes) and conditional grants.

  - Such re-assessment should also ensure a better balance between equity and growth objectives in the local government fiscal framework.

- Municipalities are not necessarily doing a good job at revenue collection from the public. This indicates that there is a need for municipalities to improve their revenue collection efforts as this can contribute positively towards economic growth[15].

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- It is well known that in South Africa some municipalities are raising substantial revenues (metropolitan municipalities, for example) while other municipalities are still very dependent on transfers from the national sphere.

- In this regard, issues that need to be addressed include weak capacity in local administrations, small tax bases, free basic service delivery requiring high municipal expenditures that can only be met by national transfers, and a lack of "payment culture" for services.

With respect to alternative service delivery arrangements (with a focus on municipal agencies), it is recommended that:

- Government's approach to regulating agency formulation should balance maximising the potential benefits of utilising an ASD arrangement with minimising the attendant risks. In the quest to improve performance and efficiency, ASD arrangements may (in appropriate circumstances) provide a creative way for municipalities to deliver services, particularly against the backdrop of limited financial and human capital resources. Therefore, the regulatory framework for municipal entities should ensure that:

  - The use of an ASD arrangement is contingent on a demonstrably sound business case for its establishment and sustainable operation;

  - Unnecessary, costly and time-consuming regulations are avoided. To this end, Government should review existing legislation, specifically Section 77 and Section 78 of the Municipal-Systems Act and Section 33 of the MFMA, which places onerous demands on municipalities wanting to use an ASD arrangement.

- Establishment of municipal agencies, or any ASD arrangement, should be linked to the parent municipality having an adequate level of performance and ability to oversee effectively. Determining whether performance is adequate or not should be linked to the audit outcomes of the parent municipality. Government should discourage the creation of agencies where the parent municipality is manifestly weak; for example, if the municipality is found to have a severely qualified, adverse or disclaimed audit result.

- Legislation that requires municipal entities to make public details of their performance and plans (as required in terms of Section 127(5) (a) (i) of the MFMA) should be strictly enforced, and non-compliance reported to the Auditor-General. This is necessary not only for compliance but also for greater transparency of agency performance, thereby enabling better monitoring and oversight by parent municipalities and treasuries.

- Government should establish a central portal of financial and performance-related information on municipal agencies. Such a facility could also serve as a peer-learning mechanism through which success stories are shared. Municipalities and agencies could also use the information to benchmark their performance, while greater public availability of this information will improve oversight and transparency. National government should take a more proactive approach, perhaps through the National Treasury's PPP Unit, in advising municipalities, especially lesser resourced ones, on the applicability of using an ASD arrangements in different instances.

- Government (particularly the National Treasury's PPP Unit) should put together a list of criteria to assist municipalities in deciding whether a sound business case for the creation of entities exists. The criteria should:

  - Establish whether benefits exceed potential costs

[15] In its 2012/13 Annual Submission, the Commission had made some recommendations aimed at improving revenue performance of municipalities in South Africa which are still relevant. These include (amongst others) regular updating and maintenance of data and information on indigents, outsourcing of functions, establishing municipal service districts as well as expanding the powers of municipalities to exercise more punitive recovery measures.

- Ensure potential risks are mitigated
- Focus on aspects such as measurability and asset specificity of the service in question.

With respect to the dynamics of capacity challenges at local government level, it is recommended that:

- Capacity building efforts should be comprehensive and sustainable, instead of quick fix, short-term solutions. To this end, it is necessary to:
  - Establish a single capacity-support agreement per municipality. This agreement should stipulate all actions to be undertaken by national and provincial government and other relevant role-players. Measurable objectives for capacity development programmes should be clearly defined (relative to credible baselines) and independent exit evaluations should be compulsory.
- Environmental constraints, specifically with respect to the allocation of powers and functions and the formulation of conditional grants, may need to be simultaneously adjusted.
- With respect to capacity-related conditional grants:
  - The grants' conditionality must commit municipalities to specific, independently verifiable capacity and performance improvements.
  - Grants should be redesigned to consider the quality of capacity-building interventions, instead of having a narrow quantitative focus.
  - An external, objective evaluation dimension should also be included in capacity grant requirements
- Capacity-building interventions should holistically coordinate individual, organisational and institutional-level dimensions of capacity building in a particular municipality over the medium term. Instead of focusing disproportionately on training, support programmes should include technical support for new systems, business process redesign and change management, based on an assessment of the relevant municipality:
  - Individual: officials must have the necessary technical skills, knowledge, experience and competencies to fulfil their particular functions. This means appointing the correct person to the correct post (adherence to recruitment, selection and any minimum competency requirements) and ensuring that officials then receive training (both accredited and non-accredited) relevant to their areas of responsibilities to ensure continued workplace effectiveness..
  - Organisational: municipalities should be supported in compiling realistic IDPs, implementing functional and effective performance management systems, and knowledge management policies, to enhance organisational memory and data management, and to ensure accurate and relevant reporting. Critical vacancies must also be filled and workable strategies for staff retention be implemented. Skilled individuals must be appointed to vacant positions for which affirmative action candidates cannot be found, and audits should be conducted of municipal positions that fall outside the approved organisational structures.
  - Institutional: greater differentiation and flexibility is required in the design of the local government fiscal framework. A differentiated approach is needed for the assignment of functions to municipalities, based on their capacity to effectively manage them. Once a municipality has proved its ability to provide a specific basket of services, decisions can be made regarding expanding the range of services provided by such a municipality. Where service delivery failures persist, such services should be removed from municipalities. Furthermore, the establishment of a coordinated capacity-building function across all local government departments is recommended. These actions must be complemented by simpli-

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fied, streamlined and coordinated reporting requirements for local government and clearly defined roles and responsibilities for national and provincial departments. To assist rural municipalities, the value and practicality of an assistance programme should be explored, aimed at attracting and retaining scarce skills in these areas (similar to the scarce skills payments made to doctors in rural areas).

- To improve municipal capacity, the medium and senior management of municipalities need urgently to be stabilised, through greater insulation from political interference in the retention of skills and in the recruitment process. The link between actual performance of managers and the renewal (or not) of performance contracts should be strengthened. The human resource function within municipalities needs to be proactive in identifying possible incentives for retaining scarce skills and ensuring that roles and responsibilities are clearly defined within municipal job descriptions. This challenge will also only be solved through increasing the pool of available people to fill vacant positions.

- Minimum competencies as entrenched in the MFMA should be enforced so as to ensure that appropriate technical skills are in place. Based on field work conducted by the Commission, the following functions require particular attention: revenue management, supply chain management, sewerage and water treatment plant operators, road maintenance supervisors, health inspectors and planning and project managers.

With respect to assessing gender responsive budgeting in the local government, it is recommended that:

- National and Provincial Governments should:
    - Run gender budgeting pilots in a few municipalities first and evaluate results before wider application. These pilots could be linked to ensuring gender disaggregated data for key conditional grants as part of the grant framework in the Division of Revenue Act.
    - Ensure municipal IDPs institutionalise gender planning by sector (e.g. water and sanitation, LED etc.) and include gender disaggregated performance indicators and targets.
    - Provide gender budgeting good practice guides and toolkits.
    - Provide guidelines for collecting sex-disaggregated data for budgeting processes and ensure that municipalities have the capacity to analyse budgets from a gender perspective.
- Local Government should:
    - Institutionalise gender-responsive budgeting process linked to IDPs.
    - Build capacity for gender mainstreaming and GRB at local level.
    - Ensure gender-responsive appropriations and budget allocations.
    - Ensure gender-sensitive public participation and consultations at local level.

5.5 2013 Government Response to the Commission's 2012 Recommendations for the 2013/2014 Division of Revenue

Section 9 of the Intergovernmental Fiscal Relations Act (1997) requires the Commission to make recommendations regarding:

a) "An equitable division of revenue raised nationally, among the national, provincial and local spheres of government;

b) the determination of each province's equitable share in the provincial share of that revenue; and

c) any other allocations to provinces, local government or municipalities from the national government's share of that revenue, and any conditions on which those allocations should be made".

The Act requires that the Commission table these recommendations at least 10 months before the start of each financial year. The Commission tabled its Submission for the Division of Revenue 2013/14 to Parliament in May 2012. These recommendations are divided into 10 chapters, which cover three main areas: supporting inclusive growth (jobs, knowledge and regional development); climate change and environmental sustainability (opportunities and risks for inclusive growth and innovation); and institutional development for inclusive growth and innovation.

Section 214 of the Constitution requires that the Commission's recommendations be considered before tabling the division of revenue. Section 10 of the Intergovernmental Fiscal Relations Act requires that the Minister of Finance table a Division of Revenue Bill with the annual budget in the National Assembly. The bill must be accompanied by an explanatory memorandum setting out how government has taken into account the Commission's recommendations when determining the division of revenue. This part of the explanatory memorandum complies with this requirement.

The Commission's recommendations can be divided into three categories:

- Recommendations that apply directly to the division of revenue
- Recommendations that indirectly apply to issues related to the division of revenue
- Recommendations that do not relate to the division of revenue.

Government responses to the first and second categories are provided below. Recommendations that do not apply to the division of revenue are being considered and dealt with through alternative processes.

Recommendations that apply directly to the division of revenue

Chapter 1: Perspectives and prospects for job creation and the intergovernmental fiscal relations system

Impact of government spending on unemployment

The Commission recommends that, "Government should re-direct government spending towards those activities that directly or indirectly create jobs through enhancing productivity performance. Activities such as health care, durable goods manufacturing, agriculture, community services, and hospitality and food service should also form the basis of much of the expanded infrastructure expenditure plan which traditionally have gone chiefly to construction activities (e.g. building highways and bridges, dams and flood control structures)."

Government response

Job creation is a key priority of government. The 2011 Budget Review discussed proposals to stimulate job creation based on government's position that job creation is an outcome of business investment and a thriving economy, as well as government's activities and the regulatory environment. These

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strategies include promoting education and skills development, the manufacturing competitiveness enhancement programme, the Jobs Fund, a youth wage subsidy, the community work and expanded public works programmes, and government's infrastructure investment programmes. The 2012 Budget Review highlighted that productivity gains are essential to improved growth and rising incomes. Wage settlements that increase real wages at a pace higher than labour productivity gains threaten the labour market's recovery and are a key impediment to growth throughout the economy.

Chapter 2: Financing e-education and achieving policy goals in public ordinary schools

Finance e-education and achieve policy goals in public ordinary schools

The Commission recommends that, "E-education policy should be funded as a part of government's operating budget for the programme, just like teacher salaries, school buildings and other teaching aids."

Government response

Government supports the Commission's recommendation that an e-education policy should be funded and implemented, and that provinces should report on the implementation of and spending on e-education policy initiatives. This can be achieved by amending provincial performance indicators so that they include e-education in their annual performance plans and report against it in their annual reports.

Chapter 4: The impact of climate change on South Africa's rural areas

Adjust the objectives, terms and conditions and procedures of the municipal infrastructure grant

The Commission recommends that, "The Department of Cooperative Governance should adjust the objectives, terms and conditions, and procedures of the municipal infrastructure grant to: (a) permit municipalities to use grant funds for climate adaptation and mitigation investments that involve creating, rehabilitating or modifying municipal infrastructure; and (b) ensure that these investments prioritise and directly address the vulnerabilities faced by poor households."

Government response

Government, through the Department of Cooperative Governance and the National Treasury, is reviewing the local government functional and fiscal framework, including local government conditional grants. The Commission's concerns will be taken into account during this review. Possible reforms to the grants could include ensuring that infrastructure development (energy, water and transport sectors) is aligned with South Africa's broader sustainable development and climate-change objectives.

Special municipal infrastructure grant component

The Commission recommends that, "The Department of Cooperative Governance should restructure the special municipal infrastructure grant component of the municipal infrastructure grant in order to (a) allow municipalities to acquire or rehabilitate ecological infrastructure, provided that the return on investment is greater than a comparable engineering solution; and (b) provide a funding window for rural municipalities to receive resources from the Green Fund and similar global resources in accordance with their terms and conditions."

Government response

This issue will be addressed as part of the local government functional and fiscal framework review process discussed above.

Chapter 5: Alternative financing mechanisms for disaster management in South Africa

The design of existing key municipal conditional grant programmes

The Commission recommends that, "National Treasury should require that environmental management and vulnerability objectives are explicitly incorporated into the design of existing key municipal grant programmes. These objectives should promote disaster risk-reduction methods (ex ante approach) and enhance municipal resilience to climate change through mitigation and adaptation methods. They should: (a) include the integrated housing and human settlement development grant, the urban settlements development grant, the municipal infrastructure grant, the national electrification grant, the public transport infrastructure and systems grant and the regional bulk infrastructure grant; (b) incorporate a statement of environmental and climate-change resilience objectives in each grant programme, together with measurable indicators; (c) prioritise the most vulnerable municipalities when determining the horizontal division of available resources in each programme; (d) provide for beneficiary municipalities to conduct appropriate climate-resilience evaluations on existing infrastructure over the medium term, subject to disaster risk-reduction methods being incorporated in respective integrated development plans; and (e) be accompanied by capacity support to and engagement with the most vulnerable municipalities to ensure that they are able to identify and address disaster risk comprehensively."

Government response

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

Chapter 6: Financing of waste management in South Africa

Job creation in the waste management sector

The Commission recommends that, "Government should take greater advantage of the opportunities for job creation in the solid waste sector, by incentivising municipalities to create 'green' jobs through labour- intensive service delivery. In particular: (a) the Department of Public Works should review the expanded public works programme, which may negatively impact on the ability of municipalities to support job creation in the sector due to the comparatively higher capital costs associated with solid waste collection and recycling activities; (b) the Department of Cooperative Governance should review the funding conditions of the municipal infrastructure grant to ensure that local-level municipal waste management assets are eligible for financing; (c) a portion of resources from the recently established Green Fund should provide transitional financial support to municipalities that introduce innovative, labour-intensive waste collection, reduction and recycling mechanisms to areas where services are currently inadequate. These might include developing small waste collection and recycling contractors or community cooperatives to manage waste buy-back centres and materials recovery facilities; and (d) the Department of Environmental Affairs should develop municipal guidelines and regulations that support community involvement in waste management activities through community-based trusts and partnerships."

Government response

Government, being conscious of the potential economic and social returns, is committed to investing in a green economy. The green economy is one of the New Growth Path's ten "job drivers". These interventions will accelerate and sustain economic growth in a more labour-absorbing, value-adding and environmentally sustainable manner.

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Government will review the local government infrastructure conditional grants (including the municipal infrastructure grant and other infrastructure grants) during 2013/14. The Commission's proposals will be considered as part of this review.

Expand access to solid waste services to poor households

The Commission recommends that, "Government should emphasise the expansion of access to solid waste services to poor communities, while strengthening the policy framework for the provision of refuse removal free basic services. In particular: (a) the Department of Cooperative Governance should review the municipal infrastructure grant guidelines to ensure that (i) adequate funding for solid waste assets is available to municipalities with weaker fiscal capacity; and (ii) expenditures on specialised vehicles and equipment required for solid waste management services are eligible for financing; (b) the Department of Environmental Affairs should prioritise support to municipalities seeking to expand services to poor communities using labour-intensive service delivery, including investigating potential fiscal instruments that might be incorporated with the expanded public works programme or Green Fund; and (c) the Department of Environmental Affairs should commission a review of the refuse removal free basic services policy, with a specific focus on its impacts on (i) expanding and sustaining services to poor households; (ii) the affordability and quality of service to poor households; and (iii) environmental impacts, such as the extent of reduction in illegal dumping."

Government response

Government acknowledges the importance of promoting sustainable access to solid waste services. Conditional grants and the local government equitable share already provide funding for access to services for poor households. The primary capital grants available for municipal solid waste facilities are the municipal infrastructure grant and the urban settlements development grant. The municipal infrastructure grant provides basic residential infrastructure for poor households. The grant can be used for new infrastructure, upgrading bulk and connector infrastructure, or the rehabilitation of existing infrastructure. The urban settlements development grant replaced the municipal infrastructure grant in metropolitan municipalities. The local government equitable share includes funds for the operational costs of providing solid waste services. The equitable share formula was reviewed during 2012 (in partnership with the Commission) and the infrastructure grants will be reviewed during 2013/14. The Commission's proposals will be taken into account as part of this process.

The National Policy for the Provision of Basic Refuse Removal Services to Indigent Households was gazetted in June 2011 and should be given time to be implemented before it is reviewed. The Department of Environmental Affairs provides support to municipalities through a range of measures that are being continually strengthened.

Chapter 7: The impact of aggregate revenue and expenditure assignments on economic growth – the case of provinces and municipalities in South African intergovernmental relations

The role of non-metropolitan municipalities in economic growth

The Commission proposes that, "Municipalities, and particularly non-metropolitan municipalities, should be encouraged to play a more direct role in economic growth. This can be achieved by (a) national government assigning greater revenue and tax handles to the municipalities than is presently the case; and (b) reassessing all elements to support the growth-enhancing role of municipalities, when reviewing the fiscal framework. These elements would include local government equitable share, local own-revenue sources (e.g. local business taxes) and conditional grants. Such reassessment should ensure a better balance between equity and growth objectives in the local government fiscal framework."

Government response

Government agrees that municipalities have an important role to play in supporting economic growth and that their ability to raise their own revenue creates both a source of funding for this objective and a positive incentive to promote economic activity in their municipal area. Government also agrees

that potential impacts on economic growth should be considered in any review of local government funding. However, the fiscal framework also has to balance the need to ensure that government is able to meet its social and other objectives with the need to promote economic growth. Municipalities must ensure that they are making full use of their existing revenue-raising powers and that they spend their budgets efficiently.

Chapter 9: Understanding the dynamics of the capacity challenge at local government level

Environmental constraints

The Commission is of the view that, "Environmental constraints, specifically with respect to the allocation of powers and functions and the formulation of conditional grants, may need to be simultaneously adjusted."

Government response

Government agrees that funding and capacity should be based on the assignment of powers and functions. Any change in these responsibilities should be accompanied by an assessment of whether changes are needed in the conditional grant and capacity-support systems.

Capacity-related conditional grants

The Commission recommends that, "The grants' conditionality must commit municipalities to specific, independently verifiable capacity and performance improvements. Grants should be redesigned to consider the quality of capacity-building interventions, instead of having a narrow quantitative focus; and an external, objective evaluation dimension should also be included in capacity grant requirements."

Government response

National government took steps in 2010/11 to streamline and focus capacity-building support efforts. The financial management grant and municipal systems improvement grant frameworks have been improved to remove overlaps and include conditionalities. Commitments and their deliverables are being audited in line with the accountability arrangements in the Division of Revenue Act.

Recommendations that indirectly apply to the division of revenue

Chapter 2: Financing e-education and achieving policy goals in public ordinary schools

Finance e-education and achieve policy goals in public ordinary schools in South Africa

The Commission recommends that, "A well-structured, inter-governmental financing mechanism should be established with explicit guidelines to provincial departments of education regarding the budget line items that must be prioritised in their annual budget allocations, as well as those budget line items that will be contained in the national budget allocation. Decisions on the particular line items can be informed by a review of policy documents and various studies conducted on e-education over several years and by a broader review of the available knowledge of e-education financing across the globe.

"The impact of e-education policy and financing should be continuously assessed, taking into account cross-departmental issues and supporting measures from a range of government departments and relevant public-sector bodies (Department of Basic Education, Department of Higher Education and Training, Department of Labour, Department of Science and Technology, Department of Communications, metropolitan municipalities, the Independent Communications Authority of South Africa and others). Such assessment would consider both school-level and economy-wide impacts. From an analytical perspective, the requirements would be twofold: (a) to understand how e-education affects

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students' decisions about acquiring ongoing skills in the education system (econometric analysis coupled with case studies, repeated over time); and (b) to consider interactions between e-education and the rest of the economy. Quantifying these interactions allows the value of various policy and financing options to be compared."

Government response

Government agrees that successful e-education requires both content and technology. Education departments will need to allocate resources for infrastructure, hard and software, and training for the implementation of e-education policies. These must be integrated with and support the delivery of the curriculum. E-education should be factored into existing norms and standards and be included in routine budgeting, monitoring and evaluation.

Chapter 6: Financing of waste management in South Africa

Full cost accounting

The Commission proposes that, "By the end of the 2015/16 financial year, government should phase in full cost accounting for solid waste management within municipalities. To achieve this goal, (a) government should develop specific (full cost accounting) guidelines for integrated municipal solid waste management that addresses the specific and interrelated environmental and service delivery needs of the sector, within the framework of activity-based costing that the National Treasury is introducing; and (b) government should develop a capacity-support programme to implement the guidelines that allows a phased introduction of full cost accounting starting with high-capacity municipalities that face major solid waste management."

Government response

Government agrees that full cost accounting for solid waste should be phased in within municipalities. This will help determine the full costs of solid waste management as well as its component costs, which will allow municipalities to identify the service's key cost drivers. Government has introduced many initiatives to support municipalities, such as the successful training of waste officers on waste-related issues. The Department of Environmental Affairs has also produced a costing tool to help municipalities cost their waste management service and set appropriate tariffs. Government will continue to encourage municipalities to use these tools.

Chapter 7: The impact of aggregate revenue and expenditure assignments on economic growth – the case of provinces and municipalities in South African intergovernmental relations

Alternative aggregate revenue and expenditure assignment for provinces and municipalities

The Commission recommends that, "The key principles of national strategies such as the New Growth Path document and the National Planning Commission's Vision for 2030 need to permeate provincial and local strategies. This can be achieved by translating these principles into complete sub-national strategies with full details on sustained implementation, followed by provincial and local governments' commitment to achieve the goals identified in the strategies. Key components for sub-national government to consider are capital and labour inputs, and multifactor productivity. Provincial and municipal governments should continue to invest in physical and human capital, focusing specifically on issues such as lack of adequate skills and physical infrastructure needs (maintenance, better location, etc). In addition, effective management and accountability mechanisms should be aimed at increasing multifactor productivity."

Government response

Government agrees that provinces and municipalities should continue to invest in physical and human capital. These investments should be consistent with the policy direction set out in the New Growth Path, the National Development Plan and other policies adopted by Cabinet.

Municipal revenue-collection efforts

The Commission is of the view that, "Municipalities are not necessarily doing a good job of collecting revenue from the public. Hence, municipalities need to improve their revenue-collection efforts, as these can positively contribute towards economic growth. It is well known that in South Africa some municipalities (for example, metropolitan municipalities) are raising substantial revenues, while other municipalities are still very dependent on transfers from national government. Issues that need to be addressed include weak capacity within local administrations, small tax bases, delivery of free basic services requiring high municipal expenditures (that can only be financed through national transfers), and a lack of 'payment culture' for services."

Government response

Government acknowledges that revenue-collecting performance varies widely among municipalities. Not all municipalities have the potential to collect the same proportion of income from own revenue, but they all need to make the necessary effort to collect what they can. Failure to do so leaves municipalities with fewer resources to invest in service delivery, including services that support economic growth. While national government agrees that weak capacity within municipalities and a "lack of payment culture" are important issues to address, the costs of free basic services for poor households are already funded by transfers through the local government equitable share. Municipalities with small tax bases are still responsible for collecting revenue due to them and should be able to fund their operations with a combination of transfers and own revenues if they spend efficiently.

Government is addressing the quality of municipalities' revenue-management capabilities through an in- depth analysis of the revenue value chain, considering all variables that constitute effective and efficient revenue management. Government agrees that the municipal administrative capabilities should be enhanced by building institutional knowledge and improving their ability to enforce by-laws.

Chapter 9: Understanding the dynamics of the capacity challenge at local government level

Capacity-building interventions

The Commission recommends that, "Capacity-building interventions should holistically coordinate individual, organisational and institutional level dimensions of capacity building in a particular municipality over the medium term. Instead of focusing disproportionately on training, support programmes should include technical support for new systems, business process redesign and change management, based on an assessment of the relevant municipality. The level dimensions have been summarised as follows:

"Individual: officials must have the necessary technical skills, knowledge, experience and competencies to fulfil their particular functions. This means appointing the correct person to the correct post (adherence to recruitment, selection and any minimum competency requirements) and ensuring that officials then receive training (both accredited and non-accredited) relevant to their areas of responsibilities, to ensure continued workplace effectiveness.

"Organisational: municipalities should be supported in compiling realistic integrated development plans, implementing functional and effective performance management systems and knowledge management policies, to enhance organisational memory and data management, and to ensure accurate and relevant reporting. Critical vacancies must also be filled and workable staff-retention strategies implemented. Skilled individuals must be appointed to vacant positions for which affirmative action candidates cannot be found, and audits should be conducted of municipal positions that fall outside the approved organisational structures.

"Institutional: greater differentiation and flexibility is required in the design of the local government fiscal framework. A differentiated approach is needed for the assignment of functions to municipalities, based on their capacity to effectively manage them. Once a municipality has proved its ability to provide a specific basket of services, decisions can be made regarding expanding the range of services provided by such a municipality. Where service delivery failures persist, such services should

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be removed from municipalities. Furthermore, the establishment of a coordinated capacity-building function across all local government departments is recommended. These actions must be complemented by simplified, streamlined and coordinated reporting requirements for local government and clearly defined roles and responsibilities for national and provincial departments. To assist rural municipalities, the value and practicality of an assistance programme should be explored, aimed at attracting and retaining scarce skills in these areas (similar to the scarce skills payments made to doctors in rural areas)."

Government response

Government supports the recommendations relating to the different dimensions of capacity building. The National Treasury has developed a strategy for capacity building that incorporates these dimensions to deal with financial management disciplines in national, provincial and local government. Government also agrees that minimum standards should be set for the sectors identified in the recommendations. The sector departments, with legislated responsibilities in their respective areas, have also been encouraged to address capacity building in a holistic manner. For the recommendation to be effective, all sectors and spheres of government need to implement systems that ensure the appointment of suitably skilled and qualified officials.

Minimum competencies entrenched in the Municipal Finance Management Act

The Commission recommends that, "Minimum competencies as entrenched in the Municipal Finance Management Act should be enforced so as to ensure that appropriate technical skills are in place. Based on field work conducted by the Commission, the following functions require particular attention: revenue management, supply chain management, sewerage and water treatment plant operators, road maintenance supervisors, health inspectors and planning and project managers."

Government response

Government agrees with the recommendations. The National Treasury set out the compliance process for minimum competency requirements in regulations promulgated in 2007, which came into effect on1 January 2013. The regulations cover a wide range of financial management disciplines, including revenue management, supply chain management and project management. To facilitate the process and improve communication and compliance, the National Treasury has issued Municipal Finance Management Act circulars, most recently in April 2012. This circular addressed the support measures in place, recognition of prior learning, non-compliance and consideration of special merit cases, reporting requirements, accountability arrangements for municipal managers, and requirements to include these arrangements in performance agreements of senior managers.

Chapter 10: Assessing gender-responsive budgeting in local government

Assess gender-responsive budgeting in local government

The Commission recommends that, "National and provincial governments should (a) run gender budgeting pilots in a few municipalities first and evaluate results before wider application. These pilots could be linked to ensuring gender disaggregated data for key conditional grants as part of the grant framework in the Division of Revenue Act; (b) ensure municipal integrated development plans institutionalise gender planning by sector (e.g. water and sanitation, local economic development etc.) and include gender disaggregated performance indicators and targets; (c) provide gender budgeting good practice guides and toolkits; and (d) provide guidelines for collecting sex-disaggregated data for budgeting processes and ensure that municipalities have the capacity to analyse budgets from a gender perspective."

The Commission also proposes that, "Local government should (a) institutionalise gender-responsive budgeting process linked to integrated development plans; (b) build capacity for gender mainstreaming and gender- responsive budgeting at local level; (c) ensure gender-responsive appropriations and budget allocations; and (d) ensure gender-sensitive public participation and consultations at local level."

Government response

Government supports the proposals, which will help ensure that the collection and allocation of public resources is effectively carried out and contributes to advancing gender equality and women's empowerment. It will provide tools to assess the different needs and contributions of men, women, boys and girls within existing revenues, expenditures and allocations, and will call for adjusted budget policies to benefit all groups.

Gender-responsive budget analysis, along with legislation and other practical policy measures, can address gender bias and discrimination. It is a step towards increased accountability and public transparency, and it can shift economic policies leading to gains across society. However, the proposals' implementation may be hindered by capacity constraints in municipalities.

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5.6 Strategy to Address Areas of Underperformance

5.6.1 Provincial Briefings on the Division of Revenue Bill

The Commission only briefed the Free State Provincial Legislature on the Commission's Submission on the 2013 Division of Revenue Bill. No request for a briefing was received from the 8 other Provincial Legislatures. The matter has been brought to the attention of the Chairperson of the Select Committee on Finance.

5.6.2 Briefing of Parliament on Annual Report of Commission

The Commission did not brief Parliament on the Commission's 2011/2012 Annual Report because no such request was made by Parliament. This matter has been brought to the attention of the Chairperson of the Standing Committee on Finance.

5.6.3 Briefings on Appropriations Bill

The Commission was only requested to brief Parliament on the 2013 Appropriations Bill in May 2013. This is a matter that is beyond the control of the Commission.

5.6.4 Stakeholder Information Manual

Finalisation of a Stakeholder Information Manual has been prioritised for the current financial year. The Manual will be completed by the end of the Second Quarter.

5.6.5 Training

The training that was scheduled but could not take place because of emergent Commission commitments will be done during the course of the current financial year

5.6.6 Gender Balance

The Commission has adopted a targeted recruitment strategy for addressing issues of gender balance and of the employment of persons with disabilities.

5.6.7 Satisfaction Levels Surveys

This matter will be addressed once the Organisational Development exercise has been finalised.

5.6.8 File Plan

This matter can only be fully addressed once the required resources have been made available. In the interim, those components of the File Plan that do not have a cost attached to them are being developed and implemented

5.6.9 Deviation from Allocation

This was part of a deliberate strategy on the part of the Commission to eradicate a legacy deficit. Deviation within the accepted norm will be restored once this objective has been achieved.

5.7 In-year Changes to Planned Targets

The targeted number of Parliamentary Committees for briefing on the Commission's 2013/2014 Submission for the Division of Revenue was changed from 18 to 5 as there was relative certainty that the Commission would be called upon to brief at least four Committees on the Submission and that the other would be briefed in terms of a standing arrangement between the Commission and the National Assembly. There were no guarantees that the Commission would be called upon to brief the balance of the Parliamentary Committees on the Submission.

CHAPTER 6

Financial Information for the Year Ended 31 March 2012

1. Statement of responsibility of Commission for the Financial Statements for the Year Ended 31 March 2013
2. Report of the Accounting Officer
3. Report of the Auditor-General
4. Report of the Audit Committee
5. Statement of responsibility of Accounting Officer of the Commission for the Financial Statements for the Year Ended 31 March 2013
6. Statement of Financial Position
7. Statement of Financial Performance
8. Statement of Changes in Net Assets
9. Cash Flow Statement
10. Statement of Accounting Policies
11. Notes to the Annual Financial Statements

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6.1 Statement of responsibility of Commission for the Financial Statements for the Year Ended 31 March 2013

The Commission is responsible for the preparing financial statements that fairly present the financial position, performance and cash flows for the period and for the related information contained in the annual report.

The Commission maintained adequate accounting records and an effective system of internal controls and risk management and compiled in all material respects with applicable laws and regulations.

The Commission has prepared the annual financial statements presented on pages 71 to 89 using Standards of GAAP. Appropriate accounting policies supported by reasonable and prudent judgements and estimates have been used consistently.

The external auditors are responsible for reporting on whether the financial statements are fairly presented. Their report is presented on pages 65 to 66.

The Commission is financially dependent on a transfer payment from National Treasury. On the basis that the transfer payment has been listed on the Estimates of National Expenditure the Commission believes that it will continue to be a going concern in the year ahead. Based on this reason, the Commission prepared the annual financial statements on a going concern basis.

The annual financial statements for the year ended 31 March 2013 were approved by the Commission and are signed on its behalf by the undersigned.

Bongani Khumalo (Mr.)

Acting Chairperson of Commission

31 May 2013

6.2 Report of the Accounting Officer for the year ended 31 March 2013

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

1. Focus Areas

The **primary** concern of the Commission continued to be the elimination of a ***legacy R3.4m deficit*** through financial discipline, without compromising delivery on the mandate of the Commission.

Second was an urgent need to fill long-standing vacancies in the Commission and to separate the directing and executing authority of the Commission.

Third was the need to improve the quality of Commission submissions and to continue consolidating the Commission's research.

Fourth was the holding of a second round of public hearings on the ***Review of the Local Government Fiscal Framework*** and ***Financing of Housing.*** The aim was to consolidate stakeholder views on the options analysis developed by the Commission following inputs received from stakeholders after the first set of public hearings in 2011.

Fifth was a limited resource envelope and the need to adopt a lean, highly-networked, research-focused delivery model. The model would predicate a basic utilitarian support function; the employment of highly skilled individuals with strong capabilities in policy analysis, contract management, and knowledge packaging and disseminating. These individuals would have to be well remunerated in order to retain them, given the high levels of mobility and dearth of skills within the sector. Allied to this would be the need to reduce office space..

Sixth was the ever increasing demand for the services of the Commission, brought about by the Commission's proactive response to the findings and recommendations of its 2011 Perception Survey and Impact Assessment.

2. Annual Appropriation

The total appropriation for the Financial and Fiscal Commission for the year ending 31 March 2013 was R37,268,000

3. Secretariat Structure

The Commission Secretariat consists of a Research and Recommendations Programme, a Corporate Services Division, a Finance Division and a Commission Administration Unit. The Research and Recommendations Programme translates and implements the strategic direction of the Commission for research; the Corporate Services Division translates and implements the objectives of the Commission for Human Resource Management, ICT and Facilities Management; the Finance Division assists the Accounting Officer of the Commission in the effective financial management of the Commission including the exercise of sound budgeting and budgetary control practices, the operation of internal controls and the timely production of financial reports; and Commission Administration provides support to the Commission.

The total allocation for the Research and Recommendations Programme was R16, 022,738, for the Corporate Services Division R7, 897,407, for the Finance Division R4, 534,230, and for Commission Administration R9, 089,781

The total expenditure for the Research and Recommendations Programme was R1, 455,137, for the Corporate Services Division R9, 364,087, for the Finance Division R4, 891,363, and for Commission Administration R9, 979,948

4. Revenue Received

The Commission received a total of R37,494,156 in revenue for the reporting period which consisted of R37,268,000 of government grant and R226,156 of other income.

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5. Donor Funds

Donor funding in amount of R120 000 was received from FinMark Trust for a housing financing project..

6. Events after the Reporting Date

There are no reportable events after the reporting date.

7. Major Event Expenditure

The Commission did not incur any expenditure in respect of a major non-mandate event during the period under review.

8. Services Rendered by Commission

The core business of the Commission is fully set out in Chapter 1 of this Report. The Commission is not a service delivery institution and does not render services in the public domain on a cost recovery basis.

9. Constraints

In a knowledge intensive domain, the Commission remains critically dependent on its key staff. Not only is suitable research expertise difficult to retain, but the specialist technical skills required mean there is not a large pool from which to recruit talent. The Commission still struggles to develop a critical mass of research experience. The attraction of talent, and its management and retention remains a key priority of the Commission.

Long standing Commissioner vacancies some dating back to July 2008 remain a key concern for the Commission. This has been compounded by the fact that the Commission has not had a substantive Chairperson for more than two years; the Deputy Chairperson of the Commission who was reappointed for a further 2 year term in March 2013 has now been acting in that capacity since then; and that one of the Commissioners whose term of office expired at the end of February 2013 has declined reappointment and his position has still not been filled. This matter seriously impacts on the delivery of the Commission. This is an area that requires the intervention of the President of the Republic and the Commission will continue to engage through the Minister of Finance in order that this challenge is addressed.

Allied to the above is the legislated conflation of the positions of the directing (Chairperson) and executive (Chief Executive) authorities of the Commission allied with the workload that these positions carry particularly because the Commission currently has only one executive Commissioner. The separation of these positions is urgent as it will promote good governance, introduce some checks and balances in the exercise of authority and relieve the very onerous burden that the conflation has resulted in. The matter was placed on the legislative agenda of National Treasury for 2012 and it is hoped that it will soon be resolved.

The cost of compliance with the prescripts of among others the Constitution, the Copyright Act, the Electronic Communications and Transactions Act, the Promotion of Access to Information Act, the PFMA and the requirements and directives of the National Archives and Records Service of South Africa remains prohibitive.

Though the exponential rise in external audit fees has been somewhat mitigated by the Auditor General's decision to conduct the external audit employing internal resources, the situation with regard to internal audit fees still remains grim. It is hoped that efforts at establishing a shared internal audit function will deliver an outcome that is similar to that achieved for external audits.

The Commission has a legacy financial deficit which austerity and National Treasury through the revision of the Commission's MTEF Baseline Allocation has gone some way in addressing. These gains have however been diminished by new and ever increasing pressures that have been placed on the Commission's resources by stakeholders and legislation for which no provision has been made, as well as the decision by National Treasury to reduce allocations by 1% in each year of the MTEF.

10. Corporate Governance Arrangements

10.1 Internal Audit Function (IAF)

The IAF of the Commission is outsourced. The current service provider is SEMA Integrated Risk Solutions (SEMA IRS) appointed in November 2008. The Contract expired in October 2011 and was extended initially to September 2012 pending the establishment of a shared internal audit office, but thereafter and because of the delays that were attendant on the establishment of the shared internal audit service, to March 2013 for the procurement of an independent internal audit service. The IAF is an integral part of the Financial and Fiscal Commission System of Governance.

The IAF provides objective and independent assurance to management and to the Audit Committee on the adequacy and effectiveness of internal controls, risk management and governance processes within the Commission. In pursuing this activity, the IAF is guided by a fully functional Audit Committee which operates in terms of an approved Audit Charter.

The IAF through comprehensive engagement with internal stakeholders formulated a comprehensive three-year rolling plan, incorporating an annual plan that was approved by the Audit Committee. The annual internal audit plan was fully executed during the year under review.

The head of the IAF has complete access and a direct reporting line to the Audit Committee and reports at each Audit Committee meeting on control weaknesses and other internal audit activities.

10.2 Audit Committee

The Audit Committee continues to operate within its written terms of reference, which are reviewed annually. The Audit Committee met four times during the year. In these meetings, the accounting officer and executive management were always represented. The Auditor-General of South Africa (AGSA) or the staff of the AGSA is always invited to attend, thus ensuring that such meetings are as effective as possible.

10.3 Risk Management

Because of its size, the Commission does not have a separate Enterprise Risk Management (ERM) Unit under the leadership of a Chief Risk Officer (CRO). The discharge of this responsibility devolves on all members of Executive Management and is coordinated by one such member.

The responsible member of Executive Management has continued to coordinate and support the implementation of risk management activities and Management has reviewed the Commission's Enterprise Risk Management Strategy, which informed the continuous integration of risk management into the day to day activities of the Commission.

Management has championed good governance practices by creating awareness and instituting approved risk management processes and procedures in alignment with regulations and the Public Sector Risk Management Framework. The ongoing risk management activities have culminated in an updated Risk Profile for the Commission that is monitored on an ongoing basis by internal governance structures, including the Executive Committee and the Audit Committee. The Executive responsible for coordinating Enterprise Risk Management has commenced a process of coordinating the Commission's Business Continuity and Disaster Recovery processes, and will continue to manage this process going forward.

During the course of developing its risk profile, the Commission has identified corruption risks that it may face. In line with the Commission's zero tolerance stance on corruption, activities to mitigate corruption risks have been incorporated into the reviewed Fraud Prevention Plan for implementation by the identified risk owners. The implementation of the Plan will be monitored to ensure that corruption risks are managed and a strong ethical culture is maintained throughout the Commission.

10.4 Internal Policy Review

- During the course of the year under review, the Executive Committee approved among others the following governance policies and prescripts for implementation and final approval by the Accounting Officer:

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- Communication/Stakeholdrer Management Policy
- Performance Information Policy
- Annual Leave Policy
- Sick Leave Policy
- Family Responsibility Policy
- Unpaid Leave Policy
- Study Leave Policy
- Research Policy
- Information Technology Policies and Procedure

10.5 Other Governance Matters

In addition to the governance arrangements listed above, the following governance issues were also given attention:

- Business Continuity and Disaster Recovery

11. Discontinued Activities

No activities were discontinued during the course of the reporting period.

12. New Activities

Except for requests received from stakeholders in terms of Section 3 of the Financial and Fiscal Commission Act, there were no other new activities during the course of the reporting period.

13. Asset Management

In terms of Sub-section 38(1)(b) of the Public Finance Management Act (1 of 1999) as amended, the Accounting Officer of the Commission is responsible for the effective, efficient, economical and transparent use of the resources of the Commission.

In addition to the normal day-to-day administration and management of the Commission's Asset Register, the Finance and Corporate Services Divisions of the Commission undertook several key activities to improve on the overall asset management environment of the Commission. These activities are as follows:

13.1 Asset verification

Assets are Commission resources that should be disclosed in the Commission's annual financial statements. As such the Commission ensured that all its assets are properly tagged, verified and accounted for and that any lost or redundant assets are identified and removed from the asset register on a timely basis.

An asset verification process was conducted during the current financial year in order to ensure that Commission assets are accounted for and reported accurately in the annual financial statement.

13.2 Asset disposal

During the reporting period, the Finance and Corporate Services Divisions of the Commission, in line with the National Treasury Asset Management Disposal Policy, National Regulations and Governance report pertaining to corporate social responsibility, managed to dispose of redundant and obsolete assets as follows:

- Obsolete computer hardware
- Redundant office furniture

13.3 Acquisition of ICT Assets

The Commission follows Supply Chain Management processes in the acquisition of assets. The Commission has an Information Communication and Technology (ICT) Steering Committee. Each functional

Division is represented in the Committee. The terms of reference of the Committee were reviewed in the 2011/12 financial year and an assessment of the effectiveness of its operation was carried out.

14. Performance Information

Divisional heads have reported to the Accounting Officer on a regular basis on the progress made with regard to functional delivery and measurable objectives, as contained in the Commission's Strategic Plan.

15. Standing Committee on Public Accounts (SCOPA)

There were no SCOPA resolutions in the 2011/2012 financial year relating to the Financial and Fiscal Commission

16. Prior Modifications to Audit Reports

None

17. Audit Outcomes

I am satisfied that the Annual Financial Statements and the Report on Performance Against Predetermined Objectives of the Commission for the year ending 31 March 2013 are compliant with all applicable legislation and fairly present in all material aspects the financial status and performance of the Commission. This view is supported by the Commission and the Auditor General.

All technical misstatements that were observed during the course of the audit were corrected. This was done with the assistance and support of the Auditor General. I am indebted to the Auditor-General in this respect.

Management is committed to ensuring that future audit engagements with the Auditor General are more efficient and value-adding, time spent on audits is minimised, and audit fees are reduced.

The Commission incurred irregular expenditure in an amount of R 490 000 which is disclosed in the Annual Financial Statements of the Commission. The irregular expenditure related to the procurement of a service provider to assist the Commission with an Organisational Development imitative. Management had been of the view that the procurement of the service was urgent and deviated from the open tender procedure that is prescribed for bids in excess of R500 000. The Auditor General found that there had been no urgency to the procurement, that the total contract value exceeded the R500 000 threshold, that an open tender process should have been followed, and that Management had failed to report the irregular expenditure to National Treasury and the Accountant General as prescribed.

Management has since reported the irregular expenditure to National Treasury and to the Accountant General. Management has also formally requested condonation of the irregular expenditure from National Treasury. Management has furthermore sought and received the advice from the Auditor-General on mechanisms for pre-empting instances of irregular expenditure going forward.

Management takes full responsibility for the irregular expenditure and has taken the necessary measures to ensure that this does not happen in future.

18. Approval

The Annual Financial Statements set out on pages 71 to 89 have been approved by the Accounting Officer.

Bongani Khumalo (Mr.)
Acting Accounting Officer /Chief Executive

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6.3 Report of the Auditor-General to Parliament on the Financial and Fiscal Commission

Report On The Financial Statements

Introduction

1. I have audited the financial statements of the Financial and Fiscal Commission set out on pages 71 to 89, which comprise the statement of financial position as at

31 March 2013, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

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 the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA),and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa,

2004 (Act No. 25 of 2004) (PAA), the General Notice issued in terms thereof and International Standards on Auditing. 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.

4. 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.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

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 2013, and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the PFMA.

Report On Other Legal And Regulatory Requirements

6. In accordance with the PAA and the General Notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

7. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages 26 to 57 of the annual report.

8. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury Framework for managing programme performance information.

The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

9. There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

Compliance with laws and regulations

10. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters.

11. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the General Notice issued in terms of the PAA are as follows:

Procurement and contract management

12. Goods and services of a transaction value above R500 000 were procured without inviting competitive bids, as required by Treasury Regulations 16A6.1 and Practice Note 8 of 2007/08 par. 3.4.1

Internal control

13. I considered internal control relevant to my audit of the financial statements, the annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on compliance with laws and regulations included in this report.

Leadership

14. The accounting officer did not exercise sufficient oversight responsibility ensuring compliance with laws and regulations as the normal competitive bidding procedures were not followed related to procurement and contract management. Internal control deficiencies resulted in irregular expenses of R490 200.

Auditor-General

Pretoria

31 July 2013

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6.4 Report of the Audit Committee for the year ended 31 March 2013

Introduction

We are pleased to present our report for the financial year ended 31 March 2013 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. Four (4) out of the five (5) Audit Committee members are independent, which is in line with good 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	3
Thembeka Semane	3
Duncan Ntuli	3

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 Commission 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 Commission strategic risk will continue to be done on a quarterly basis by the Audit Committee.

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 Commission 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

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6.5 Statement of responsibility of Accounting Officer of the Commission for the Financial Statements for the Year Ended 31 March 2013

The Accounting Officer is required by the Public Finance Management Act (Act No.1 1999), to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the Accounting Officer to ensure that the financial statements fairly present the state of affairs of the Commission as at the end of the financial year and the results of its operations and cash flows for the period then ended. The Auditor General has the responsibility of expressing an independent opinion on the financial statements and performance information of the Commission and was given unrestricted access to all financial records and related data.

The financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The Accounting Officer acknowledges that he is ultimately responsible for the system of internal financial control established by the Commission and places considerable importance on maintaining a strong control environment. To enable the Commission to meet these responsibilities, the Accounting Officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Commission and all employees are required to maintain the highest ethical standards in ensuring the Commission's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Commission is on identifying, assessing, managing and monitoring all known forms of risk across the Commission. While operating risk cannot be fully eliminated, the Commission endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Accounting Officer is of the opinion, based on the information and explanations given by management that the system of internal controls provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The Accounting Officer has reviewed the Commission's cash flow forecast for the year to 31 March 2015 and, in the light of this review and the current financial position, he is satisfied that the Commission has or has access to adequate resources to continue in operational existence for the foreseeable future.

The Commission is wholly dependent on the Government for continued funding of operations. The financial statements are prepared on the basis that the Commission is a going concern and that the Government has neither the intention nor the need to liquidate or curtail materially the scale of the Commission.

Although the Accounting Officer is primarily responsible for the financial affairs of the Commission, he is supported by the Auditor General.

The Auditor General is responsible for independently reviewing and reporting on the Commission's financial statements. The financial statements have been examined by the Auditor General and the Auditor General's report is presented on page 65.

The financial statements set out on pages 71 to 89, which have been prepared on the going concern basis, have been approved by the Accounting Officer on 31 May 2013 and signed by him:

Bongani Khumalo

Accounting Officer

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FINANCIAL AND FISCAL COMMISSION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

6.6 Statement Of Financial Position

Figures in Rand	Note(s)	2013	2012
Assets			
Current Assets			
Receivables - exchange transactions	2	75 733	140 405
Cash and cash equivalents	3	1 263 155	127 200
		1 338 888	**267 605**
Non-Current Assets			
Rental Deposits	4	79 939	-
Property, Plant and Equipment	5	666 889	706 550
Intangible assets	6	16 697	3 729
		763 525	710 279
Total Assets		**2 102 413**	**977 884**
Liabilities			
Current Liabilities			
Payables from Exchange Transactions	7	2 460 580	3 157 498
Provisions	8	597 369	550 070
		3 057 949	**3 707 568**
Non-Current Liabilities			
Operating lease liability	9	58 083	87 556
Total Liabilities		**3 116 032**	**3 795 124**
Net Liabilities		**(1 013 619)**	**(2 817 240)**
Reserves			
Capital Contribution	10	918 752	918 752
Accumulated deficit		(1 932 371)	(3 735 992)
Total Net Liabilities		**(1 013 619)**	**(2 817 240)**

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FINANCIAL AND FISCAL COMMISSION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

6.7 Statement Of Financial Performance

Figures in Rand	Note(s)	2013	2012
Operating Revenue			
Government grants	11	37 268 000	33 036 000
Other Revenue			
Sundry income		128 050	48 141
Interest received		98 106	76 059
Gains on disposal of assets		-	12 017
Total Other Revenue		**226 156**	**136 218**
Total Revenue		**37 494 156**	**33 172 218**
Operating expenses			
Employee costs	12	20 383 248	19 202 548
Depreciation and amortisation	13	313 144	402 741
Professional Services	14	4 138 573	4 679 943
Loss on sale of plant and equipment		16 347	-
Other operating expenses	**15**	10 839 223	8 775 203
Total Operating Expenses		**35 690 535**	**33 060 435**
Operating surplus		**1 803 621**	**111 783**
Finance costs	16	-	3 578
Surplus for the year		**1 803 621**	**108,204**

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FINANCIAL AND FISCAL COMMISSION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

6.8 Statement Of Changes In Net Assets

Figures in Rand	Capital Contribution	Accumulated Deficit	Total net liabilities
Balance at 1 April 2011	**918 752**	**(3,884,196)**	**(2,925,444)**
Surplus for the year	-	108 204	108 204
Total changes	-	108 204	108 204
Balance at 1 April 2012	**918 752**	**(3,735,992)**	**(2,817,240)**
Surplus for the year	-	1 803 621	1 803 621
Total changes	-	1 803 621	1 803 621
Balance at 31 March 2013	**918 752**	**(1 932 371)**	**(1 013 619)**

FINANCIAL AND FISCAL COMMISSION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

6.9 Cash Flow Statement

Figures in Rand	Note(s)	2013	2012
Cash flows from operating activities			
Receipts			
Grants		37 268 000	33 036 000
Interest income		98 106	76 059
Rendering of services		128 050	48 141
Payments		**37 494 156**	**33 160 201**
Employee costs		20 335 949	19 052 328
Suppliers		15 669 596	13 727 170
Finance costs		-	3 578
		36 005 545	32 783 078
Net cash flows from operating activities	**18**	**1 488 611**	**377 123**
Cash flows in investing activities			
Purchase of property, plant, equipment and intangible assets	**5,6**	364 987	273 060
Proceeds from sale of property, plant and equipment	**5**	12 331	24 100
Net cash flows in investing activities		**352 656**	**248 960**
Net increase in cash and cash equivalents		**1 135 955**	**128 163**
Cash and cash equivalents at the beginning of the year		127 200	(963)
Cash and cash equivalents at the end of the year	**3**	**1 263 155**	**127 200**

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FINANCIAL AND FISCAL COMMISSION

STATEMENT OF ACCOUNTING POLICIES FOR THE YEAR ENDED

31 MARCH 2013

6.10 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 annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations of such statements issued by the Accounting Practices Board.

These annual financial statements have been prepared on the going concern basis despite having a significant accumulated deficit. This is due to the Commission being entirely dependent on funding from Government, with no indication having been received that such funding will cease in the foreseeable future.

1.1 Revenue Recognition

Revenue is recognised when it is probable that future economic benefits or service potential will flow to the Commission and these benefits can be measured reliably. Revenue comprises of government grants, other income, gains on disposals and interest received.

Government grants are the Commission's main source of revenue and are treated with reference to the guidance provided by GRAP 23: Revenue from Non-exchange Transactions. The Commission has developed an appropriate accounting policy on this basis, namely that revenue from non-exchange sources is only recognised to the extent that a corresponding asset satisfies the recognition criteria, but limited to the amount of any outstanding obligation in the form of conditions attached to the grant.

Other income is recognised in the reporting period in which the services are rendered, by reference to the stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

The gain arising from the derecognition of an item of property, plant and equipment is included in revenue when the item is derecognised. The gain arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Interest is recognized on a time proportion basis, taking into 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

Recognition

The Commission will recognise the cost of an item of property, plant and equipment as an asset if:

a. it is probable that future economic benefits or services potential associated with the item will flow to the entity, and

b. the cost or fair value of the item can be measured reliably.

Derecognition

The carrying amount of an item of property shall be derecognised:

a. on disposal (including disposal through a transaction) and;

b. when no future economic benefits or service potential are expected from its use of disposal

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:

Item	Useful life
Computer equipment	3 years
Furniture and fixtures	5 years
Motor vehicles	5 years
Office equipment	5 years
Leasehold improvements	Amortised over the period of the lease

No depreciation is provided on artwork, which is 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 requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statement. Estimates are based on current conditions and on other assumptions that are believed to be reasonable under the circumstances. Significant items subject to judgment and such estimates include estimated useful lives and the recoverability of the carrying value of assets.

1.5 Leases

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

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

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1.6 Provisions

Provisions are recognised when the Commission has a present legal or constructive obligation as a result of past events, when 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. Provisions are reconginised at the present value of the future amount required to settle the obligation at reporting date.

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

Defined Contribution plans are plans to which the Commission makes contributions on behalf of employees, but without any further obligation to fund the plan in the event of a shortfall in benefits. Contributions to a defined contribution plan in respect of services in a particular period are recognised as an expense in that period.

1.8 Income Received in Advance

Income received in advance is initially recognised in the Statement of Financial Position when cash is received for services not yet rendered and subsequently recognised in the Statement of Financial Performance when services have been rendered.

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 plus, in the case of financial instruments not subsequently measured at fair value, transaction cost that are attributable to the acquisition or issue of the instruments when, and only 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:

Financial Assets

Trade and other receivables

Receivables from exchange transactions are categorised as loans and receivables and consist of staff loans and rental deposits. These are initially measured at fair value, and subsequently measured at amortised cost, being the initially recognised amount, plus any interest accrued, less any repayments, less any impairments.

Impairment of financial assets

At each reporting date the Commission assesses all financial assets to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the Commission, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment deficits are recognised in the Statement of Financial Performance, Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Where financial assets are impaired through use of an allowance account, the amount of the deficit is recognised in the statement of financial performance within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Financial Liabilities

The Commission's principal financial liabilities are accounts payables, categorised as other financial liabilities measured at amortised cost. Initial measurement is at fair value, with subsequent measurement being at amortised cost, being the amount initially recorded plus any accrued finance charges, less repayments made.

1.10 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents include cash on hand and bank overdrafts.

1.11 Impairment of non-financial assets

Non-financial assets such as property, plant and equipment and intangibles (except for indefinite life intangibles) are tested for impairment when indicators of possible impairment exist. The impairment is determined as being the difference between the recoverable amount (or recoverable service amount) and the assets current carrying value, and is recognised immediately in surplus or deficit for the period.

1.12 Accounting policy for irregular expenditure

Irregular expenditure is recorded in the notes to the financial statements when confirmed. The amount recorded is equal to the total value of the irregularity unless it is impracticable to determine in which case reasons therefore is provided in the note. Irregular expenditure is removed from the note when it is either condoned by the relevant authority or transferred to receivables for recovery.

1.13 Budget information

The Commission is typically subject to budgetary limits in the form of appropriations or budget authorizations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by the Commission provides information on whether resources were obtained and used in accordance with the legally adopted budget.

The annual financial statements and the budget are not on the same basis of accounting therefore a reconciliation between the statement of financial performance and the budget have been included in the annual financial statements. Refer to note 22 and 26.

1.14 Related parties

The Commission operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Only transactions with related parties not at arm's length or not in the ordinary course of business have been disclosed.

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1.15 New Standards, interpretations approved but not yet effective

Standards issued, but not yet effective

The following approved Standards of GRAP have been approved and issued by the Accounting Standards Board, but only become effective in the future or have not been given an effective date by the Minister of Finance. The Commission has not early-adopted any new standards, but has in some cases referred to them for guidance in developing appropriate accounting policies in accordance with the requirements of Directive 5: Determining the GRAP Reporting Framework.

GRAP 18 - Segment Reporting:

Requires additional disclosures on the various segments of the business in a manner that is consistent with the information reported internally to management of the entity. The precise impact of this on the financial statements of the Commission is still being assessed, but it is expected that this will only result on additional disclosures without affecting the underlying accounting. This standard does not yet have an effective date.

GRAP 20 - Related Parties

This standard is drawn primarily from IPSAS 20: Related Party Disclosures. Since ISAS 20 has been applied in developing the current accounting policy and levels of disclosure no significant impact on the financial statement of the Commission is expected. This standard does not yet have an effective date.

GRAP 25 - Employee Benefits

The standard has been issued with an effective date 0f 1 April 2013 As the standard has been used to formulate and inform current accounting policies and disclosures, it is not likely to affect the annual financial statements when it is adopted.

GRAP 105 - Transfer of Function between Entities under Common Control

This standard provides the accounting treatment for transfers of functions between entities under common control and has already been referred to for guidance where necessary in developing appropriate accounting policies for the treatment of the assets transferred to the Commission from the Department. The standard is only expected to have an impact on the Commission in respect of any future transfers of functions. This standard does not yet have an effective date.

GRAP 106 - Transfer of Function between Entities not under Common Control

This standard deals with other transfers of functions (i.e. between entities not under common control) and requires the entity to measure transferred assets and liabilities at fair value. It is unlikely that the Commission will enter into any such transactions in the foreseeable future. This standard does not yet have an effective date.

GRAP 107 - Mergers

This standard deals with requirements for accounting for a merger between two or more entities, and is unlikely to have an impact on the financial statements of the Commission in the foreseeable future. This standard does not yet have an effective date.

The following interpretations have also been issued and are expected to have an insignificant impact on the financial statements, since they generally reflect the interpretations and principles already established under SA GRAP. It is unlikely that the Commission will encounter any of these issues in the normal course of its business.

Preface to Interpretations of the Standards of GRAP

IGRAP1 - Applying the Probability Test on Initial Recognition of Exchange Revenue.

IGRAP2 - Changes in Existing Decommissioning Restoration and Similar Liabilities.

IGRAP3 - Determining Whether an Arrangement Contains a Lease.

IGRAP4 - Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds.

IGRAP5 - Applying the Restatement Approach under the Standard of GRAP on Financial Reporting in Hyperinflationary Economies.

IGRAP6 - Loyalty Programmes

IGRAP7 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interactaction

IGRAP8 - Agreements for the Construction of Assets from Exchange Transactions.

IGRAP9 - Distributions of Non-cash Assets to Owners.

IGRAP10 - Assets Received from Customers.

IGRAP11 - Consolidation - Special Purpose Entities

IGRAP12 - Jointly Controlled Entities - Non-Monetary Contributions by Ventures

IGRAP13 - Operating Leases – Incentives

IGRAP14 - Evaluating the Substance of Transactions Involving the Legal Form of a Lease

IGRAP15 - Revenue – Barter Transactions Involving Advertising Services

IGRAP15 -Revenue – Barter Transactions involving Advertising Services.

IGRAP16 -Intangible Assets – Website cost

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FINANCIAL AND FISCAL COMMISSION

6.11 NOTES TO ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

Figures in Rand	2013	2012
2. Receivables from exchange transactions		
Other Receivables	63 236	88 250
Prepayments	12 497	-
Rental deposits	-	52 155
	75 733	**140 405**
3. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	2 072	6 546
Bank balances	1 261 083	120 654
	1 263 155	**127 200**
4. Rental Deposits		
Rental Deposits	79 939	-

Deposits relate to rental deposits on the premises occupied by the Commission.

5. Property, Plant and Equipment

	2013			2012		
	Cost	Accumulated depreciation and impairment	Carrying Value	Cost/Evaluation	Accumulated depreciation and impairment	Carrying Value
Furniture and fixtures	2 412 311	(2 136 788)	275 523	2 727 511	(2 606 334)	121 177
Motor vehicles	236 829	(134 203)	102 626	236 827	(86 837)	149 990
IT equipment	1 357 905	(1 107 971)	249 934	1 216 195	(825 084)	391 111
Leasehold improvements	366 319	(366 319)	-	366 330	(360 865)	5 465
Artwork	38 806	-	38 806	38 806	-	38 806
Total	**4 412 170**	**(3 745 281)**	**666 889**	**4 585 669**	**(3 879 120)**	**706 550**

Reconciliation of property, plant and equipment – 2013

	2013			2012		
	Opening balance	Additions	Disposals	Depreciation	Accumulated depreciation/ Disposals	Total
Furniture and fixtures	2 396 257	27 938	(11 884)	(55 275)	(2 081 513)	275 523
Motor vehicles	236 829	-	-	(47 366)	(86 837)	102 626
IT equipment	1 014 085	306 223	(16 794)	(187 181)	(886 399)	249 934
Leasehold improvements	366 330	-	-	(5 465)	(360 865)	-
Artwork	38 806	-	-	-	-	38 806
Total	**4 052 307**	**334 161**	**(28 678)**	**(295 287)**	**(3 395 614)**	**666 889**

Reconciliation of property, plant and equipment – 2012

	2013			2012		
	Opening balance	Additions	Disposals	Depreciation	Accumulated depreciation/ Disposals	Total
Furniture and fixtures	2 751 178	-	(23 667)	(178 727)	(2 427 607)	121 177
Motor vehicles	236 827	-	-	(47 366)	(39 471)	149 990
IT equipment	1 851 124	273 060	(907 572)	(141 117)	(684 384)	391 111
Leasehold improvements	366 330	-	-	(5 955)	(354 910)	5 465
Artwork	38 806	-	-	-	-	38 806
Total	**5 244 265**	**273 060**	**(931 239)**	**(373 165)**	**(3 506 372)**	**706 550**

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6. Intangible assets

	2013			2012		
	Cost	Accumulated depreciation and impairment	Carrying Value	Cost/Evaluation	Accumulated depreciation and impairment	Carrying Value
Computer software	951 239	(934 542)	16 697	920 413	(916 684)	3 729

Reconciliation of intangible assets - 2013

	Opening balance	Additions	Amortisation	Accumulated Amortisation	Total
Computer Software	920 413	30 826	(17 858)	(916 684)	16 697

Reconciliation of intangible assets - 2012

	Opening balance	Amortisation	Accumulated Amortisation	Total
Computer Software	920 413	(29 576)	(887 108)	3 729

Fully depreciated assets have been retained in use by the Commission with the prospect of replacing these assets in the following year, these assets have an estimated gross carrying value of R25 000.

Figures in Rand	2013	2012
7. Payables from Exchange Transactions		
Trade payables	1 666 546	2 723 876
Deferred income - PEP School	-	17 046
Accrued expenses	794 034	416 576
	2 460 580	**3 157 498**

8. Provisions

Reconciliation of provisions - 2013

	Opening Balance	Additions	Utilised during the year	Total
Leave benefits	550 070	92 351	(45 052)	597 369

Reconciliation of provisions - 2012

	Opening Balance	Additions	Utilised during the year	Total
Leave benefits	399 849	212 349	(62 128)	550 070

In terms of the Financial and Fiscal Commission's leave policy, employees are entitled to accumulated vested leave pay benefits not taken within a leave cycle, provided that any leave pay benefits not taken within a period of one year after the end of a leave cycle are forfeited.

9. Operating Lease Liability

Accrual in respect of straight line operating lease	58 083	87 556

10. Capital contribution

Value of Assets Acquired from National Treasury at inception of the Commission	918 752	918 752

11. Government grants

Revenue comprises amounts received from National Treasury	37 268 000	33 036 000

12. Employee Costs

Figures in Rand	2013	2012
Basic	18 863 954	17 636 067
Bonus	305 885	295 465
13th Cheques	316 169	120 661
Leave pay provision charge	47 299	212 348
UIF	51 607	47 322
Long-service awards	94 925	129 191
Other payroll levies	-	71 050
Other Personnel Costs	703 409	690 443
	20 383 248	**19 202 548**

Executive Commissioners - B. Khumalo

Annual Salary	1 448 854	1 351 607
Total	**1 448 854**	**1 351 607**

Non-Executive Commissioner – T. Ajam

Annual Salary	363 889	303 048
Total	**363 889**	**303 048**

Executive Commissioner – N. Shezi

Annual Salary	22 339	33 173
Total	**22 339**	**33 173**

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Non-Executive Commissioner –D. Savage

Annual Salary	75 394	74 468
Total	**75 394**	**74 468**

Non-Executive Commissioner – L. Abrahams

Annual Salary	68 546	31 972
Total	**68 546**	**31 972**

13. Depreciation and Amortisation

Property, Plant and Equipment	295 286	373 165
Intangible Assets	17 858	29 576
Total	**313 144**	**402 741**

14. Professional Services

Figures in Rand	2013	2012
Legal Fees	33 060	71 093
External Audit Fees	761 726	939 668
Risk Management Fees	249 982	-
Internal Audit Fees	925 437	1 300 567
Commissioned Research	2 168 368	2 368 615
Total	**4 138 573**	**4 679 943**

15. Other operating expenditure – Material classes of transactions

Software licenses	555 158	247 086
Internet connection	463 853	439 823
IT support	392 258	369 484
Workshops & meetings	817 285	215 923
Printing & publications	943 646	405 118
Communication & cell phones	764 607	612 122
Office rent	1 610 634	612 122
Travel expenses	2 503 754	2 128 668
	8 051 195	**6 192 733**

16. Finance costs

Other interest paid	-	3 578

17. Auditors' remuneration

Fees	761 726	939 668

18. Cash generated from operations

Surplus	1 803 621	108 205
Adjustments for:		
Depreciation and amortisation	313 144	402 741
Loss on sale of assets and liabilities	16 347	106 465
Movements in operating lease liabilities	(29 473)	(66 436)
Movements in provisions	47 299	150 220
Rental deposit	(979 939)	-
Changes in working capital:		
Receivables - exchange transactions	64 672	(82 294)
Payables from Exchange Transactions	(647 060)	(241 778)
	1 488 611	**377 123**

19. Commitments

Operating leases - as lessee (expense)		
Minimum lease payments due		
- within one year	1 745 159	1 736 399
- in second to fifth year inclusive	2 031 090	1 305 984
	3 776 249	**3 042 383**

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

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20. Related parties

Related party transactions

All National Departments of Government and National State-controlled entities are regarded as related parties in accordance with IPSAS 20. The Financial and Fiscal Commission is a constitutional institution reporting to Parliament and Provincial Legislatures from which it received grants in the current and prior years. Transactions with related parties that are on the same terms as those generally available in the sector and related to transactions in the ordinary course of business are not discloseable in terms of IPSAS 20. Payments to Commissioners are reflected in note 11 above. The following transaction with regards to Commissioners was recorded.

Long Service Bonus	28 478	53 196
Less repayment	(28 478)	(24 718)
Balance outstanding	**-**	**28 478**

21. Going concern

Attention is drawn to the Statement of Financial Performance which indicates that the Commission realised a net surplus of R1 803 621 in the year ended 31 March 2013, and thus decreasing the Commission's accumulated deficit to R1 932 371. Furthermore the Commission's liabilities exceed its assets at the reporting date by R1 013 619. The basis of preparation of the Annual Financial statements is on the assumption that the Commission will continue in operational existence in the foreseeable future of twelve months from the date of the Annual Financial Statements.

22. Reconciliation between Actual amounts and Cash Flow Statement - current year

Operating activities	
Actual amount as presented in the budget statement	1 488 611
Net cash flows from operating activities	**1 488 611**
Investing activities	
Actual amount as presented in the budget statement	(352 656)
Net cash flows from investing activities	**(352 656)**
Net cash generated from operating, investing and financing activities	**1 135 955**

The Commission prepares its budget on a cash basis whilst the Annual Financial Statements are prepared on an accrual basis.

23. Irregular expenditure, Fruitless and Wasteful expenditure = include current year

Opening balance	-	537 194
Add: Irregular expenditure current year	490 200	
Less: Amounts condoned	-	(537 194)
	490 200	**-**
Analysis of expenditure awaiting condonation per age classification		
Current year	490 200	-
Prior years	-	-
	490 200	**-**
Details of irregular expenditure – current year		
Goods and services of a transaction value of R490,200 were procured without inviting competitive bids, during the current financial year due to circumstances the Commission believed were in compliance with Treasury Regulation 16.A.6.4	490 200	
	490 200	

24. Financial Risk Management

Liquidity Risk

The Commission is only exposed to liquidity risk with regard to the payment of its payables. These payables are all due within the short-term. The Commission manages its liquidity risk by holding sufficient cash in its bank account, supplemented by cash available in a deposit account.

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.

Credit risk

Financial assets which potentially subject the Commission to concentrations of credit risk is principally of receivables. Loans and 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.

Fair Values

At 31 March 2013 the carrying amounts of accounts payable and accounts receivable approximated their fair value due to the short term maturities of these assets and liabilities. Since the Commission does not undertake any significant investment strategy there is no significant sensitivity to fair value fluctuations of financial instruments.

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25. Retirement Benefit 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 R2 381 715 (2012: R2 425 488) 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.

26. Statement of Comparison of Budget and Actual amounts

2013

	Approved budget	Budget adjustment	Final budget	Actual amounts on a comparable basis	Difference between final budget and actual
Receipts					
Rendering of services	-	-	-	128 050	(128 050)
Interest received	-	-	-	98 106	(98 106)
Grant revenue	37 268 000	-	37 268 000	37 268 000	
Total receipts	**37 268 000**	**-**	**37 268 000**	**37 494 156**	**(226 156)**
Payments	-	-	-	-	-
Employee costs	(19 497 296)	-	(19 497 296)	(20 335 949)	838 653
Operating expenditure	(10 108 327)	-	(10 108 327)	(11 531 023)	1 422 696
Capital expenditure	(357 000)	-	(357 000)	(352 656)	(4 344)
Professional services	(7 305 377)	-	(7 305 377)	(4 138 573)	(3 166 804)
Total expenditure	**(37 268 000)**	**-**	**(37 268 000)**	**(36 358 201)**	**(909 799)**
Surplus for the year	**-**	**-**	**-**	**1 135 955**	**(1 135 955)**

Explanation on variance:

Employee costs expenditure is above budget due to leave and performance bonus payments during the year.

Operating Expenditure is over budget due to increased stakeholder demands as per the Commissions mandate which resulted in increased venue arrangement costs.

Cost saving measures such as reduction in office space and minimised usage of consultants contributed to the saving in other expenditure.

CHAPTER 7

Human Resource Management

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7.1 Introduction

The Commission has succeeded in meeting almost all of its targets, but the one area where progress has been frustratingly slow is achieving an appropriate gender balance.

As previously explained the Commission operates in a knowledge-intensive domain and is critically dependent on its research talent. However, the challenge has been (and continues to be) the specialist nature of the skills required by the Commission, which means that (1) the pool from which these skills can be drawn is small; (2) the skills are in great demand; (3) competition for acquiring these skills is intense; and (4) if recruited, retaining these skills is difficult. This is further compounded by the ever-decreasing resource envelope and the ever-increasing needs of the Commission, with the Commission often being unable to improve on the financial offers that other entities are able to offer. More importantly, the Commission has experienced great difficulty in identifying qualified female candidates for research and managerial positions.

7.2 Oversight Statistics

7.2.1 Overview

The Commission has used the 2012/13 reporting period to address the implementation of the HR Strategy and Policy that was aligned to the Commission's 2009 to 2014 Strategic Plan.

The Commission has continued to revise its delivery model, focusing on a leaner, more specialised research and support structure that would benefit from outsourced specialist and technical expertise. The Commission intends to use the new delivery model to optimise its human resources and to ensure effective delivery on its mandate. This will be achieved by reducing the number of non-core (support or non-Research and Recommendations Programme) staff members through natural attrition; refocusing how research is done by drawing in specialised technical expertise rather than using internal resources; and training and developing research staff to improve their capacity, including the managing of large research contracts An Organisational Risk Assessment and Implementation Plan, in line with the Commission's strategic objectives, is being developed and will include strategies and tactics to mitigate identified risks going forward.

An embargo was placed on recruitment until the finalisation of the Organisational Development exercise. Therefore, no existing or new vacancies were filled apart from the critical positions of Programme Manager: Provincial Budget Analysis Unit and the Management Accountant.

A key equity target identified in the Commission's Employment Equity Plan was the appointment of female staff at the Professional (09–12) and Senior Management Services (13–16) levels. The Plan targets a male/female employee ratio of 60/40 for both these occupational categories. During 2012/13, this target was exceeded for all staff categories with an overall ratio of 43.3 per cent male and 56.7 per cent female. For the Professional Occupational Category, the ratio was 30.8 per cent male and 69.2 per cent female, and for the Non Managerial Category the ratio was 12.5 per cent male and 87.5 per cent female. In the Senior Management Occupational Category the ratio was 88.9 per cent male and 11.1 per cent female.

For the Senior Management Services category, the Commission implemented a targeted selection strategy for future appointments to meet the gender and people with disabilities ratio.

An Employment Equity report was submitted to the Department of Labour in October 2012, and the next report is due in October 2014.

During 2012/13, the Commission had two resignations, one retirement, one expiry of a fixed-term

contract and one dismissal. Recruitment for the replacement of the critical vacant positions began, but only one position was filled during the reporting period.

The Commission continued implementing the Revised Performance Management Framework based, in part, on the DPSA/National Treasury guidelines for Performance Management within the Public Sector. Two Touch Base Reviews were conducted in June and December 2012, Mid-term Performance Reviews were conducted in September 2012 and in March 2013 the Annual Performance Evaluations were completed for all members of staff.

The following statistical tables and information provide further data applicable to the Commission's HR Management and can be verified through the office of the Corporate Services Manager.

7.2.2 Expenditure

7.2.3. Employment and Vacancies

Table 1 Personnel costs by salary bands, 2012/13

Salary Bands	Personnel Expenditure (R'000)	% of Total Personnel Cost	Average Personnel Cost Per Employee (R'000)
Salary levels 1–2	211 110	1.1	105 555
Salary levels 3–5	1 102 738	5.9	275 684
Salary levels 6–8	861 724	4.6	172 345
Salary levels 9–12	8 834 833	47.1	552 177
Salary levels 13–16	7 747 194	41.3	860 799
Total	**18 757 599**	**100**	**774 723**

Table 2 Salaries, Overtime and Medical Assistance by salary bands, 2012/13[16]

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	100 959	47.8	-	-	54 001	25.6
Salary levels 3–5	632 411	57.3	-	-	184 889	16.8
Salary levels 6–8	703 858	81.7	-	-	58 641	6.8
Salary levels 9–12	6 518 709	73.8	-	-	699 575	7.9
Salary levels 13–16	6 144 738	79.3	-	-	411 902	5.3
Total	**14 100 675**	**75.2**	**-**	**-**	**1 409 008**	**7.5**

[16] Note: the Commission does not provide a Home Owners Allowance benefit.

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Table 3 Employment and Vacancies by Salary Bands, 31 March 2013

Salary Band	Number of Posts	Number of Posts Filled	Vacancy Rate %	Additional to the establishment
Salary levels 1–2	1	1	0	0
Salary levels 3–5	2	2	0	0
Salary levels 6–8	5	5	0	0
Salary levels 9–12	15	14	6.7	1
Senior management (13–16)	9	9	0	0
Programme total	**32**	**31**	**3.1**	**1**

7.2.4. Job Evaluation

No Job Evaluation was conducted at the Financial and Fiscal Commission for the reporting period 2012/13.

Table 4 Employee Salary Level Exceeding the Grade Determined by Job Evaluation, 01 April 2012 to 31 March 2013

Occupation	Number of Employees	Job Level	Remuneration Level	Reason for deviation
Senior Researcher	1	12	Between 12–13	Retention Strategy
Senior Researcher	1	12	Between 12–13	Retention Strategy
Manager: Library and Knowledge Management	1	12	Between 12–13	Retention Strategy
Facilities Manager	1	11	12	Post previously benchmarked against Private Sector rates
Procurement Officer	1	9	10	Post previously benchmarked against Private Sector rates
Financial Accountant	1	9	10	Post previously benchmarked against Private Sector rates
Personal Assistant	1	9	10	Post previously benchmarked against Private Sector rates
Reference Librarian	1	8	10	Post previously benchmarked against Private Sector rates
Driver/Office Assistant	1	5	8	Post previously benchmarked against Private Sector rates
Receptionist/Travel Desk	1	4	8	Post previously benchmarked against Private Sector rates
Creditors Clerk	1	3	6	Post previously benchmarked against Private Sector rates
General Office Assistant	1	3	6	Post previously benchmarked against Private Sector rates
Housekeeper	1	2	3	Post previously benchmarked against Private Sector rates
Housekeeper	1	1	2	Post previously benchmarked against Private Sector rates

Table 5 Profile of Employees: Salary Levels Exceeding the Grade Determined by Job Evaluation, 01 April 2012 to 31 March 2013

Beneficiaries	African	Indian	Coloured	White	Total
Female	6	0	3	3	**12**
Male	2	0	0	0	**2**
Total	**8**	**0**	**3**	**3**	**14**

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7.2.5. Employment Changes

Table 6 Annual Turnover Rates by Salary Bands for the Period 01 April 2012 to 31 March 2013

Salary Bands	Number of employees per Level as at 01 April 2012	Appointments and Transfers In	Terminations and Transfers Out	Turnover Rate
Salary levels 1–2	2	0	1	-1
Salary levels 3–5	4	0	2	-2
Salary levels 6–8	2	3	0	+3
Salary levels 9–12	15	1	2	-1
Senior Management 13–16	8	1	0	+1
Total	**31**	**5**	**5**	**0**

Table 7 Reasons Why Staff Are Leaving the Commission

Termination Type	Number	% of total turnover
Death	0	0
Resignation	2	40
Expiry of Contract	1	20
Dismissal - organisational changes	0	0
Dismissal – misconduct	1	20
Dismissal – inefficiency	0	0
Discharge due to ill-health	0	0
Retirement	1	20
Other	0	0
Total	**5**	**100**

Table 8 Promotions by Salary Band

Salary Band	Employees 1-Apr-12	Promotions to another salary level	Salary Band promotions as a % of employees by salary level
Salary levels 1–2	2	0	0
Salary levels 3–5	4	0	0
Salary levels 6–8	2	1	50
Salary levels 9–12	15	0	0
Senior management 13–16)	8	1	12.5
Total	**31**	**2**	**6.45**

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7.2.6. Employment Equity

Table 9 Total Number of Employees (Commission Secretariat Staff) in Each of the Following Occupational Categories as at 31 March 2013:

Occupational Categories	Male				Female				
	African	Coloured	Indian	White	African	Coloured	Indian	White	TOTAL
Legislators, senior officials and managers	6	1	0	1	1	0	0	0	**9**
Professionals	3	1	1	0	5	2	0	2	**14**
Technicians and associate professionals	0	0	0	0	0	0	0	0	**0**
Clerks	1	0	0	0	2	1	0	0	**4**
Service and sales workers	0	0	0	0	0	0	0	0	**0**
Skilled agri-cultural and fishery workers	0	0	0	0	0	0	0	0	**0**
Craft and related trades workers	0	0	0	0	0	0	0	0	**0**
Plant and ma-chine operators and assemblers	0	0	0	0	0	0	0	0	**0**
Elementary occupations	0	0	0	0	1	0	0	0	**1**
TOTAL PERMANENT	**10**	**2**	**1**	**1**	**9**	**3**	**0**	**2**	**28**
Non-permanent employees[17]	0	0	0	0	3	0	0	0	**3**
TOTAL	**10**	**2**	**1**	**1**	**12**	**3**	**0**	**2**	**31**
Persons with disabilities	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

[17] Non-permanent employees include interns and fixed-term contracts

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Table 10 Total Number of Employees (Commission Secretariat Staff) per Occupational Level as at 31 March 2013

Occupational Bands	Male				Female				
	African	Coloured	Indian	White	African	Coloured	Indian	White	TOTAL
Top management	0	0	0	0	0	0	0	0	**0**
Senior management	6	1	0	1	1	0	0	0	**9**
Professionally qualified and experienced specialists and mid-management	3	1	1	0	2	2	0	0	**9**
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	0	0	0	0	3	0	0	2	**5**
Semi-skilled and discretionary decision making	1	0	0	0	2	1	0	0	**4**
Unskilled and defined decision making	0	0	0	0	1	0	0	0	**1**
TOTAL PERMANENT	**10**	**2**	**1**	**1**	**9**	**3**	**0**	**2**	**28**
Non-permanent employees	0	0	0	0	3	0	0	0	**3**
TOTAL	**10**	**2**	**1**	**1**	**12**	**3**	**0**	**2**	**31**

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

Table 11 Recruitment for the Period 01 April 2012 to 31 March 2013

Occupational Bands	Male				Female				
	African	Coloured	Indian	White	African	Coloured	Indian	White	TOTAL
Top management	0	0	0	0	0	0	0	0	**0**
Senior management	0	1	0	0	0	0	0	0	**1**
Professionally qualified and experienced specialists and mid-management	0	0	0	0	1	0	0	0	**1**
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	0	0	0	0	0	0	0	0	**0**
Semi-skilled and discretionary decision making	0	0	0	0	0	0	0	0	**0**
Unskilled and defined decision making	0	0	0	0	0	0	0	0	**0**
TOTAL PERMANENT	**0**	**1**	**0**	**0**	**1**	**0**	**0**	**0**	**2**
Non-permanent employees	0	0	0	0	3	0	0	0	**3**
TOTAL	**0**	**1**	**0**	**0**	**4**	**0**	**0**	**0**	**5**

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Table 12 Promotions for the Period 01 April 2012 to 31 March 2013

Occupational Bands	Male				Female				
	African	Coloured	Indian	White	African	Coloured	Indian	White	TOTAL
Top management	0	0	0	0	0	0	0	0	**0**
Senior management	0	0	0	1	0	0	0	0	**1**
Professionally qualified and experienced specialists and mid-management	0	0	0	0	0	0	0	0	**0**
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	0	0	0	0	0	1	0	0	**1**
Semi-skilled and discretionary decision making	0	0	0	0	0	0	0	0	**0**
Unskilled and defined decision making	0	0	0	0	0	0	0	0	**0**
TOTAL PERMANENT	**0**	**0**	**0**	**1**	**0**	**1**	**0**	**0**	**2**
Non-permanent employees	0	0	0	0	0	0	0	0	**0**
TOTAL	**0**	**0**	**0**	**1**	**0**	**1**	**0**	**0**	**2**

Table 13 Terminations for the Period 01 April 2012 to 31 March 2013

Occupational Bands	Male				Female				
	African	Coloured	Indian	White	African	Coloured	Indian	White	TOTAL
Top management	0	0	0	0	0	0	0	0	**0**
Senior management	0	0	0	0	0	0	0	0	**0**
Professionally qualified and experienced specialists and mid-management	0	0	0	0	0	0	0	1	**1**
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	0	0	0	0	0	0	0	0	**0**
Semi-skilled and discretionary decision making	0	0	0	0	1	1	0	0	**2**
Unskilled and defined decision making	0	0	0	0	1	0	0	0	**1**
TOTAL PERMANENT	**0**	**0**	**0**	**0**	**2**	**1**	**0**	**1**	**4**
Non-permanent employees	0	0	0	0	0	0	0	1	**1**
TOTAL	**0**	**0**	**0**	**0**	**2**	**1**	**0**	**2**	**5**

Table 14 Disciplinary Action for the Period 01 April 2012 to 31 March 2013

	Male				Female				
	African	Coloured	Indian	White	African	Coloured	Indian	White	TOTAL
Disciplinary acction	1	0	0	0	1	2	0	0	**4**

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Table 15 Skills Development for the Period 01 April 2012 to 31 March 2013

Occupational Categories	Male				Female				
	African	Coloured	Indian	White	African	Coloured	Indian	White	TOTAL
Legislators, senior officials and managers	4	1	0	0	1	0	0	0	**6**
Professionals	2	0	1	0	2	1	0	1	**7**
Technicians and associate professionals	0	0	0	0	2	0	0	0	**2**
Clerks	0	0	0	0	1	0	0	1	**2**
Service and sales workers	0	0	0	0	1	0	0	1	**2**
Skilled agricultural and fishery workers	0	0	0	0	0	0	0	0	**0**
Craft and related trades workers	0	0	0	0	2	0	0	0	**2**
Plant and machine operators and assemblers	0	0	0	0	0	0	0	0	**0**
Elementary occupations	0	0	0	0	0	0	0	0	**0**
TOTAL PERMANENT	**6**	**1**	**1**	**0**	**9**	**1**	**0**	**3**	**21**
Non-permanent employees	0	0	0	0	2	0	0	0	**2**
TOTAL	**6**	**1**	**1**	**0**	**11**	**1**	**0**	**3**	**23**
Persons with disabilities	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

7.2.7. Performance Rewards

Table 16 Performance Rewards, by Race, Gender and Disability, 01 April 2012 to 31 March 2013

	Number of Beneficiaries	Total Number of Employees in Group	% of Total within Group	Cost (R'000)	Average per Employee
African					
Male	6	9	66.7	168 058	18 673
Female	4	12	33.3	41 583	3 465
Indian					
Male	1	1	100	32 626	32 626
Female	0	0	0	0	0
Coloured					
Male	1	2	50	27 753	13 877
Female	1	3	33.3	18 127	6 042
White					
Male	0	1	0	0	0
Female	1	2	50	17 737	8 869
TOTAL	**14**	**30**	**46.7**	**305 885**	**10 196**
Employees with disability	**0**	**0**	**0**	**0**	**0**

Table 17 Performance Reward by Salary Band for Personnel Below Senior Management Service, 01 April 2012 to 31 March 2013

Salary Band	Number of Beneficiaries	Number of Employees	% of Total within Group	Cost	Average Cost per Employee	Total Cost as % of Total Personnel Cost
Salary levels 1–2	1	1	100	2 246	2 246	0.7
Salary levels 3–5	2	2	100	19 487	9 744	6.4
Salary levels 6–8	1	5	20	16 087	3 217	5.3
Salary levels 9–12	6	13	46.2	126 758	9 751	41.4
Total	**10**	**21**	**47.6**	**164 578**	**7 837**	**53.8**

Table 18 Performance-related Rewards by Salary Band, for Senior Management Service, 01 April 2012 to 31 March 2013

Salary Band	Number of Beneficiaries	Number of Employees	% of Total within Group	Cost	Average Cost per Employee	Total Cost as % of Total Personnel Cost
Salary levels 13–16	4	9	44.4	141 307	15 701	46.2
Total	**4**	**9**	**44.4**	**141 307**	**15 701**	**46.2**

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7.2.8. Foreign Workers

There were no foreign workers by major occupation and salary band from 01 April 2012 to 31 March 2013

7.2.9. Leave Utilisation

Table 19 Sick Leave 01 April 2012 to 31 March 2013

Salary Band	Total Days	% Certification	# 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	1	100	1	33.3	0.3	373	1
Salary levels 3–5	14	86	2	50	3.5	11 741	12
Salary levels 6–8	19	45	3	60	3.8	20 348	8.5
Salary levels 9–12	74	75	14	93.3	4.9	166 066	55.5
Salary levels 13–16	32	63	7	77.8	3.6	103 063	20
Total	**140**	**69**	**27**	**75**	**3.9**	**301 591**	**97**

Table 20 Disability Leave (Temporary and Permanent), 01 April 2012 to 31 March 2013

Disability leave	None

Table 21 Annual Leave, 01 April 2012 to 31 March 2013

Salary Bands	Total Days Taken	Number of Employees in Grade	Average Per Employee
Salary levels 1–2	24	3	8
Salary levels 3–5	64	4	16
Salary levels 6–8	54.5	5	10.9
Salary levels 9–12	268.5	15	17.9
Salary levels 13–16	153	9	17
Total	**580**	**36**	**16.1**

Table 22 Leave Payouts for the Period 01 April 2012 to 31 March 2013

Reason	Total Amount (R'000)	Number of Employees	Average Payment Per Employee (R'000)
Leave payout for 2010/11 due to non-utilisation	-	-	-
Current leave payout on termination of service	47 299	5	9 460
Total	**47 299**	**5**	**9 460**

7.2.10. HIV/AIDS and Health Programmes

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 HR Policies and Procedures review and updating process.

The HIV / Aids Policy make a clear statement regarding the 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 as being at high risk of contracting HIV and related diseases.

The 2009 to 2014 HR Strategy includes the implementation of staff HIV/Aids Awareness and Health Promotion Programmes. The organisation has installed a first-aid station on site, and two officials were trained in all aspects of first-aid support. This resource covers general occupational health and safety issues as well as HIV/Aids related support in the workplace.

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

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7.2.11. Labour Relations

Table 23 Collective Agreements, 01 April 2012 to 31 March 2013

Total collective agreements	None

Table 24 Misconduct and Disciplinary Hearings Finalised

Outcomes of Disciplinary Hearings	Number	% of Total
Correctional counselling	0	0
Verbal warning	3	0.8
Written warning	0	0
Final Written warning	0	0
Suspended without pay	0	0
Fine	0	0
Demotion	0	0
Dismissal	1	0.3
Case withdrawn	0	0
Total	**4**	**1.03**

Table 25 Grievances lodged for the period 01 April 2012 to 31 March 2013

Number of grievances lodged	One

Table 26 Disputes Lodged with Councils for the Period 01 April 2012 to 31 March 2013

Number of disputes lodged	One

Table 27 Strike Action for the Period 01 April 2012 to 31 March 2013

Strike actions for the period	One

Table 28 Precautionary Suspensions for the Period 01 April 2012 to 31 March 2013

Precautionary suspensions for the period	One

7.2.12. Skills Development

Table 29 Training provided 01 April 2012 to 31 March 2013

Occupational Categories	Gender	No. of Employees as at 1-Apr-12	Learnerships	Skills programmes and other Short Courses	Other forms of Training	Total
Legislators, senior officials and managers	Female	1	0	1	0	2
	Male	7	0	5	1	13
Professionals	Female	10	0	5	0	20
	Male	4	0	5	2	10
Clerks	Female	5	0	10	0	7
	Male	1	3	0	0	-
Elementary occupations	Female	2	0	2	0	-
	Male	-	0	0	0	-
Total		**30**	**3**	**28**	**3**	**34**

7.2.13. Injury on Duty

Table 30 Injury on Duty, 01 April 2012 to 31 March 2013

Nature of Injury	Number	% of total
Required basic medical attention only	0	0
Temporary total disablement	0	0
Permanent disablement	0	0
Fatal	0	0
Total	**0**	**0**

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ANNEXURES

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ABBREVIATIONS AND ACRONYMS

AIDS	Acquired Immune Deficiency Syndrome
AMSA	Amended Municipal Systems Act
APF	Adaptation Policy Framework
ASD	Alternative Service Delivery
AsgiSA	Accelerated and Shared Growth Initiative for South Africa
BAU	Business as Usual
BUS	Business and Management
CAC	Command and Control
CAT	Catastrophe (as in Catastrophe bonds)
CBA	Cost Benefit Analysis
CBO	Community-based Organisation
CBWM	Community-based Waste Management
CDM	Clean Development Mechanisms
CEDAW	Convention on the Elimination of all Forms of Discrimination against Women
CER	Certified Emission Reduction
CES	Constant Elasticity of Substitution
CGE	Computable General Equilibrium
CHET	Centre for Higher Education Transformation
CO	Carbon Monoxide
CO2	Carbon Dioxide
CSR	Corporate Social Responsibility
DAFF	Department of Agriculture, Forestry and Fisheries
DBSA	Development Bank of Southern Africa
DCoG	Department of Cooperative Governance
DEA	Department of Environmental Affairs
DG	Director General
DMA	Disaster Management Act
DoBE	Department of Basic Education
DoC	Department of Communications
DoE	Department of Education
DoHET	Department of Higher Education and Training
DPLG	Department of Local Government

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DRMC	Disaster Relief Management Centres
DSD	Department of Social Development
DST	Department of Science and Technology
DWAF	Department Of Water Affairs and Forestry
ECA	Environmental Conservation Act (Act 73 of 1989
ECD	Early Childhood Development
EDI	Electricity Distribution Industry
EI	Economic Instrument
EIA	Environmental Impact Assessment
EMS	Environmental Management System
EPA	United States Environmental Protection Agency
EPWP	Expanded Public Works Programme
ESTA	Extension of Security and Tenure Act
FBS	Free Basic Services
FCA	Full Cost Accounting
FEMIS	Further Education Management Information System
FET	Further Education and Training
FFC	Financial and Fiscal Commission
FFW	Food for Work
FRA	Fund-Raising Act
FTE	Full Time Equivalent
GBV	Gender-Based Violence
GCM	Global Climate Model
GDP	Gross Domestic Product
GEAR	Growth Employment and Redistribution
GFP	Gender Focal Person
GHG	Greenhouse Gases
GIS	Geographic Information Systems
GRB	Gender-Responsive Budgeting
GRID	Global Resource Information Database
GVA	Gross Value Add
HDA	Housing Development Agency
HEMIS	Higher Education Management Information System
HIV	Human Immunodeficiency Virus
HR	Human Resources
HRD	Human Resource Development
ICASA	Independent Communications Authority of South Africa

ICT	Information, Communication and Technology
IDASA	Institute for a Democratic Alternative for South Africa
IDP	Integrated Development Plan
IEM	Integrated Environmental Management
IGDP	Integrated Growth and Development Plan
IGFR	Intergovernmental Fiscal Relations
IMFO	International Monetary Fund
IP&WM	Integrated Pollution and Waste Management
IPC	Integrated Pollution Control
IPCC	Intergovernmental Panel on Climate Change
IWMP	Integrated Waste Management Plan
IWMSA	Institute of Waste Management of Southern Africa
KPI	Key Performance Indicators
KZN	KwaZulu-Natal
LED	Local Economic Development
LES	Local Equitable Share
LGSETA	Local Government Sector Education and Training Authority
MDB	Municipal Demarcation Board
MDG	Millennium Development Goals
MDMC	Municipal Disaster Management Centre
MFMA	Municipal Finance Management Act (Act 56 of 2003)
MIG	Municipal Infrastructure Grant
MISA	Municipal Infrastructure Support Agency
MSA	Municipal Systems Act (Act 32 of 2000)
MSW	Municipal Solid Waste
MSWM	Municipal Solid Waste Management
MT/a	Metric tons per annum
MTBPS	Medium Term Budget Policy Statement
MTEF	Medium Term Expenditure Framework
MTSF	Medium Term Strategic Framework
NCCF	National Calamity Central Fund
NDMA	National Disaster Management Authority
NDMC	National Disaster Management Centres
NDMF	National Disaster Management Framework
NDP	National Development Plan
NDRA	National Disaster Relief Arrangements
NEMA	National Environmental Management Act (Act 107 of 1998)
NEMWA	National Environmental Management Waste Act (59 of 2008)

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NGO	Non-government Organisation
NGP	New Growth Path
NHI	National Health Insurance
NIDS	National Income Dynamics Study
NLDF	National Lottery Distribution Trust Fund
NDMC	National Disaster Management Centres
NPC	National Planning Commission
NPM	New Public Management
NQF	National Qualifications Framework
NSFAS	National Student Financial Aid Scheme
NWMS	National Waste Management Strategy
OECD	Organisation for Economic Cooperation and Development
OLS	Ordinary Least Squares
PALAMA	Public Administration Leadership and Management Academy
PDMC	Provincial Disaster Management Centre
PFMA	Public Finance Management Act
PPP	Public-Private Partnership
PRASA	Paper Recycling Association of South Africa
PSNP	Productive Safety Net Programme
RED	Regional Electricity Distributor
RWSI	Relative Water Stress Index
SADC	Southern African Development Community
SALGA	South African Local Government Association
SAM	Social Accounting Matrix
SANBI	South African National Biodiversity Institute
SANS	South African National Standards
SASSA	South African Social Security Agency
SAWIS	South African Waste Information System
SDMA	State Disaster Management Authority
SET	Science and Technology
SETA	Sector Education and Training Authority
SMMEs	Small, Medium and Micro Enterprises
SO2	Sulphur Dioxide
SPR	Single Purpose Reinsurer
SPU	Special Programmes Unit
SPV	Special Purpose Vehicle
StatsSA	Statistics South Africa
TDF	Tyre-Derived Fuel

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UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention for Climate Change
Unisa	University of South Africa
USEPA	United States Environment Protection Agency
VAT	Value-added Tax
WBI	Women's Budget Initiative
WBR	Waste by Rail
WHO	World Health Organisation
WMP	Waste Minimisation Programme
WSSD	World Summit on Sustainable Development

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UTILISATION OF SUPPLIERS

Utilisation of Suppliers 1 April 2012 to 31 March 2013

Name	Historically Disadvantaged Individual (HDI) Status	Value
AGS Frasers (The Laser Group)	Yes	6 908.40
Ambrosia Hall	No	54 017.06
Nedbank Amex Travel	Yes	2 075 667.03
Anza Technology	Yes	215 993.06
Aquazania Premium Water	No	12 823.10
ASYST Intelligence	Yes	47 202.84
Australian Habitat	N/A	56 722.69
Autoden	No	2 876.55
Avis Rent A Car	Yes	232 174.67
Avion Information Systems	Yes	37 453.92
Avusa Media	Yes	11 001.84
Banathi Catering	Yes	13 714.17
Birnam Boshoff	No	750.00
BOX-IT	Yes	781.47
Butterworths Publishers	Yes	5 895.12
Bytes Technology	Yes	31 545.36
Cape Argus	Yes	1 281.80
Catagraphicis (Pty) Ltd	No	13 235.40
Computer Consulting Services	No	2 508.00
CHM Vuwani	Yes	104 400.08
Complete Office Contracts	No	129 634.25
Cor Concepts	No	49 036.40
Criklewood Manor	No	88 934.48
Datapro	Yes	166 920.80
Dexford Computer Training	Yes	73 915.80

Name	Historically Disadvantaged Individual (HDI) Status	Value
Dial Travel	Yes	17 674.00
Dipula Property Investment	Yes	629 696.75
Discovery Health	Yes	1 365 540.00
Don Gresswell Library Products	No	1 094.00
Dot Office Stationery	Yes	40 511.83
Draft Services	N/A	3 600.00
Early Worx	No	1 393.90
Ebsco Information Services	N/A	1 445.65
Econometrics	N/A	63 327.00
Eris Property Group (Pty) Ltd	Yes	500.00
Esri South Africa	Yes	63 498.00
Fig Technology	Yes	45 059.07
Flower Spot	No	4 310.00
Forest Technologies	Yes	31 821.96
Furniture Warehouse	Yes	8 350.00
Galix Networking (Pty) Ltd	Yes	364 849.82
Gallagher Convention Centre	Yes	58 014.80
Game Stores	Yes	229.99
Glenrand M.I.B (Aon)	Yes	65 778.71
Government Printing Works	N/A	3 970.80
Hero's Fire Protection cc	No	259.75
Hi Side Group Training	Yes	64 598.10
Histocraft	Yes	15 580.00
IHS Information & Insight (Pty) Ltd	Yes	85 500.00
Institute of Municipal Finance Services	N/A	6 858.00
Independent Newspapers	Yes	4 279.60
Institute of Municipal Finance Officers	N/A	3 060.00
Internet Solutions	Yes	226 633.43
iParadims	N/A	29 931.85

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Name	Historically Disadvantaged Individual (HDI) Status	Value
James Pake	Yes	1 230.00
Ken Malherbe	No	2 400.00
Kistan Office Removals	Yes	3 257.55
Kyalami Refrigeration	No	885.00
L&B Recordings	Yes	658.35
Lazer Security Solutions	Yes	880.00
Leriba Lodge	Yes	157 200.00
Lippy's Stationers	Yes	715.92
Llewellyn Walters	Yes	600.00
Mail & Guardian	Yes	1 896.00
Marcus Evans (SA) Ltd	Yes	12 534.30
Medihelp	Yes	157 824.00
Media Basics	Yes	8 523.90
Midrand Builders Centre	No	1 814.14
Morden Printers CC	Yes	14 820.00
Moments Frames & D' Articles	No	1 299.00
MRT Business Enterprises	Yes	174 800.00
MultiChoice	Yes	4 728.06
Nashua MBL	Yes	447 886.21
Nedbank Credit Card	Yes	61 477.20
New Age Building & Maintenance	No	23 829.00
Nino's	Yes	14 482.25
Omnicor (Pty) Ltd	No	18 969.60
Orb Logistics	Yes	43 848.52
Pan Solutions	Yes	91 982.86
Parliamentary Monitoring Group	Yes	7 400.00
Pickfords Removals	Yes	34 462.29
Pinpoint One HR (Pty) Ltd	Yes	1 399.10
Profounder Intelligence Management	Yes	11 398.86

Name	Historically Disadvantaged Individual (HDI) Status	Value
Publications Overseas	Yes	3 030.00
Public Investments Corporation	N/A	547 560.99
Quantec Research (Pty) Ltd	No	38 782.80
Rentokil	Yes	39 808.80
Rennef Appliances	No	970.00
Request	Yes	1 105.68
Roodeport House and Home	Yes	8 637.99
Rural Maintenance	Yes	173 559.80
Sabinet	Yes	53 037.36
SABC- TV Licence	N/A	500.00
Sandwich Baron	No	13 366.06
South African Post Office	N/A	1 029.00
Shred-it	Yes	23 228.64
Sisonke	Yes	15 800.40
Softline VIP	No	73 084.26
South African Reserve Bank	N/A	320.00
Standard Bank	N/A	12 456.00
Steiner	Yes	72 789.84
Strategic Persuations	Yes	17 053.82
Tenakas Tribe Interactive	Yes	1 828.33
Telkom Midrand	N/A	113 558.05
Tenakas Tribe Productions	Yes	562 621.51
The Courier	No	37 482.40
The Document Warehouse	Yes	2 984.40
The Farm Inn	Yes	91 162.54
Thuthukani Paper	Yes	28 856.65
Trisha Delisha	Yes	7 930.99
University of Cape Town	N/A	60 000.00
Uganda High Commission	N/A	500.00

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Name	Historically Disadvantaged Individual (HDI) Status	Value
University of Johannesburg	N/A	4 920.29
Universite Laval	N/A	17 046.12
Upper Eastside Hotel	No	10 719.70
Venditor International (Pty) Ltd	Yes	17 335.46
Vhagala Flowers	Yes	350.00
Waltons Stationery	Yes	42 848.03
Western Cape Government	N/A	183.00
Workability	Yes	16 826.94
Xoffice Stationers cc	Yes	12 932.51
Zafari Food Services	Yes	17 637.50

UTILISATION OF CONSULTANTS

Utilisation of Consultants 1 April 2012 to 31 March 2013

Name	Historically Disadvantaged Individual (HDI) Status	Value
Anchor Environmental	Yes	200 000.00
Auditor General	N/A	986 638.00
Bell Dewar Inc	Yes	3 477.00
Camelsa Consulting Group	Yes	132 209.46
Edward Nathan sonnenberg	Yes	6 987.00
Ernst & Young Inc	Yes	201 527.00
Hoosen Wadiwala Inc	Yes	51 243.00
Human Science Research Council	N/A	172 017.37
i@Consulting	Yes	238 488.00
Jupiter Place	Yes	180 600.00
Palmer Development Group	Yes	365 945.92
Price Waterhouse Coopers	Yes	249 982.48
SE Makhubu and Associates	Yes	925 436.80
Shisaka Development Management Services	Yes	493 000.00
Softline Pastel	No	38 415.80
Steward Africa	Yes	73 045.50
USK Consulting	Yes	58 938.00
Write to the Point	Yes	289 919.45

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Submission on 2012 Medium Term Budget Policy Statement (MTBPS)

1. Background

1.1. This submission on the 2012 Medium Term Budget Policy Statement (MTBPS) is made in terms of Section 4 (4c) of the Money Bills Amendment Procedure and Related Matters Act (MBAPRMA) (2009), which requires Committees of Parliament to consider the Financial and Fiscal Commission (the Commission)'s recommendations when dealing with money bills and related matters. The Submission is also made in terms of Part 1 (3) {1} of the Financial and Fiscal Commission Act (2003) 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.

1.2. The 2012 MTBPS is divided into four chapters which cover the following areas:

- Chapter 1: Levers of Development: Opportunities and Challenges
- Chapter 2: Economic Outlook
- Chapter 3: Fiscal Policy and Trends
- Chapter 4: Medium Term Expenditure Framework and Division of Revenue

1.3. This Submission presents responses by the Commission to the 2012 MTBPS. These responses are made taking into account the major macroeconomic developments and also address in more specific terms the following areas: (i) the spending priories of government for the next three years; (ii) the proposed division of revenue among the spheres of government and among arms of government within a sphere for the next three years; (iii) the proposed substantial adjustments to conditional grants allocations to provinces and local government if any; and (iv) a review of actual spending by each national department and each provincial government between 1 April and 30 September of the current financial year.

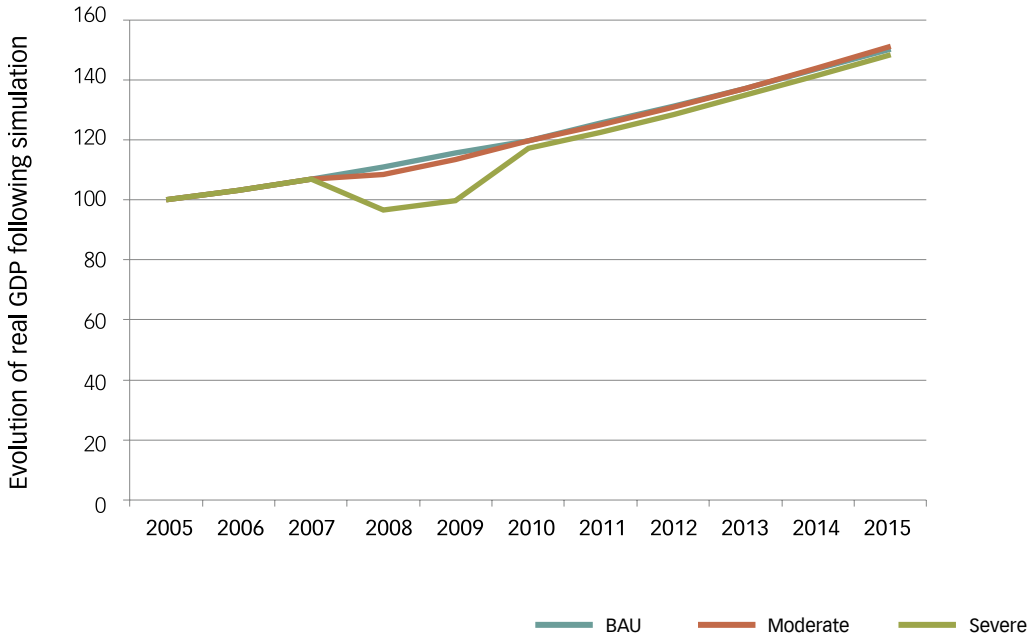
1.4. Overall the Commission supports the main themes in the 2012 MTBPS. The Commission is also of the view that growth and employment in South Africa can only be achieved through a combination of fiscal consolidation and investment into future growth given the prevailing economic climate. The poor and vulnerable must be cushioned through effective and expanded use of social expenditure, while at the same time taking into account the difficult economic context and pressure on national budgets, i.e. the sustainability of the programmes. This can contribute directly to growth and jobs especially when taken in tandem with interventions devoted to job-friendly growth. Programmes aimed at research, competitiveness and innovation have been given particular emphasis. The Commission also fully endorses Government's intention to intensify initiatives to combat waste, inefficiency and corruption and welcomes Government's continued effort at developing a long-term fiscal report that assesses the sustainability of spending options in light of demographic and economic projections. It should be noted that the Government has already published some fiscal guidelines (countercyclicality, debt sustainability and intergenerational equity) as well as agreed with the Commission that given the uncertainty of economic projections a low, medium and a high-economic growth scenario should be reported. This will be helpful for preparers and users of these important reports.

2. Macroeconomic and Fiscal Outlook

2.1. **General economic outlook:** South Africa's economy remains vulnerable to slow global recovery as well as to domestic factors such as the recent labour unrest. The announcement of a downward revision of the economic growth figure from 2.7% to 2.5% by the Minister of Finance presents a further challenge to the achievement of the targets set out in the New Growth Path (NGP) document, most notably a decrease in the unemployment rate by 14% by 2030. The average economic growth rate of 7% cited by the NGP as necessary to achieve this target grows with each year that South Africa records sluggish economic growth rates, so that the future economic growth trajectory for South Africa necessitates considerable back-loading (which may be unrealistic).

1. In its 2011 response to the MTBPS, the Commission reported its GDP simulations under three scenarios: business as usual (BAU)[18], moderate[19] and severe[20] scenarios (see Figure 1 below). The Commission noted that without positive shocks as well as deliberate interventions to counteract the negative impacts of the world economic crisis, South African gross domestic product (GDP) will not recover to the BAU levels. It now seems that South Africa is tracking the then pessimistic scenario, further exacerbated by severe industrial action as well as the global economic growth that is lower than expected.

Figure 1: Evolution of real GDP in BAU, moderate and severe scenarios



Source: Commission's calculations

2.2. **Sectoral contribution to GDP:** The largest average contributions to real GDP growth over the period 2009Q1-2012Q2 have been; (i) general government services, (ii) finance, real estate and business services, as well as (iii) wholesale, retail and motor trade, catering and accommodation (Statistics South Africa, 2012). Most volatile contributions to real GDP growth over the 2009Q1-2012Q2 period (i.e. since the global economic crisis) have come from the mining and quarrying and manufacturing sectors (Statistics South Africa, 2012). Historically, these have been the

[18] Business as usual, in macroeconomic terms, in the context of this submission, is the natural trend of the economy and economic policy.

[19] The moderate scenario is consistent with the view that growth begins to pick up, albeit moderately, from the end of 2009 onwards.

[20] A severe scenario reflects a protracted slow global growth era and implies tight public budgets for some time to come.

[21] Statistical Publications, online at www.statssa.gov.za

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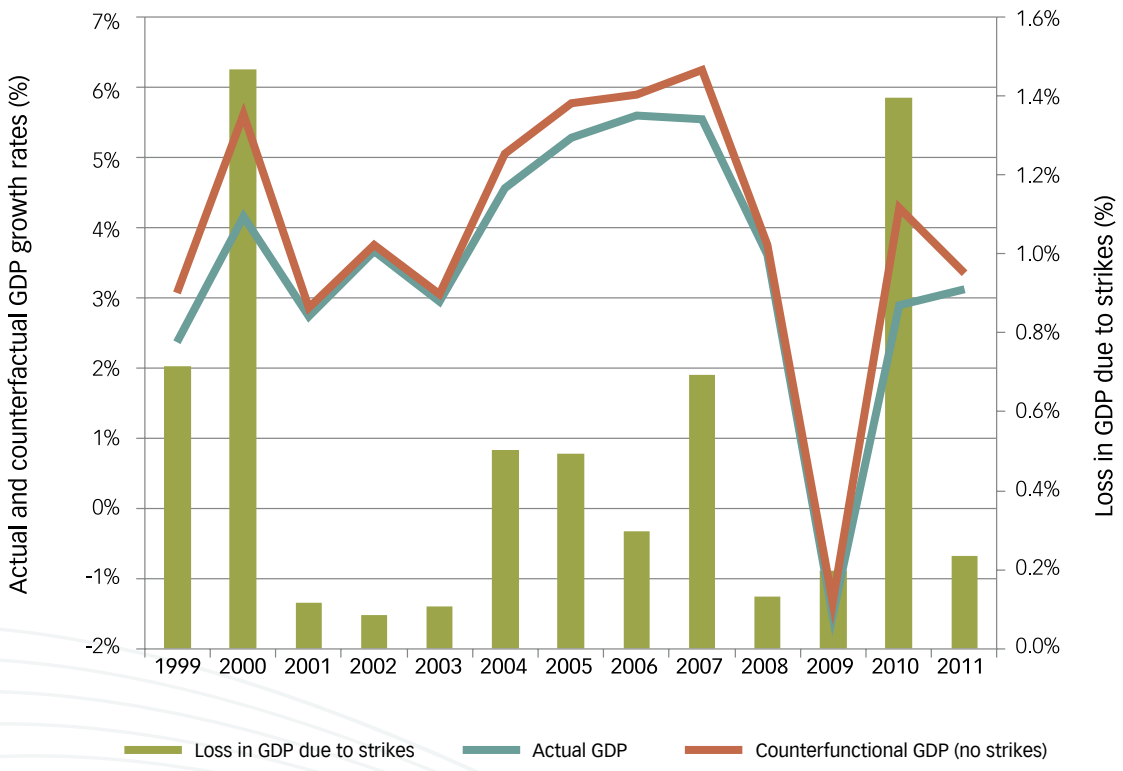
sectors most affected by strikes (when considering the data on work days lost and the number of workers involved in strikes provided by the Department of Labour). The recent strikes in the mining industry are also expected to have a negative impact in the mining sector's contribution to GDP growth for 2012Q3. It should be noted that mining and quarrying as well as the manufacturing sector have been shrinking for much of the past decade. Given that they constitute important contributions to South Africa's export sector and labour absorption, developments in these sectors should be closely monitored by the Government, particularly over the medium term. In addition, given that performance of South African exports to the European Union (EU) has been declining considerably since 2010 while exports to Southern African Development Community (SADC) and China have been steadily increasing over the same period (2012 MTBPS), more aggressive export promotion and/or targeting strategies may be appropriate in order for Government to capitalise on the positive growth prospects of these regions.

2.3. **The impact of strikes on GDP:** Calculations by the Commission[22] indicate that since 1998, the average loss in GDP due to strikes has been about 0.5%. Figure 2 illustrates how the scale of strikes is damaging to economic growth in South Africa and that perhaps Government should consider a greater level of (or quicker) intervention and/or an objective review of the labour laws and other elements pertaining to the effective operation of the collective bargaining system. In support of this recommendation, it should be noted that 2012 MTBPS reports that the total value of production lost to platinum and gold mining strikes and stoppages since the beginning of this year has been around R10.1 billion, which is already about 0.3% of projected GDP for 2012.

Figure 2: Loss in GDP due to strikes

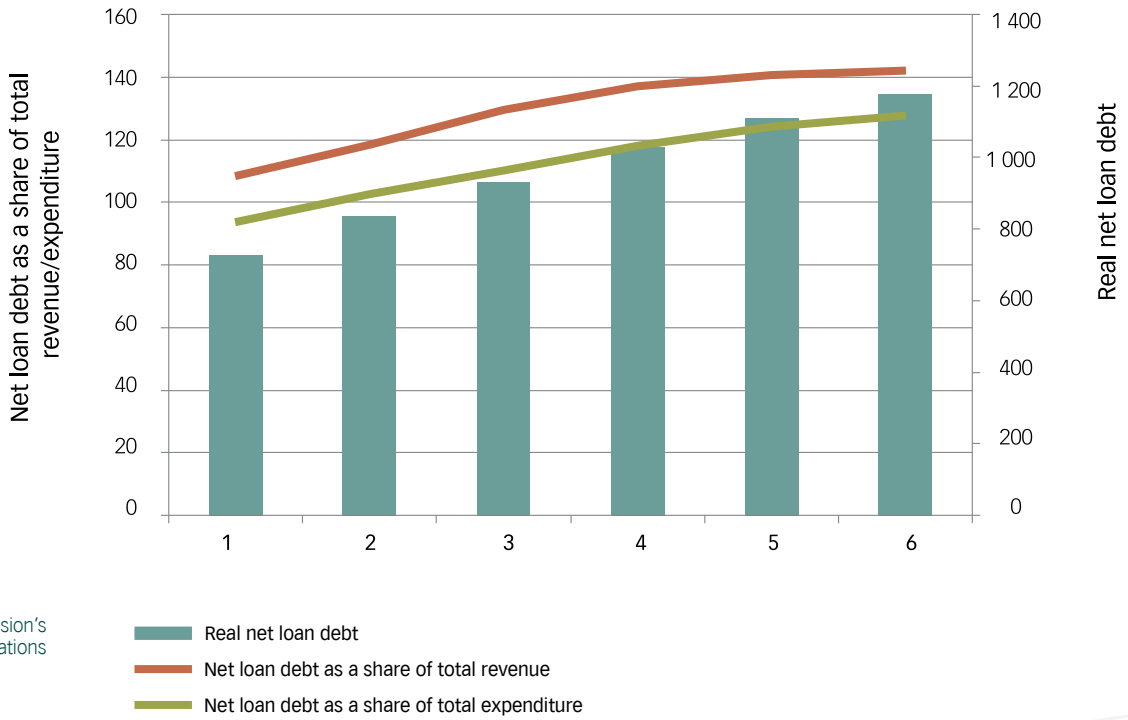


Source: Commission's calculations

[22] Annual data from Department of Labour on average work days lost and the number of workers involved in strikes was used. Actual GDP growth rate was calculated using historical GDP data obtained from the South African Reserve Bank (SARB). The counterfactual GDP was calculated using a simple production function using capital and labour data also obtained from SARB (the labour data in the counterfactual GDP calculation assumes that no strikes took place during that particular year). The loss in GDP due to strikes is calculated as the difference between the actual and the counterfactual GDP growth rates.

2.4. **State debt:** In terms of all relevant measures, state debt (adjusted for inflation) in South Africa is increasing – that is, in absolute real terms, as a percentage of total expenditure, or as a percentage of total revenue (see Figure 3). Increases in the state debt as a percentage of total revenue (which can loosely be interpreted as the debt service ratio), generally imply that expenditure increases are being financed by debt. Figure 4 compares the real gross loan debt with the growth in real state debt costs. The former is increasing while the latter is decreasing, thus indicating the debt restructuring efforts of Government through the switch programme[23] which was announced during the 2012 budget. The Commission notes that while such actions reduce the current debt burden and limit the consolidation measures that are imposed on South African citizens, slowing economic growth may put pressure on Government to extend its switching programme. Refinancing near-dated debt with longer term maturity bonds is likely to put pressure on bond yields as investors will likely seek to be compensated for increased risks associated with deteriorating economic conditions and a wide budget deficit. Hence, although South African bonds are currently still over-subscribed, extending the duration of public debt combined with higher yields could result in increased costs for Government in the future. This is further exacerbated by the recent downgrading of South Africa's sovereign credit rating which may also negatively affect the longer term prospects of debt sustainability in South Africa as it is likely to result in higher costs of borrowing due to negative investor perception.

Figure 3: State debt: share of total expenditure and revenue



Source: Commission's calculations

[23] Switch programme entails the exchange of near-maturing bonds for longer dated debt in order for Government to manage redemptions.

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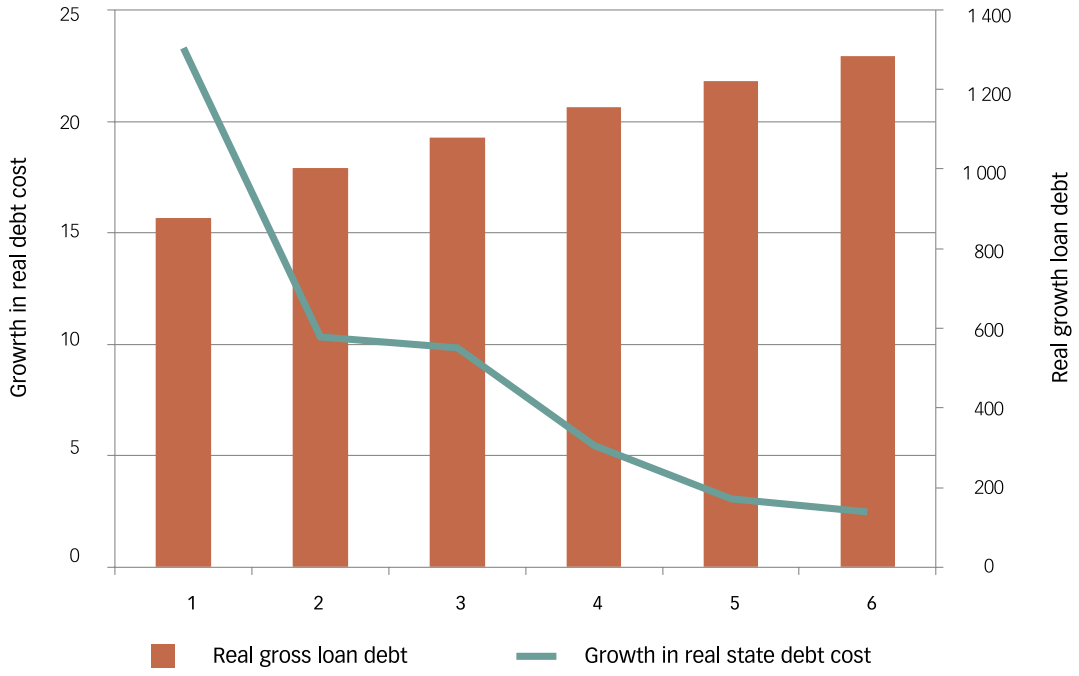
Figure 4: Gross loan debt and growth in real state debt cost



Source: Commission's calculations

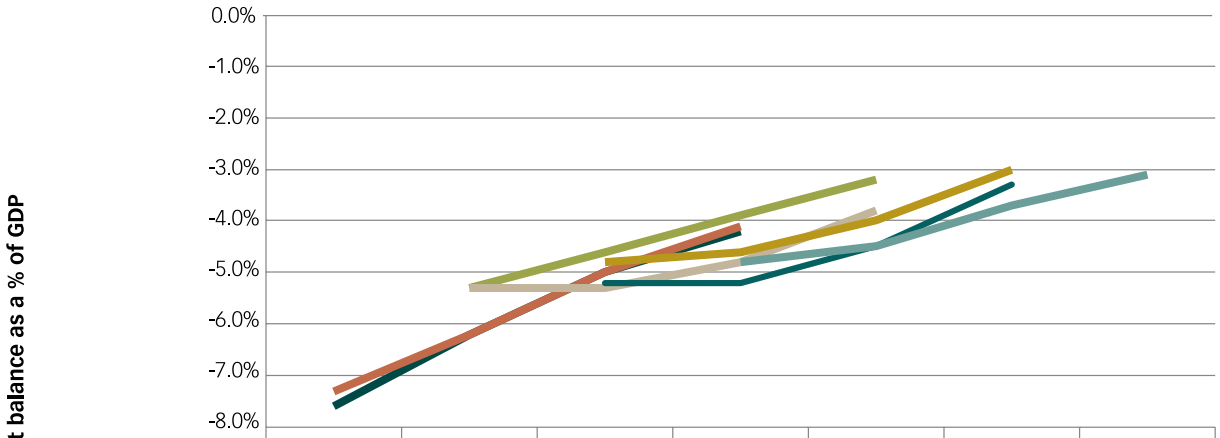
2.5. **Fiscal consolidation:** The Commission believes that South Africa should continue on the path of gradual fiscal consolidation. Renewed deceleration in global economic growth presents substantial uncertainties and downside risks to South African economy. This, combined with the narrowing fiscal space, further indicates the need to rebuild fiscal buffers which helped to moderate the effects of the 2008/09 recession through Government having the necessary fiscal space to act in a countercyclical manner. The Commission also notes that the demands on the South African budget are already significant (for example, spending on the public sector wage bill and on the social wage) and some are unpredictable (for example, financial support to the state-owned enterprises), so that the achievement of a growth-friendly fiscal consolidation will involve some difficult choices in the future. As noted in the Commission's past recommendations, a successful fiscal consolidation requires decisions on what components of the budget need to be consolidated as well as the pace in which to achieve fiscal consolidation. In this regard, the Commission welcomes the proposed expenditure reprioritisation and also supports Government efforts at imposing hard budget constraints aimed at obtaining maximum impact and quality of expenditure.

1. A credible commitment to fiscal consolidation (within the framework of fiscal guidelines) is also necessary to ease the frequency of sovereign debt downgrades as Government demonstrates its ability to control spending pressures.

2. The Commission would like to note that fiscal consolidation is not the only factor to consider in South Africa's public finance management. Public governance and accountability measures are of paramount importance to achieving the outcomes outlined in national policies such as the NGP and the National Development Plan (NDP). In this regard, the Commission welcomes Government's intent to combat waste, inefficiency and corruption and notes that the Public Finance Management Act (PFMA) and the Municipal Finance Management Act (MFMA) make special provisions to deal with issues related to waste, inefficiency as well as corruption, and that these provisions should be enforced where applicable. The Commission also supports efforts at strengthening the role of the Public Service Commission (PSC) in this regard.

3. What Figure 5 shows is the slowing-down of fiscal consolidation since 2009 and how South Africa is unlikely to achieve -3% budget balance as percentage of GDP over the medium term (it should be noted that -3% budget balance as a percentage of GDP was a medium-term goal reported in the 2010 MTBPS as indicated by the green line in Figure 5). Hence, while Government reiterates its commitment to fiscal consolidation in the 2012 MTBPS, the pace of South African fiscal consolidation may be too slow, thus potentially undermining the credibility of Government's plans, particularly in the eyes of the international community.

Figure 5: Projections of the Budget Balance as Percentage of GDP Since 2009



	1	2	3	4	5	6	7
2009 MTBPS	-7.6%	-6.2%	-5.0%	-4.2%			
2010 Budget	-7.3%	-6.2%	-5.0%	-4.1%			
2010 MTBPS		-5.3%	-4.6%	-3.9%	-3.2%		
2011 Budget		-5.3%	-5.3%	-4.8%	-3.8%		
2011 MTBPS			-5.2%	-5.2%	-4.5%	-3.3%	
2012 Budget			-4.8%	-4.6%	-4.0%	-3.0%	
2012 MTBPS				-4.8%	-4.5%	-3.7%	-3.1%

Source: Commission's calculations

2.6. **Energy prices:** Eskom has submitted its third multiyear price determination period (MYPD) application to the energy regulator, in which it is requesting average yearly tariff increases of 16% for the five-year period from April 1, 2013, to March 31, 2018. While Eskom has not received the price increases initially requested, there are fears that if such enormous price requests are granted, they may destabilise the macroeconomic forecasts. How does one make sense of this, in a context where the MTBPS and indeed Government policy points out correctly that there is an urgent need to address the challenges of a recessionary economy, unemployment and poverty?

1. Most of the discourse on electricity price application views it in negative light because the focus is exclusively on one aspect, namely pricing and consequences on consumption. On the face of it, Eskom's plan to increase electricity prices seems unreasonable, particularly given the economic pressures felt by households and businesses (for example, increasing food prices, continuous petrol price hikes and the already high level of indebtedness by households) as well as the knock-on effects to other administered prices such as transport and health costs.

2. However, there is also another equally important aspect linked to the application, namely the investment aspect that the resultant revenues from the price increase would be used for. Taking both the investment and pricing aspects simultaneously, the Commission considered the pricing of electricity and its generation, as well as investment in light of the

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current reforms in electricity pricing and infrastructure expansion. The Commission model considers the impact that these changes (pricing and infrastructure expansion) will have on the economy. The impact on economic growth is minimal. When it comes to employment, the results indicate that this will result in both a positive change in employment of 0.2 percentage, and a decrease in unemployment of 0.17 percentage points. The most important channel through which this expansion in infrastructure translates into employment growth is through increased demand in investment products. Although the results show that overall employment is likely to increase as a result of the infrastructure expansions, the employment prospects of the poor (low skilled workers) are unfavourably affected.

3. The need to develop much needed new generation capacity and effective distribution of electricity is a costly reality necessary to lower the cost of doing business and to attract foreign direct investment, both of which are likely to positively impact job creation, thus benefitting the poor. But sharply rising electricity costs and prices will have a significant impact on the welfare of poor households. It is important to re-emphasise that there is still no agreed upon tariff application as yet. The final number may end up lower than 16%, with less negative impacts on poor households. At the same time, the increase applied for might have to be revised upwards in the event that government agrees to build a nuclear power station and pursue the long-term Integrated Resource Plan (IRP) incorporating widespread introduction of renewable energy. The Commission thus calls for a balanced approach to the proposal. The Commission also calls for strengthening of existing interventions such as (a) the electrification grant (by increasing pace of new connections and spending effectiveness), (b) Free Basic Electricity grant (widening reach of the benefit) to cushion the poor and (c) demand side management.

4. It is important to note that the Eskom tariff increases on electricity generation will have an impact as a cost pressure on the distribution of electricity. In this regard, local government is mandated for the distribution of electricity, which also constitutes a significant revenue source for municipalities. Electricity bulk purchases (through the generation and transmission of electricity) constitute approximately 67% of the total cost of distributing electricity. Therefore, Eskom's proposed increases are likely to put a pressure on the cost of providing electricity for municipalities. Consequently, the division of revenue would need to be sensitive to this additional cost pressure for municipalities, especially in the provision of Free Basic Electricity to poor households. In addition, municipalities generate a substantial revenue surplus from providing electricity through the imposition of municipal surcharges. Such surcharges are important for cross-subsidising electricity provision to poor households as well as other, less revenue-buoyant, services. Although such surpluses allow for municipalities to partially cushion the large Eskom increases on the bulk tariff, they also result in pressure on municipal own revenues in supporting the provision of other services.

Figure 6: Vertical division of revenue

Source: Commission

3. Fiscal Frameworks and Proposed Division of Revenue

3.1. The total appropriated expenditure for a given financial year comprises all government revenues, including revenues generated from taxation and debt incurred. This revenue supports all government expenditure and ultimately informs the division of revenue among the three spheres of government. However, prior to the division of revenue process, funds are "top sliced" from total government revenues to pay for the costs of government debt and to support a contingency reserve. The contingency reserve aims to protect the country in instances of unforeseen or unavoidable expenditures that may arise during the financial year as well as to support pivotal Government policy decisions that may also arise. Once these two expenditure items are accounted for, the remaining funds are available to inform the division of revenue process.

3.2. Deteriorating external economic conditions exacerbated by internal strife in the labour markets resulted in a downward revision of revenue by R5 billion and a higher than projected budget deficit. Table 1 on page 127 compares the medium term expenditure framework (MTEF) estimates in the 2012 Budget with estimates in the 2012 MTBPS. The fiscal framework for the whole of government is revised upwards by R27 billion over the MTEF. Average annual real growth in total allocations increases from 1.94% in the 2012 budget to 2.44% in the 2012 MTBPS. Government is expected to spend R2.8 trillion over the MTEF period, with the national sphere making up 47% of total allocations followed by provincial government at 44%. Local allocations remain the lowest at R254 billion, but are expected to grow faster than the other spheres at 5% in real terms per annum over the MTEF period. Government should be commended for exercising fiscal prudence and managing the sustainability of the fiscal framework, despite pressures from higher unanticipated wage bargaining agreements, carry through costs of Occupation Specific Dispensation (OSD) and constrained resource envelope due to worsening economic conditions. The Commission agrees with Government's planned efforts to restrict real growth in public spending below the rate of GDP growth by 2014/15 but emphasizes the need to simultaneously improve the quality and developmental impact of public spending. Furthermore, cuts should be made such that core services as well as repairs and maintenance expenditure are protected and not compromised.

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Table 1: Medium Term Expenditure Framework Division of Revenue

Division of Revenue	Total (2012/13 - 2014/15)		Av. Annual Real Growth Rate	
	2012 Budget	2012 MTBPS	2012 Budget	2012 MTBPS
National Allocations	1337.4	1340.0	2.29%	2.49%
Provincial Allocations	1232.6	1254.0	1.05%	1.90%
Equitable Share	987.4	1006.0	0.83%	1.63%
Conditional Grant	245.3	249.0	1.99%	2.99%
Local Allocations	251.9	254.0	4.63%	4.99%
TOTAL	**2821.9**	**2848.2**	**1.94%**	**2.44%**

Source: 2012 MTBPS, Commission's calculations

3.3. The 2013/14 provincial fiscal framework is revised upwards by R26.1 billion to mainly cater for inflation amounts related to Improvement of Conditions of Service (ICS) and continued support to the carry through cost of OSD. The provincial equitable share (PES) adjustment is revised slightly from the allocations received through a re-prioritisation exercise by an additional R21.3 billion. This revision brings the PES to a proposed R335.3 billion in 2013/2014. The provincial conditional grant framework is revised for inflation and a few policy adjustments resulting in an increase of 6.8 per cent, bringing its baseline to R82.7 billion in 2013/14.

3.4. A total of R276.8 billion is allocated to the local government fiscal framework over the 2013 MTEF (R84.5 in 2013/14, R91.6 in 2014/15 and R100.7 in 2015/16). This constitutes an average growth rate of 9% over the MTEF in nominal terms and a 4% average growth in real terms. Revisions to baseline amount to R7.4 billion in total over the MTEF, with a R100 million adjustment for the current financial year. The local government equitable share (LES) is expected to increase by 4% in real terms over the period from an average 12% real increase in the three previous financial years. The sharing of the general fuel levy with metropolitan municipalities is expected to increase by 1% in real terms over the MTEF, with no real increase in 2015/16. The Commission commends Government for managing to increase allocations to local government given the current negative economic outlook and fiscal tightening measures in place. Municipalities must use such additions effectively and efficiently. The Commission has previously raised concerns over the nature and size of the vertical municipal fiscal gap. To this end, recent Commission research, through its public hearings on the review of the local government fiscal framework, indicates a significant fiscal gap on the capital budget of local government. In other words, the current funding framework intended to support the capital expenditure needs of municipalities, given the demand for local social and economic infrastructure, may not be sufficient. However, similar estimations suggest a minimal (negligible) fiscal gap on aggregate municipal operating budgets. The Commission is finalising the report on the public hearings and the results will be published shortly.

4. Medium Term Spending Priorities

4.1. Table 2 reports the average real growth rates of expenditure components. The average real growth rates for most expenditure components are fairly modest and close to or below 3% (which is the real annual growth rate required to achieve a balanced budget by 2015/16 according to the Commission's calculations). The exceptions include: (i) general public services, fuel and energy as well as communication which record average negative growth rates; and (ii) water supply, employment and social services as well as local government, housing and community amenities which record average growth rates of above 3% over the MTEF. In line with Government's reprioritisation strategy, categories with the highest growth rates are water supply, local government, housing and community amenities as well as employment and social security. The Commission welcomes these developments as well as Government's commitment to reprioritise expenditure in line with its commitment to fiscal consolidation

Table 2: Average real growth of expenditure components (functional classification)

	2012/13	2013/14	2014/15	2015/16	Average
General public services	-2.5%	-0.2%	1.3%	-0.7%	-0.5%
Defence, public order and safety	4.4%	1.7%	0.7%	0.8%	1.9%
Defence and state security	3.5%	1.1%	0.9%	1.0%	1.6%
Police services	4.0%	1.7%	0.8%	0.9%	1.9%
Law courts	6.9%	4.1%	1.3%	1.1%	3.4%
Prisons	5.8%	0.8%	-0.3%	0.1%	1.6%
Transport, energy and communication	1.0%	4.1%	2.7%	1.4%	2.3%
Fuel and energy	-15.4%	7.3%	6.0%	-8.2%	-2.6%
Transport	3.3%	4.4%	2.8%	2.4%	3.2%
Communication	2.8%	-16.4%	-13.5%	9.6%	-4.4%
Economic services	10.7%	2.4%	-0.3%	-0.5%	3.1%
Local government, housing and community amenities	5.6%	3.4%	3.8%	3.9%	4.2%
Housing development	6.1%	5.9%	0.5%	2.4%	3.7%
Local government and community development	5.6%	2.2%	2.4%	3.5%	3.4%
Water supply	4.3%	4.2%	11.3%	6.0%	6.4%
Health	0.9%	3.2%	2.0%	1.6%	1.9%
Social protection	2.2%	3.4%	2.2%	1.6%	2.4%
Education and related functions	1.9%	1.0%	1.9%	2.3%	1.8%
Employment and social security	13.3%	7.3%	5.5%	-1.1%	6.3%
Science and technology	2.6%	-2.3%	1.1%	-1.0%	0.1%

Source: 2012 MTBPS, Commission's calculations

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4.2. Table 3 below indicates that expenditure components' share in total expenditure is expected to stay fairly constant over the medium term. The three categories with the decreased shares over the medium term are: general public services, defence, public order and safety, as well as education and related functions. The latter is perhaps the greatest cause for concern as spending on education is one of Government's priority areas.

Table 3: Selected expenditure components (functional classification) share in total expenditure

	2011/12	2012/13	2013/14	2014/15	2015/16
General public services	5.4%	5.0%	4.9%	4.8%	4.6%
Defence, public order and safety	13.3%	13.4%	13.2%	13.0%	12.7%
Transport, energy and communication	8.1%	7.9%	8.0%	8.0%	7.8%
Economic services	4.0%	4.2%	4.2%	4.1%	3.9%
Local government, housing and community amenities	11.3%	11.5%	11.5%	11.7%	11.8%
Health	11.8%	11.5%	11.5%	11.5%	11.3%
Social protection	11.9%	11.8%	11.8%	11.8%	11.6%
Education and related functions	21.2%	20.8%	20.4%	20.2%	20.1%
Employment and social security	3.7%	4.1%	4.2%	4.4%	4.2%
Science and technology	1.3%	1.3%	1.3%	1.2%	1.2%

Source: 2012 MTBPS, Commission's calculations

4.3. **Job Creation:** Similar to last year, much of the MTBPS this year has been about the need to ignite job creation. Government acknowledges in the 2012 MTBPS that active labour market policies are central to improving employment potential. There are proposals made to accommodate the amended labour legislation. Government also proposes supplementary funding for maintaining factories providing jobs for disabled workers, expansion of employment opportunities through public works and special employment programmes (including expanded public works projects and community work programmes). The Jobs Fund will receive over R5.5 billion over the MTEF period although initial allocations made to it have been reduced, with Government citing slow progress in establishing administrative capacity as the reason. Hence R1 billion has been shifted from the Jobs Fund allocation towards other labour-market priorities. Government has now made many proposals to stimulate job creation that include promoting education and skills development, the Manufacturing Competitiveness Enhancement Programme, the Jobs Fund, a Youth Subsidy, the Community Works and Expanded Public Works Programmes and the investment infrastructure programme. With respect to the expanded infrastructure expenditure plan, the Presidential Infrastructure Coordinating Commission has identified 17 Strategic Integrated Projects (SIPs) and these provide an overarching set of infrastructure priorities for South Africa. The SIPs combine investments in economic and social infrastructure aimed at unlocking economic potential, improving the competitiveness of the country and addressing backlogs in access to basic services. The SIPs cover all nine provinces with emphasis on poorer provinces. Despite this raft of proposals, the response to date has been muted from business and labour. Unions on the one hand often simply champion high wage demands and business on the other hand often simply champion small businesses as the key to job creation without responding directly to these proposals. The Commission's recommendations for 2013 call for interventions to address this 'prisoner's dilemma' scenario, which is currently preventing realization of a coordinated social compact among the role players who can influence employment. It calls for accounting officers to take responsibility for their supply chain management processes and use these systems to maximise efficiencies in procurement to create jobs and the Department of Performance Monitoring and Evaluation to assist in monitoring government performance in this regard.

4.4. **Education:** The MTEF allocation for education increases from R666.5 billion to R704 billion (see Table 4 below). In real terms, average annual real growth rises from 1.13% to 3.21%. The increase in funding is largely to cover the cost of wage settlement but also to improve the delivery of school infrastructure and quality of education for learners from poor backgrounds. An important consideration going forward should also be the associated operational costs of school infrastructure such as the safeguarding, maintenance and operation of school infrastructure. The Commission calls for a proper funding model that will identify revenue streams to fund these operational expenses.

1. The Commission agrees with the sentiment that improving education outcomes is one of the main drivers to long-term economic growth. The Commission notes with concern though, most schools do not have conditions required for the effective attainment of learning outcomes. This is evidenced by the significant challenges in terms of literacy and numeracy attainment by learners which impacts learners from disadvantaged backgrounds disproportionately[24]. Further, a significantly high proportion of children who suffer from disabilities are not succeeding in accessing education. In its 2012/13 Division of Revenue submission, the Commission called for input-output norms to be established to give effect to inclusive education for intellectually disabled children.

2. Furthermore, the issue of fiscal consolidation in provinces such as Limpopo raises concerns about capability losses from indiscriminate cutting of education expenditure such as delayed or decreased funding to schools. The Commission calls for circumspection in the way cost cutting takes place in education and retrogressive spending to achieve fiscal discipline should not be done at the expense of targeting easy options (e.g. training and capacity building of educators) while having a negative impact on educational outcomes.

Table 4: Medium Term Expenditure Framework Allocations to Social Sector

Social Sector	Total (2012/13 - 2014/15)		Av. Annual Real Growth Rate	
Budget 2012	2012 MTBPS	Budget 2012	2012 MTBPS	2012 MTBPS
Education	666.5	704.0	1.13%	3.21%
Health	381.8	395.0	1.85%	2.07%
Social Protection	513.8	396.0	3.22%	-4.28%
TOTAL	**1562.1**	**1495.1**	**1.93%**	**0.45%**

Source: 2012 MTBPS, Commission's calculations

4.5. **Health:** The allocation for health increases marginally over the MTEF going from R381.8 billion to R395 billion, representing a 0.2% annual average real increase. Provinces received a revised allocation of R366 million for health infrastructure, with R180 million going to the health infrastructure grant and R188 million to the hospital revitalization grant. The increased allocation is also as a result of a new conditional grant for the National Health Insurance (NHI) and nursing colleges. With very little fiscal space to expand expenditure, the Commission commends Government for its intention to improve value for money spending on health-related activities over the MTEF period. The Commission, though, notes with concern the quality of health care in the wake of fiscal consolidation in provinces that puts salaries as a first claim on the fiscus above

[24] The Annual National Assessment by the Department of Basic Education revealed that the most common score pupils achieved were below 20%.

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medicines and the maintenance and upkeep of medical equipment. The Commission also calls for the tightening of monitoring and oversight mechanisms on procurement practises in Health Departments to prevent irregular and fruitless and wasteful expenditure from taking place as evidenced in some provinces where hi-tech health equipment is purchased without any service plan which subsequently has to be replaced when it broke down. In other cases, operational procedures cannot take place because broken equipment which is needed for operations cannot be fixed because no funds are available as a result of fraudulent and corrupt procurement practises in some provincial Health Departments. The Commission reiterates the recommendation it made in the 2012/13 Division of Revenue submission that human resource, financial management and procurement should be devolved to hospital management to boost efficiencies and boost performance. The Commission also calls on Government to establish norms and standards that will define the level of service that should be expected at a well-functioning public hospital system.

1. Prioritisation of health Millennium Development Goals (MDGs) (tuberculosis and HIV and AIDS) proposed in this year's MTBPS is in line with the recommendations and findings of the Commission from 2011 as is the continued emphasis by Government on the need to achieve greater efficiencies and cost-savings for reprioritisation. With regard to NHI, the Commission awaits the results of the pilots that are currently under way. The Commission further welcomes Government announcement in the 2012 MTBPS that the long-term fiscal report will model the impact of the introduction of NHI proposals as part of its work. The number of medical personnel is one of the major cost drivers on the health budget. Although the forecasted numbers are expected to fall, it is the Commission's view that infrastructure upgrades and development of health facilities, including the phased introduction of the NHI, will create a demand for medical personnel. The fiscal impact of a bourgeoning medical fraternity must be carefully considered against available resources, especially in the context of slow economic and revenue growth.

4.6. **Social development:** With respect to social development, the main proposal in the 2012 MTBPS is to reprioritise funds already in the baselines towards strengthening selected child welfare programmes, improve the South African Social Security Agency's infrastructure and systems, as well as to employ additional social workers. The budget will also provide for the recruitment of graduates from the social worker scholarship programme, support non-governmental organisations (NGOs) in social development and for facilitating a more equitable funding model for these organisations. The baseline allocation for social development decreased significantly going from R513 billion in the 2012 budget to R396 billion in the MTBPS. This represents a real drop in average annual growth from 3.2% to -4.3%. The Government has stated that it has identified savings of R450 million per year as a result of the new grants system. It is noted that some of these funds will be used to improve the infrastructure and systems employed at the South African Social Security Agency and to employ the 5000 graduates from the Social Worker Scholarship Programme. Whilst administration costs are expected to fall by 5%, grant beneficiaries are expected to increase from 16.1 million to 17.3 million over the next three years. Despite all of these adjustments, the Commission would like greater clarity from Government on what accounted for the R117 billion downward adjustment of the social development budget over the MTEF period.

1. The Commission's view is that these proposals are worth pursuing but in the context of reforms to resolve more structural issues in the sector. These issues include guaranteeing an effective support/supervision mechanism, ensuring integrated planning of the services rendered by the Department of Social Development and the NGOs involved.

2. Although Government has indicated a commitment to give attention to NGOs, the Commission observes with concern how provincial departments of social development are internally prioritizing away from transfers to NGOs to cost of employment and goods and services. The downward adjustment of transfers to NGOs will further push NGOs, who are already struggling to survive financially, into a crisis. Furthermore, NGOs are implementing agents of departments and as such fulfil important legislative obligations of the Government. The Commission is therefore not in favour of these cuts, especially in the context of the new Financial Awards Policy developed by the Department of Social Development in response to the Free State court judgement that seeks a fair and equitable way of

allocating resources to NGOs. The progressive realization of rights contained in the Bill of Rights for specific target groups (e.g. children) may be compromised by these cutbacks. In addition, with Early Childhood Development (ECD) services a government priority, the implementation of ECD services may be negatively impacted by the reduction in transfers to NGOs, especially as these are meant to play a major role in the up-scaling of ECD services in communities.

5. Proposed Adjustments to Conditional Grants

5.1. For the 2013/14 MTEF conditional grants to provinces are revised upwards by 7.1% amounting to R23 billion in additions to baseline to cover increases for education infrastructure, higher distribution of condoms and antiretroviral medicines. Adjustments will be made in the further education and training colleges' conditional grant (to cover wage agreement costs) and education infrastructure grant (to improve school infrastructure). Further additional resources are allocated to the Comprehensive HIV and AIDS grant to compensate for withdrawal of United States donor funding on HIV/AIDS prevention, and to provide for higher take-up rate in antiretroviral medicines and increased condom distribution. The human settlement development grant is also set for upward adjustment to deal with informal settlement upgrading.

5.2. Local government conditional grants are increased by R111.6 billion over the MTEF. This constitutes an average nominal growth rate of 10% over the MTEF and an average real growth rate of 4%. Local government conditional grants are being reformed in order to (i) prepare for the devolution of the human settlements and public transport functions to urban municipalities, (ii) help municipalities deliver clean drinking water to households, (ii) expand the integrated national electrification programme, and (iv) subsidise refurbishment projects to minimize wastage of water and electricity.

5.3. **Infrastructure:** Efficient and timely delivery of quality infrastructure continues to be problematic owing to deep seated challenges of poor planning, capacity and under-spending by provincial government departments. To circumvent these long-standing problems, the 2012 MTPS is proposing reforms for provincial infrastructure conditional grants with the intention of moving away from an allocation framework that is entitlement-based to a demand-led approach. The proposed approach requires provinces to bid for infrastructure grants two years in advance, and only makes allocations subject to meeting set criteria and demonstrating capacity to spend and/or implement. The approach also has a built in reward system which enables provinces to bring forward part of their outer year allocations. For the Commission, any reforms that intend to improve the performance of infrastructure conditional grants is a welcome development. In its 2011/12 Submission, the Commission made calls for the review of conditional grants emphasising the need for linking allocations to performance, incentives, administrative accountability, regular evaluations and sunset clauses.

1. While the spirit within which proposed reforms are introduced is supported, the Commission makes cautionary remarks on the potential unintended effect of the new allocation framework in entrenching inter-provincial inequities. Effectively, a capability driven allocation framework distorts the corrective mechanism of national transfers in addressing jurisdictional disparities. Generally, and perhaps in contrast to rational expectations, provinces whose infrastructure grant performance is sub-optimal tend to be those with lowest socioeconomic attributes and high infrastructure needs. Given the likelihood that infrastructure resources may be diverted away from needy provinces, as predicated in public sector game theory models, the new approach must be introduced with circumspect. One way to do this is by way of making provision for minimum infrastructure allocations (average spending on infrastructure grant) for provinces with impaired capabilities over a given period, allowing them to build required capacity. Alternatively, the Commission would be more supportive of an approach which provides provinces with clearly defined plans and timelines (at least 3 years) within which to prepare and build capacity for full adoption of the new framework. This is especially useful because proposed reforms are administratively cumbersome and skill-intensive.

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2. The Commission is of the view that Government should use the current reforms to deal holistically with problems besieging the infrastructure conditional grant. Contrary to popular belief, which seems to apportion blame on the part of provinces for poor performance, national government should also take part of the blame for increasingly introducing a plethora of conditional grants which do not always recognise provincial peculiarities. If the current structure and the number of infrastructure conditional grants are not harmonised in response to these peculiarities, a move to a bidding system could result in low uptake rate for certain pool of funds. A demand-led funding framework should start at a point at which grants are introduced rather than retrofitting the need-basis imperatives when the program is already in place. The mere fact that provinces are under-spending on infrastructure conditional grants is partly a reflection of poor program conception and a lack of consensus about appropriate funding instruments to address national priorities. It is not uncommon to find national government without proper controls and monitoring to support implementation of its conditional grants. Thus, proposed infrastructure conditional grants reforms should guard against penalising provinces for problems caused by national government.

5.4. **Human Settlements Conditional Grant (HSDG):** In the 2011/2012 Division of Revenue the Urban Settlements Development Grant (USDG) to metropolitan municipalities was introduced. The Commission welcomed this development as a step in the right direction but pointed out the need for other infrastructure related grants to be aligned with the USDG (namely regional bulk infrastructure grant, electrification grant and neighbourhood development grant). To date there has not been any progress in aligning these grants to the HSDG. Furthermore, the USDG has performed very poorly over the period. Out of R6.2 billion allocated during 2011/12, only R2.7 billion (or 44%) was spent by municipalities as at 31 March 2012 (National Department of Human Settlements 2011/12 Annual Report). Even though at the time of reporting municipalities had three months before the end of their financial year, it is unlikely that R3.5 billion could have been spent in three months. In this instance, it is therefore important for the National Department of Human Settlements together with provincial departments responsible for human settlements to ascertain the underlying challenges on the performance of the USDG and develop plans to assist municipalities to improve performance.

5.5. **Rural Household Infrastructure Grant:** In a bid to improve the provision of sanitation and in particular to eliminate sanitation backlogs, Government established a schedule 7 Rural Households Infrastructure Grant (RHIG) in 2010 for the provision of onsite water and sanitation infrastructure. Since inception, RHIG has underperformed. Of the 100 million RHIG allocation in 2010/11, only R66.7 million was spent (i.e. 33% underspending). For the 2011/12 financial year R187.3 million (or about 72%) of the R257.5 million adjusted allocation was spent. Furthermore, a large percentage of funds spent over the last two financial years was done so between February and March (33% in 2010/11 and 72% in 2011/12) before financial year end. It is therefore recommended that an evaluation be undertaken to establish underlying causes of the financial and delivery underperformance associated with this grant. Such evaluation should then inform plans on how the grant should be reconfigured.

5.6. **Housing Disaster Relief Grant:** This is a new grant made available to provinces. It is meant to provide emergency relief in support of housing construction work and related infrastructure damaged during a natural disaster. Only 18% of allocated funds were spent during the 2011/12 financial year.

5.7. *Overall, the Commission commends efforts by Government to protect conditional grants given the tight fiscal framework. Conditional grants are fundamental in maintaining and improving service delivery to communities. The Commission raises the following points for consideration by Government:*

1. *Government's efforts to improve monitoring systems in order to ensure that conditional grants are being spent by municipalities are welcomed. However, concomitant punitive measures that are applied in instances of under-spending such as the reduction of the LES by R500 million to date for 2012/13 may be counterproductive. Such measures do not remedy the root cause of under-spending. Rather, there is need for a systematic and com-*

prehensive analysis of the causes of under-spending so that appropriate long-term interventions are designed and implemented to encourage municipalities to spend grant transfers timeously and effectively. It is also important to note that improved spending does not necessarily result in improved outputs and outcomes in the form of better-quality service delivery to communities. Outcomes and impacts of conditional grant expenditure, in particular infrastructure related grants, can only be improved if Government improves its monitoring and undertakes constant evaluations of the outcomes.

2. The Commission raises concerns over the state of the conditional grant framework and the direction Government is taking in maintaining the system. The Commission has raised issues around the proliferation of grants in the past but also notes the several piecemeal interventions applied to solve fundamental problems of operational failure in the system. This is in relation to the continuous shifting of grant administration from one department to another (particularly funds pertaining to the Municipal Infrastructure Grant (MIG)) which effectively results in different components of one grant being administered by two departments. This suggests that the failure of achieving the envisaged outcomes of conditional grants is not only hindered by poor planning and expenditure, but also by poor administration and coordination by national and provincial departments. In this respect, the Commission welcomes Government efforts to review the current local government conditional grant system and will contribute to this review.

6. Local Government Policy Issues

6.1. The Commission notes the review to the LES formula and acknowledges its representation at a technical level in the review task team. The Commission has advocated for a formula that ensures municipalities (and poorly resourced municipalities, in particular) are appropriately funded to deliver on their constitutional mandates. In essence, the Commission supports the general structure of the proposed formula but will further engage Government on the implementation details of the new formula. With that in mind, the Commission would like to highlight the following:

1. It is important that the LES is linked to the infrastructure grant framework, such that the increased roll out of infrastructure results in the concomitant operating costs being funded through the LES.

2. Although the Commission supports greater funds being allocated via the LES to poorly resourced municipalities, it is important that these municipalities have the capacity to spend such funds. If the municipalities in question have no capacity then targeting of funds to these municipalities in the LES may contribute to wasteful expenditure and poor service delivery outcomes. Ancillary measures to ensure effective spending, and enhance community oversight of these additional funds then appear to be critical.

3. The Commission emphasises the importance of accounting for municipal own revenue raising potential in the LES formula in order to improve the allocation of funds to resource-constrained municipalities. However, such revenue raising capacity measures should not violate legislation and the principles of grant design.

6.2. The Commission would like to note National Treasury efforts at improving revenue management practices of municipalities, and in particular the focus on addressing billing challenges as part of the revenue value chain.

6.3. The Cities Support Programme is an important initiative aimed at stimulating local growth in metropolitan municipalities and secondary cities. However, overall funding to support capital expenditure around the urban built environment may be limited by (i) a tight national fiscus, (ii) constraints in terms of leveraging credit finance induced by recent municipal credit rating downgrades, and (iii) diminishing surpluses on municipal operating budgets. As the local government sector has significant economic growth hubs within its ranks, constrained capital spending

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in this sector will significantly undermine the growth prospects of the economy. It is important that municipalities and in particular metropolitan municipalities look beyond conditional grants for capital investments by, for example, exploiting the alternative of debt financing, or land based finance instruments such as development charges. Reforms to conditional grants to cities will need to explicitly account for this imperative.

6.4. The Commission welcomes Government efforts to find innovative ways of getting the economy to create more jobs and especially "green" jobs at the municipal level. Through the grant framework, the Government should take advantage of the opportunities for job creation in the solid waste management sector.

6.5. The Commission also welcomes Government efforts to improve capacity in the local government sphere, especially through the Municipal Infrastructure Support Agency (MISA) program. Capacity constraints in the local government are real and constitute one cause of the major inhibitors to enhanced performance of the sphere. There should be a common understanding of what constitutes capacity challenges. Capacity should be viewed holistically to encompass individual, organisational and institutional aspects.

6.6. The release of the 2011 Census data is an important development that will have profound impacts on the local government fiscal framework, particularly on formulae-driven grants. Firstly, the data will allow for a thorough evaluation of the outcomes of a decade of municipal expenditures and investment in terms of improved and extended services to communities. Secondly, it allows for an updating of formula-driven grants. In terms of the latter, the Commission raises the following:

1. Large shifts in allocations are likely given the fact that the grant formula has not been updated in over 10 years. The appropriate phasing-in arrangements are required to ensure that municipal budgets are protected from shocks to allocations.

2. The current arrangement in terms of updating grant formula with the census (i.e. effectively every ten years) requires urgent review. Government needs to take a firm decision on the frequency of the national census, which by law is expected to occur every five years, or alternatively, propose arrangements to ensure the frequency of data in-between censuses. Another possibility can include data projections or technical adjustments within grant formulae to account for population and service dynamics at the municipal level.

7. Review of Actual Spending by National Departments and Provincial Government – 1 April to 30 September 2012/13

7.1. Expenditure smoothing implies government spending that is evenly distributed through the four quarters of the financial year. If such smoothing were to occur, it would be expected that total expenditure up to September would be at 50% of the main budget. This would obviously differ depending on whether a government program that the department is dealing with is recurrent or capital-expenditure driven. Expenditure smoothing would most likely lead to improved quality of spending and reduced level of unauthorised spending.

7.2. Table 5 shows aggregate spending and deviation from this norm.

1. Total government spending as at September 2012 is below the assumed norm of 50% by 2% at R465 billion against a total of R969 billion. A total of all votes at national level have also spent 2.7% (or R257 billion of the main budget) below the 50% norm. This figure increases when looked at as a total direct charge against national revenue fund to 0.5% (R208 billion of the main budget) below the 50% norm.

2. Using key selected government programmes that drive government recent priorities (such as education, health, justice and policing, and key built environment programmes such as energy, human settlements and rural development), government is below the norm by 0.1% at R112 billion.

7.3. With respect to the equitable share, provinces have spent 50% of the main vote which is within the 50% norm. The expenditure can be expected to rise significantly quicker with the advent of the implementation of the agreed upon wage settlement.

Table 5: Aggregate Spending and Deviation from the Norm

R'000	Main Budget	Spending as at September 2012	% expenditure
Total Expenditure	**419,926**	**207,766**	**49.5%**
Appropriation by Vote	543,630	257,071	47.3%
Direct charges against National Revenue Fund	969,366	464,837	48.0%
Fuel levy	9,040	3013	33.3%
State debt cost	89,388	43,546	48.7%
Other charges against National Revenue Fund	12,441	6,679	53.7%
PES Transfers from National	**309,057**	**154,529**	**50.0%**
Selected Key budget Votes	**224,111**	**111,883**	**49.9%**
6. Public Works	7,994	4,137	51.8%
14. Basic education	16,344	7,506	45.9%
15. Health	27,557	14,041	51.0%
16. Higher Education and Training	31,500	22,240	70.6%
20. Correctional Services	17,732	7,996	45.1%
23. Justice and Constitutional Development	13,080	6,112	46.7%
24. Police	62,485	29,965	48.0%
25. Agriculture, Forestry and Fisheries	5,799	2,968	51.2%
27. Economic Development	673	330	49.0%
28. Energy	6,806	3,151	46.3%
30. Human Settlements	25,263	10,056	39.8%
32. Rural Development and Land Reform	8,878	3,381	38.1%
PES Expenditure at provincial level	**309,057**	**154,529**	**50.0%**
Education	163,655	82,400	50.3%
Health	117,829	60,000	50.9%
Other	27,573	12,129	44.0%

Source: National Treasury (2012), Commission's own calculations

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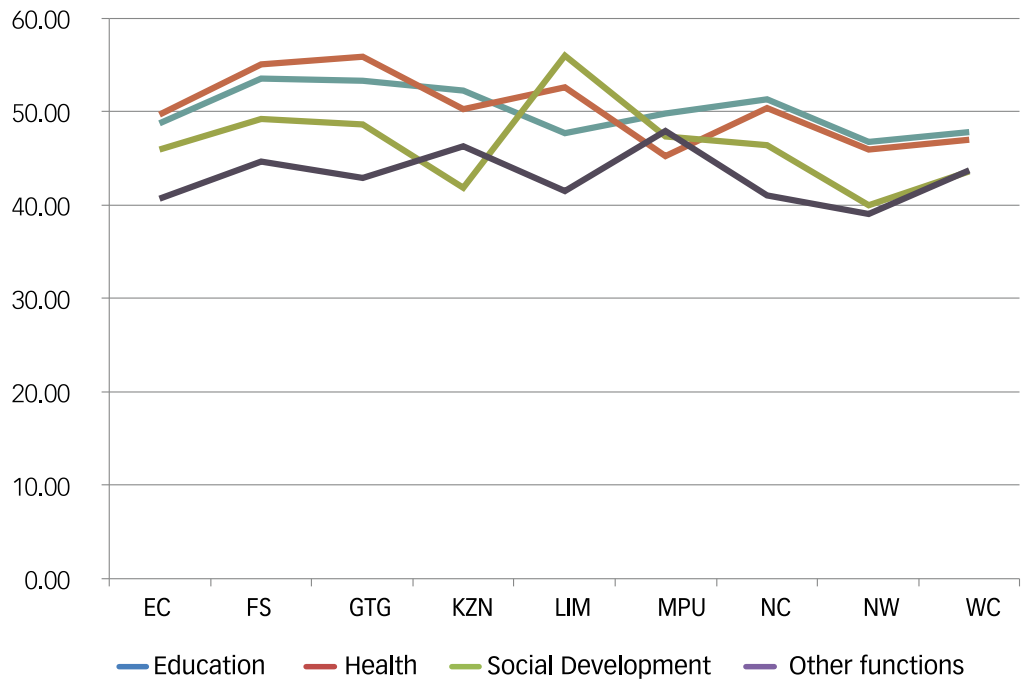
7.4. Education, health and social development comprise approximately 75% of the total provincial budget. These functions are typically labour intensive and tend to be important drivers of budget pressures. The Commission's calculations show that compensation of employees' accounts for approximately 75% of the education budget and 60% of health budget, respectively. In the figure below, four provinces (Free State, Gauteng, Kwazulu-Natal and Northern Cape) spent more than 50% of their education budget halfway into the financial year, with Free State (53.5%), Gauteng (53%) and Kwazulu-Natal (52%) in danger of overspending their education budgets for 2012/13. It is also important to note that the Limpopo Department of Education is under administration, with the department's fiscal position midway into 2012/13 standing more prudent at 47.7% this year compared to 51.6% last year. The Commission notes with concern that this spending conservatism by the Department is at the cost of delayed or reduced funding to schools.

Figure 7: Budget spent up to September 2012



Source: National Treasury (2012), Commission's own calculations

1. Five provinces spent over 50% of their total health budget midway into the 2012/13 financial year, with Gauteng (55%) and Free State (55%) once again showing early signs of overshooting 2012/13 allocation. It should be noted, that the Gauteng and Limpopo Departments of Health were subject to Section 100 intervention by national Government. At the same stage last year, both provinces were in a better position than they are in now, with Gauteng spending 49.3% and Limpopo 50.8 % of their health budgets, respectively. The Commission therefore expresses concern about the health budgets of these two provinces and that they could register major deficits in 2012/13 if not monitored closely.

2. It is highly likely that the over-expenditure on health and education at the mid-year mark is a result of higher than anticipated cost of living adjustment and the increase in headcount as a result of increased spending on posts with no available budget attached. The Commission supports the call by the PSC for departments to scrap unfunded posts on the staff establishment because it creates the wrong impression that staff vacancies are high when in fact, no funding for those posts are available.

3. When relative spending performance is assessed, it is the Commission's view that Free State, Gauteng and Limpopo are still not managing their resources diligently and there is an urgent need to improve accountability and oversight structures in these provinces even though some of the departments in these provinces are already under Section 100 administration.

7.5. **Section 100 interventions:** The commission welcomes the progress made by national government in stabilising finances of the three provinces put under administration. Since intervention, the provincial fiscal positions, especially that of Limpopo, improved drastically moving from projected deficits to positive outlooks within the financial year. In its submission on Section 100 interventions the Commission strongly emphasised the need for Government to act swiftly against cases of fiscal profligacy at all levels of government in order to dispel misconceptions of soft budget constraints and regulation laxity. The recent experiences have however indicated that there is regulation vacuum in which interventions are carried out. There is a need for a refined framework for intervention with clear parameters setting out triggers for intervention, clarifying roles, responsibilities and lines of accountability during intervention as well as timelines for interventions for all stakeholders, including legislatures.

8. Adjustment Estimates 2012/13

8.1. Adjustment estimates are mainly driven by ICS to cover the cost of the wage settlement of 7 per cent that was agreed to later in the year (which is higher than the initial 5% that provinces had budgeted for). Provinces received R3.95 billion to cover the actual cost of the agreement based on personnel numbers at the end of March 2012 to assist for the remainder of the 11 months of the fiscal year. The continued higher than expected increase to the cost of living adjustment will put further pressure on the Government to reign in the provincial salary bill. The opportunity cost of these increases impact on resuscitating the economy through increased investment expenditure.

8.2. The Commission, however, welcomes the Government approach towards shifting composition of expenditure over the MTEF towards capital expenditure as it is in line with what it proposed in the 2011 MTBPS. The 2012 MTBPS notes that over the MTEF real growth in compensation of employees will average 1.3% growth while capital payments will grow at 4.3%. The Commission also welcomes that for the first time, a three year wage agreement of Consumer Price Index (CPI) increases plus 1% has been reached between Government and the public sector unions. This will assist Government in planning budgets and forecasting. Long-term measures such as norms or ratio on the costs of personnel in relation to provincial total expenditure need to be put in place and strictly enforced.

8.3. An additional R87 million is proposed to cover the cost of ICS in further education and training (FET) college lecturers.

8.4. Government is allocating R461 million to host the Orange Africa Cup of Nations (AFCON) in 2013, of which R323 million will go towards national departments to cover the costs of hosting the tournament and R123 million to local municipalities hosting the games. The Commission is of the view that such expenditure is not meant to be redistributive as benefits accrue disproportionately to host cities and higher income earners because of the need to host.

1. A similar grant to the Emergency Medical Services (EMS) of 2010 FIFA World Cup event is proposed for the Orange Africa Cup of Nations and is allocated R15 million to host provinces. The provinces that have been proposed as recipients of R3 million each are Eastern Cape, Gauteng, Kwazulu-Natal, Mpumalanga and the North West.

8.5. The financial viability of South African National Roads Agency Limited (SANRAL) will depend on balancing Gauteng Freeway Improvement Project (GFIP) e-tolling revenues and receiving financial support from the fiscus. The Commission has already shared its views on these issues. The SANRAL short experience has allowed identification of "irreversible" national decisions concerning short-term implementation and further development of electronic tolling. With conditions in place to charge motorists as a function of mileage performed on GPIF, Gauteng should be used as the test field for "second-generation" national approaches to make 'road users and polluters pay' in South Africa and for using resulting revenue to expand capacity and standards of transport networks. Then, progressively, other provinces will start introducing electronic tolling in their practice, largely based on domestic considerations, but letting this become established practice. In the interim, the National Department of Transport should set out guidelines for e-tolling of facilities that have private sector involvement in financing, delivery or management. From the Commission's perspective, at the very least, these guidelines should include:

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1. Only major projects that result in significant increases in capacity will be subject to tolling.

2. Tolls will be implemented only if there are clear, demonstrable net benefits for the users.

3. Tolls will be implemented only if a reasonable untolled alternative is available. The public has a right to a basic level of toll-free access.

4. The level of tolls and limits on the amount and frequency of increases will be established in advance. This is intended to provide certainty to the public.

5. Tolls will be used to generate revenue for transportation projects.

6. The Commission should be consulted prior to implementation of the e-tolling projects.

8.6. Government guarantees represent a contingent liability to the state that should be monitored closely. The issue is important in view of Government's strategy to fund social infrastructure on budget, and economic infrastructure via public entities balance sheets. This poses fiscal risks for the country as they constitute explicit, legislated and commitment-related risks. The Commission is of the view that such guarantees should not become frequent practice. The question also remains whether or not Government should tighten the fiscal policy framework further to take account of these issues? The contingency reserve "top slice" amount that South Africa routinely sets aside should be welcomed and further strengthened.

8.7. The Commission also notes the implementation of Section 216(2) of the Constitution by the National Treasury in withholding transfers to Nala Local Municipality in the Free State. Although the Commission understands the rationale provided for imposing Section 216(2) and supports the implementation of punitive measures on serial offenders to ensure sound financial management and the proper use of limited public resources (while further emphasising the need for similar punitive and sanctions being placed on Municipal Managers and Chief Financial Officers), it is the Commission's view that stopping of transfers should only be effected as a last resort when all other remedial measures and support initiatives have failed. It is important to emphasise that the Constitution promotes a cohesive system of cooperative governance in the country, with intergovernmental support structures in place to aid sub-national governments in instances of capacity constraints and mandate failures. In terms of Section 154 of the Constitution, national and provincial Government are required play an important role in monitoring and supporting to deliver on their mandates. Thus, there is also a degree of accountability on the side of national and provincial governments with the failure of a municipality. Therefore, Section 216(2) should be undertaken in exceptional circumstances, should not be a norm of action and it is important that Government is explicit on the various remedial measures and support initiatives provided to the municipality prior to imposing Section 216(2). Furthermore, every effort should be taken to minimise the negative impact of such an action on the population concerned.

8.8. The Commission notes efforts from Government to improve expenditure on rehabilitation and refurbishment of municipal infrastructure networks. Such additions to the existing local government conditional grant framework will attempt to ensure funds are earmarked for such expenditures. Improved systems are required to ensure expenditure on repairs and maintenance on municipal operating accounts are appropriately planned and executed. The spinoffs of this in terms of improved service delivery, job creation and overall economic growth cannot be overemphasized.

9. Concluding Remarks

9.1. Overall, the 2012 MTBPS reflects the major thrust and spirit of the recommendations that the Commission has been making since the onset of the global economic crisis, that growth and employment in South Africa can only be achieved by combining fiscal consolidation and investment into future growth given prevailing economic climate.

1. *The Commission fully supports the position in the MTBPS of emphasizing the need to get value for money from Government programmes.*

2. *Given the current negative economic outlook, the Commission fully supports the government's position on fiscal consolidation and tightening measures to maintain expenditure sustainability. The Commission however would also like to highlight the need for all spheres of government to heed the call around eliminating inefficient and wasteful expenditure. The Commission is inclined to support budget cuts proposals which are preceded by a comprehensive expenditure review as per the recommendation made in its 2009/10 Submission.*

3. *Given the tight fiscal framework, the Commission commends efforts by Government to protect conditional grants as they are fundamental in maintaining and improving service delivery to communities. The Commission supports the proposed review of conditional grants with a view at addressing identified weaknesses it has raised in the past and will be engaging with government and other stakeholders in the exercise.*

9.2. The Commission notes the progress with the review to the LES formula and will continue to engage with Government and other stakeholders on this initiative.

9.3. The Commission welcomes Government's efforts at finding innovative ways of getting the economy to create more jobs and especially "green" jobs in the local government sector. Through the grant framework, the Government should take advantage of the opportunities for job creation in the solid waste management sector.

9.4. The proposed adjustments estimates are mainly driven by ICS as a result of a 2% shortfall to cover the cost of a wage settlement of 7% that was agreed to later in the year. The proposed adjustments are supported subject to matters raised by the Commission in this submission.

The Commission welcomes the progress made by national government in stabilising the finances of the three provinces put under Section 100 administration. The Commission is of the view that the absence of enabling legislation for Section 100 should be addressed as matter of urgency to ensure that accountability and oversight frameworks are not compromised during periods of intervention.

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Submission on 2013 Division of Revenue Bill

1. Background

1.1 This Submission on the 2013 Division of Revenue Bill is made in terms of Section 214 (1) of the Constitution of the Republic of South Africa (1996) and Section 35 of the Intergovernmental Fiscal Relations (IGFR) Act (1998).

12 The Commission in general supports the Bill and is in agreement with the broad principles espoused in it. Furthermore, proposals to introduce a new local government equitable share (LES) formula as well as conditional grant reforms as most of these were part of extensive consultations between government and a number of stakeholders, of which the Commission was a part.

2. General Comments On The 2013 Division Of Revenue Bill

2.1. **Provincial conditional grant reforms and incentives:** Government is proposing far reaching measures aimed at institutionalising planning with respect to the spending of provincial infrastructure conditional grants. The Commission welcomes the addition of clauses which address reforms in provincial infrastructure conditional grants necessitated by consistent under spending on the part of Provincial Governments. The new approach provides for a two year lead planning and competitive funding approval for infrastructure projects to minimise the level of under-spending, requests for rollovers and increase budget credibility. The new approach further provides for incentive to provinces with good spending records by affording then an opportunity to bid for additional funds which may have not been successfully secured by other provinces.

1. The Commission welcomes in principle efforts to improve planning prior to approval of conditional grants.

2. The rewarding for performance is only supported in cases where performance exceeds minimum standards set. Provinces should not be rewarded for carrying out their constitutional duties at the minimum. There must be a clear framework detailing circumstances under which performance incentives are granted including sanctions for below minimum performance. The Commission will make recommendations in its 2014/15 submission on the design of incentive based transfers drawing lessons on how past attempts at incentivising performance have fared.

2.2. **Reforms to Health Infrastructure Grants and NHI Grant:** The 2013 Division of Revenue Bill proposes amendments that will enable the shift of the National Health Grant (indirect grant) to the Health Facility Revitalisation Grant (direct grant) and/or NHI grant (direct grant) to provinces with proven capacity. The Bill also proposes to amend the provincial budgets for the 2013 medium term expenditure framework (MTEF) to include the revised Health Facility Revitalisation Grant (direct grant) and/or NHI grant (direct grant) allocations for the 2013 MTEF.

1. The Commission welcomes in principle efforts to consolidate and reduce the number of conditional grants. The proposal moves towards consolidation of grants rather than proliferation which has always been a concern to the Commission.

2. With respect to consolidation of Health Infrastructure Grants and NHI Grants, the Commission welcomes efforts to consolidate and reduce the number of conditional grants in light of its past recommendations against grant proliferation. The proposal moves towards the creation of a block grant to protect health expenditure allocations. The resulting health conditional block grant will give provinces flexibility to allocate resources according to their specific health infrastructure needs as opposed to individual conditional grants require-

ments. The Commission, however, notes with concern that only 14% of the R150 million allocated to NHI pilots in 2012 had been spent at the end of February 2013 compared to the National Treasury benchmark of 83%. The Commission therefore supports the decision by government to reduce the grant over the MTEF period by R25.7 million. This action will hopefully allow the department time to improve its readiness. The revised allocation to provinces for the existing NHI grant is now R192 million over the 2013 MTEF period.

2.3. **Assignment of function to administer national housing programmes to Metros:** Clauses have been added to prepare for the intended executive assignment of the function to administer national housing programmes to six metropolitan municipalities, namely, Ekurhuleni, Tshwane, City of Johannesburg, eThekwini, Nelson Mandela Bay and the City of Cape Town. The function to be assigned is the administration of all national housing programmes (with the exception of individual and relocation subsidy mechanisms that remain the responsibility of the provincial department responsible for human settlements). The administration of national housing programmes from provinces to the metros will be undertaken in terms of Section 126 of the Constitution and will be concluded in terms of Executive Assignment Agreements between the relevant Members of Executive Committees (MECs) and metros and then through proclamation by the Premier. The Commission welcomes Government's pro-activeness in inserting Section 16 in the Bill to make provision for smooth transfer of funds from provinces to municipalities which are earmarked or eligible for the assignment of human settlement and public transport functions. This assignment instrument allows for a differentiated approach dependent on municipal capacity and accountability and satisfies a desirable principle of situating the function closest to the area of need. However, such assignment has financial and fiscal implications that need to be identified (e.g., to capital grant allocations, operational funding requirements, transfer of immoveable and moveable assets and transfer of staff and other contractual obligations). The Commission is currently reviewing the proposal as required in terms of Section 9 and 10 of the Municipal Systems Act (2000) and the Financial and Fiscal Commission Act (1997) and will make its review available to the Minister of Human Settlement, Human Settlements MEC's and Parliament on 31 March 2013.

2.4. **Provision for funding of natural disasters:** Section 19 4(a) provides for utilisation of unspent infrastructure conditional allocations to address damages to infrastructure caused by disasters within an affected province or municipality. The Commission supports this proposal as a step in the right direction towards addressing recommendations made in its 2012/13 Submission on financing of natural disasters. However, there is still a need to address comprehensively the challenges related to financing of disaster including whether approval to use unspent conditional allocations should be preceded by formal declaration of a state of disaster as required in terms of the Disaster Management Act and how to deal with cross boarder disasters which straddle provinces or municipalities.

2.5. **Payment schedule with respect to schedule 6 grants (indirect grants):** The 2013 Bill extends the process for approval of and compliance with payment schedules with respect to indirect grants or grants implemented by national government on behalf of provinces or municipalities. It is the view of the Commission that any reform that is aimed at improving transparency and certainty should be supported. Provinces and municipalities need to be fully aware of funding commitments undertaken by National Government within their jurisdiction especially if such expenditure involves carry through costs of maintenance. From the Commission's perspective, it is also important that infrastructure related indirect transfers to provinces are subjected to similar planning and approval process as those envisaged in the new provincial conditional infrastructure allocation framework to avoid inconsistencies.

2.6. **Section 27:** The Commission welcomes the insertion of section 27 to facilitate commencement of expenditure before the Bill comes into effect or when the effective implementation date passes beyond the 1st of April as a result of delays emanating from mandatory money bills parliamentary participatory processes. The transitional clause will enable Government to commence with expenditure and implementation of delivery programs while the Bill undergoes final parliamentary processes before enactment thus ensuring continuity and certainty.

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2.7. **Local Government Equitable Share Formula Review:** The review of the local government equitable share (LES) formula was completed in the past year by a technical team led by the National Treasury, the Department of Cooperative Governance (DCoG) and the South African Local Government Association (SALGA) with technical advice from the Commission and Statistics South Africa (STATSSA). The process was highly transparent with all municipalities invited to make inputs through a rigorous consultation process. The review process culminated in a new LES formula to be applied only on the horizontal division of revenue. The Commission is of the view that all its recommendations that have been made in the last six years in respect of the formula were taken into account and thus welcomes and supports the principles that informed the formula as well as agreeing that indeed the outcome is an appropriate formula for present day South Africa. The formula manages to recognise the vast differences in South Africa's municipalities in terms of socio-economic profiles and their associated own revenue potential. It succeeds in targeting the most vulnerable municipalities without unduly punishing the relatively well off municipalities.

1. Most (78%) of the money distributed through the LES formula will be through the Basic Services component. This is mainly due to the fact that the majority of poor households in the country are in the metropolitan and rural municipalities. These municipalities receive the largest share of allocations in the new formula accounting for 52% of LES allocations (Metros get 29% while rural municipalities receive 23%).

2. As part of ensuring that allocations yield desirable outcomes, it is important that greater capacity support is provided and oversight exercised in poorer municipalities that may be facing severe financial governance challenges as indicated by the Auditor General findings and slow spending performance. In addition, because the LES formula is designed to provide each municipality with at least enough money to provide free basic services to each poor resident household, it would be useful to ensure that this is actually reflected in the municipalities' budgets through the benchmarking exercises that National and Provincial Treasuries have started conducting.

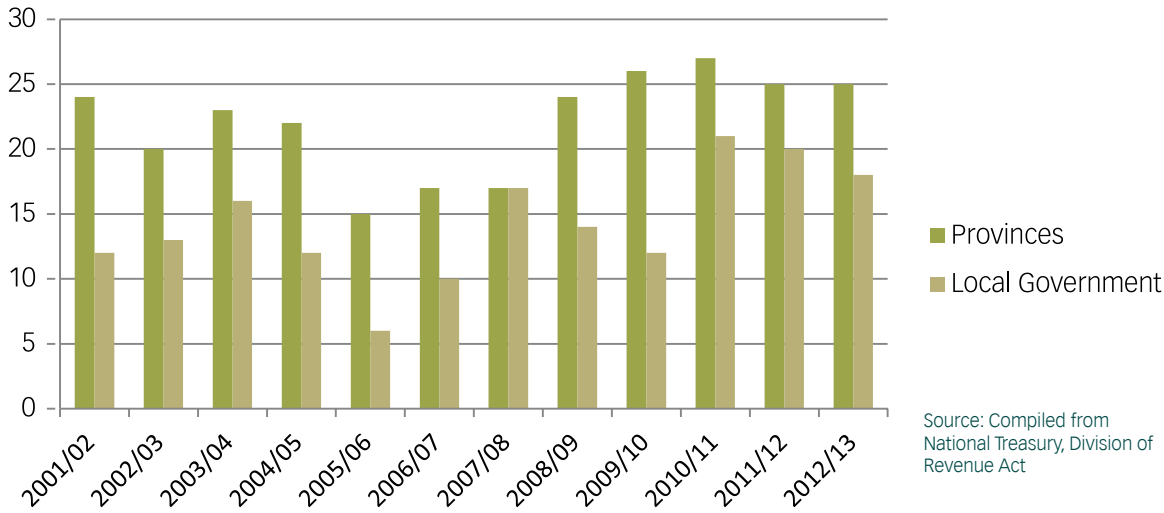
3. It must be noted that the recently completed review of the equitable share formula is only a part of the process of reviewing the local government functional and fiscal framework that government has committed to embark on. The Commission is currently finalising and will shortly be submitting its final report on the local government fiscal framework (LGFF) that it conducted through a set of public hearings and is of the view that the report should be used as an input into the broader government review.

4. As part of ongoing work on the LES, there are a number of issues that the Commission will be taking forward in its 2013/14 work cycle as part of the overall local government fiscal and functional framework review. These issues are all associated with costing of basic services.

2.8. **Grant proliferation:** An important issue regarding the Bill relates to the continued growth in the number of grants which constitutes a strong feature of this year's Bill across urban and rural municipalities and provinces. The issue of grant proliferation has been raised as a major concern in the past and continues unresolved this year. The Bill proposes a total of 4 new conditional grants to local government as well as the restructuring and shifting of grants from national government to provincial government and municipalities. For provinces and municipalities, grant proliferation is a problem primarily because it often leads to a confusing array of overlapping programmes with variously competing or duplicated objectives and conditions, and complex implementation and reporting requirements. Proliferation often reflects framework and programme design weaknesses in transferring departments, which increases the risk of under spending and other suboptimal outcomes such as compliance cost for municipalities which already suffer from capacity constraints. The Commission has made recommendations on the introduction and termination of conditional grants with a view towards entrenching good principles in designing and implementing such grants since 2005.

1. While the Commission acknowledges the evolving nature of the intergovernmental fiscal system, the current approach to introduction, termination and reviewing of conditional grants destabilises the composition and predictability of transfers. Figure 1 shows changes in the number of conditional grants per province and local government per annum. Over the 12 year period from 2001/2002 to 2012/2013, there have been significant movements in the number of conditional grants available to provinces and municipalities per annum. Analysis of grant life span patterns (when grants are introduced or terminated) shows similar volatility. Such volatility is likely to make the task of planning for and administration of grants extremely difficult and subsequently affect grant expenditure performance. This issue of proliferation arose during consultations between the Minister and the Commission and it was agreed that the Commission will pick up this matter with more substantive recommendations in the Annual Submission for the 2014/15 Division of Revenue.

Figure 8: Number of provincial and local conditional grants per annum



Source: Compiled from National Treasury, Division of Revenue Act

2. National Fiscal Framework

2.1. **Table 1 presents the MTEF estimates for the 2013 budget. Due to external economic conditions exacerbated by internal strife in the labour markets that resulted in a downward revision of revenues, this year sees the least addition to the national** fiscal framework compared the previous years. A total of R72.69 billion is added to the baselines over the MTEF. The total allocations increase from R878.6 billion in the 2012 budget to R951.3 billion in the 2013 budget. Government is expected to spend R3.1 trillion over the next three years in all spheres. With these revisions, the national sphere receives 47.6% of total expenditure, provinces receive 43.5%, while the remaining 8.8% goes to local government. Despite the smaller allocations to the local government sphere, allocations are expected to grow faster than the other spheres at 5% in real terms per annum over the MTEF period.

2.2. Government is supported for exercising fiscal prudence and managing the sustainability of the fiscal framework, despite pressures from higher than anticipated wage bargaining agreements, carry through costs of Occupation Specific Dispensation and constrained resource envelope due to worsening economic conditions. The Commission agrees with Government's planned efforts to restrict real growth in public spending below the rate of gross domestic product (GDP) growth by 2014/15. The Commission emphasizes the need to simultaneously improve the quality and developmental impact of public spending. Furthermore, cuts should be made in such a way that core services as well as repairs and maintenance expenditure are protected and not compromised.

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Table 6: Division of Revenue 2013/14 – 2015/16

R billion	2012/13	2013/14	2014/15	2015/16
National allocations	413,1	452,5	489,5	521,7
Provincial allocations	388,5	414,2	441,7	474,4
Equitable share	313,0	337,6	359,9	383,7
Conditional grants	75,5	76,6	81,8	90,7
Local government allocations	77,0	84,7	91,6	101,5
Total allocations	**878,6**	**951,3**	**1 022,8**	**1 097,6**
Changes to baseline				
National allocations	0,7	6,3	10,6	24,8
Provincial allocations	4,0	3,1	4,7	17,3
Equitable share	4,0	8,7	10,6	18,3
Conditional grants	0,1	-5,6	-5,9	-1,0
Local government allocations	–	1,0	1,0	7,0
Total	**4,8**	**10,4**	**16,4**	**49,0**
Percentage shares				
National departments	50%	48%	47%	47%
Provinces	43%	44%	45%	44%
Local government	8%	8%	8%	9%

Source: National Treasury, 2013

3. Provincial Fiscal Framework And Medium Term Priorities

Provincial Equitable Share

3.1. The 2013/14 provincial fiscal framework inclusive of conditional grants is revised upwards by R25.6 billion over the 2013 MTEF mainly to cater for inflation related improvement of conditions of service amounting to R26.1 billion over the MTEF. The equitable share adjustment is revised slightly upwards compared to the allocations received through a re-prioritisation exercise with an additional R938 million set aside for the absorption of social work graduates. The 2013 division of revenue bill proposes an increase to the provincial equitable share (PES) from the revised R313 billion in 2012/13 to R335.5 billion in 2013/14. This amount excludes the R2.1 billion from the property rates grant which is to be phased into the PES. Inclusive of the property rates grant, the PES will amount to R337.6 billion in 2013/14 reaching R383.7 billion in 2015/16.

3.2. The weight among components of the PES formula remains unchanged. All the data underlying the formula are however updated to take account of the shifts in population reported in the 2011 Census. The effect of the new census sees significant population shifts in favour of Gauteng, the Western Cape, Mpumalanga and the North West province. Provinces that experienced declines in their share and subsequently their allocations over the 2013 MTEF period due to population shifts are KwaZulu Natal (0.89 per cent), Eastern Cape (0.78 per cent), Limpopo (0.57 per cent) and Free State (0.2 per cent). As a result of these shifts there is a reduction of R6.6 billion for KwaZulu-Natal, R5 billion for the Eastern Cape, R3.6 billion for Limpopo and R370 million for Free State. Government provides R4.2 billion cushion over the MTEF to absorb the impact of population changes brought about by new Census data. This move resonates well with the Commission's past view over the importance of cushioning shocks to provinces emanating from external factors through phase-in procedures. There has been renewed interest and pressure from provinces to review the Provincial equitable share formula, especially with respect to, over reliance on population driven variables. The Commission will engage relevant stakeholders on the matter.

Provincial Conditional Grants Adjustments

3.3. For the 2013/14 financial year, revisions to conditional grant baseline amounts to R260 million (of which R48 million is from savings). The R260 million is allocated to the roads maintenance grant and the Further Education and Training (FET) colleges grant (at R169 million and R91 billion respectively). In total, the provincial conditional grant baseline for 2013/14 is revised downwards from an initial R82.2 billion to R77.9 billion as a result of the FET function shift from provinces to national government and devolution of the property rates grant.

3.4. Despite the downward revision due to policy change, the total provincial conditional grant allocation recovers in the outer years with a proposed addition of R9 billion (or average growth of 7%) over the 2013 MTEF.

Provincial Sector Specific Allocations

3.5. **Education:** The MTEF allocation for education increases from R225 billion in 2013/14 to R258.7 billion in 2015/16. In real terms, annual real growth rises from 1.7% in 2013/14 to 2.7% in 2014/15. The increase in funding is largely to cover the cost of wage settlement but also to improve the delivery of school infrastructure and quality of education for learners from poor backgrounds. An important consideration going forward should be the associated operational costs of school infrastructure such as safeguarding, maintenance and operation of school infrastructure. The Commission supports the benchmark exercises that National Treasury conducts with relevant provincial departments and recommends closer scrutiny during these exercises on the funds allocated and spent by provincial education departments on these spending items[25].

1. The Commission is concerned that children in many rural schools do not have conditions required for effective attainment of learning outcomes such as proper infrastructure, materials, basic services, safe scholar transport and well equipped teachers[26]. The Commission welcomes government's decision to publishing norms and standards for school infrastructure and prioritizing the removal of inappropriate school structures and replacing them with proper facilities. To improve schooling outcomes, especially in under-performing schools, emphasis should continue to be placed on the professional development of teachers, improving school management as well as greater accountability of school principals. Furthermore, a significant proportion of children who suffer from disabilities are not succeeding in accessing education. In its 2012/13 Division of Revenue submission, the Commission recommended that input-output norms be established to give effect to inclusive education for intellectually disabled children.

3.6. **Health:** The allocation for health increases marginally over the MTEF from R137.7 billion in 2013/14 to R156.6 billion 2015/15 representing a 0.34% annual average real increase. Additional allocations for health are intended to strengthen prevention and treatment programmes. An amount of R338 million is added over the MTEF to roll out new diagnostic for tuberculosis and R800 million to expand anti-retrovirals to cover 500 000 more people per year. With very little fiscal space to expand expenditure, the Commission welcomes Government's intention to improve value for money spent on health-related activities over the MTEF such as efforts aimed at improving the quality of spending on health infrastructure by revising the application process. The Commission recommends tightening of monitoring and oversight mechanisms on procurement practices in Health Departments to prevent irregular and fruitless and wasteful expenditure from taking place as evidenced in some provinces where the hi-tech health equipment purchased without any service plan. Subsequently, the expensive equipment had to be replaced when it broke down[27]. In this regard, the Commission welcomes the concrete measures taken towards establishment of the Chief Procurement Officer function and the inclusion of new infrastructure procurement

[25] See State of Infrastructure Report Card on the state of school infrastructure by the South African Institute of Civil Engineering (2011)

[26] Although numeracy has improved in the recent 2012 Annual National Assessments, the results show quality of performance worsens as learners move up the grades. For grade 9 learners for example, 2.3% passed numeracy adequately (i.e. by 50% and more). The assessment does not disaggregate the results, thus masking the actual performance of schools in disadvantaged areas.

[27] Shamase, Nelly, 2012. 'Limpopo Hospitals in Dire State', Mail and Guardian, 31 August 2012.

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regulations in the proposed amendments to the PFMA (1999). The Commission reiterates the recommendation it made in the 2012/13 Division of Revenue submission that human resource, financial management and procurement should be devolved to hospital management to boost efficiencies and performance[28].

1. Prioritisation of health Millennium Development Goals (tuberculosis and HIV and AIDS) proposed in this year's budget is in line with the recommendations and findings of the Commission from 2011 as is the continued emphasis by Government on the need to achieve greater efficiencies and cost-savings for reprioritisation. With regard to NHI, the Commission awaits the results of the pilots that are currently under way and funding arrangements for the new reform. The Commission notes government's intention to phase-in the implementation of the NHI over a 14-year period and that additional revenue will be required to fund the new initiative. The balance between phasing-in the NHI, increasing revenue through possible tax increases and ensuring a more equitable health care system should be carefully considered. The Commission further welcomes Government's announcement in the 2012 Medium Term Budget Policy Statement that the long-term fiscal report will model the impact of the introduction of NHI proposals as part of its work. The number of medical personnel is one of the major cost drivers in the health budget. Although the forecasted numbers are expected to fall, it is the Commission's view that infrastructure upgrades and development of health facilities, including the phased introduction of the NHI, will create a demand for medical personnel. The fiscal impact of a burgeoning medical fraternity must be carefully considered against available resources, especially in the context of slow economic and revenue growth. Emphasis should also be placed on improving the skill set of health care personnel and achieving better outcomes in the health care sector. The Commission has been requested by the Minister of Finance to interrogate whether health is adequately funded. Recommendations to this effect will be made in the 2014/15 Commission submission.

3.7. **Social development:** With respect to social development, the main proposal is to reprioritise funds already in the baselines towards strengthening selected child welfare programs, improve the South African Social Security Agency's infrastructure and systems, as well as to employ additional social workers. The budget will also provide for the recruitment of graduates from the social worker scholarship program, support Non-Profit Organizations (NPOs) in social development and for facilitating a more equitable funding model for these organizations. The allocation for social development increases from R171.5 billion in 2013/14 to R200.1 billion in 2015/16, representing an average real increase of 3.3%. The Government has stated that it has identified savings of R450 million per year as a result of the new grants system. It is noted that some of these funds will be used to improve the infrastructure and systems employed at the South African Social Security Agency and to employ the 5000 graduates from the Social Worker Scholarship Program. Whilst administration costs are expected to fall by 5%, grant beneficiaries are expected to increase from 16.1 million to 17.3 million over the next three years.

1. Although the Government has indicated a commitment to give attention to NPOs, the Commission observes with concern how provincial departments of social development, in response to budgetary pressures internally prioritize away from transfers to NPOs to cost of employment and goods and services. The downward adjustment of transfers to NPOs will further push NPOs, who are already struggling to survive financially, into a crisis. Furthermore, NPOs are effectively implementing agents of departments and as such fulfil important legislative obligations of Government. The Commission notes that these cuts appear inconsistent with the context of the new Financial Awards Policy (developed by the Department of Social Development in response to the Free State court judgement) that seeks a fair and equitable way of allocating resources to NPOs. The progressive realization of rights contained in the Bill of Rights for specific vulnerable groups (e.g. Children) may be compromised by these cutbacks. In addition, the implementation of Early Childhood Development (ECD) services may be negatively impacted by the reduction in transfers to NPOs. ECD centres are regarded as one of the important cornerstones of the National Development Plan.

[28] A programme conducted by the Lean Institute of Africa in 2010 showed that hospitals could significantly reduce waiting periods and cut overtime by simply reorganizing the flow of work and organizational processes.

2. The Commission is currently undertaking research on the funding of child welfare services in part to understand the underlying reasons giving rise to closure and non-viability of NPOs. The Commission will be holding public hearings on this subject and subsequently table a report to parliament for consideration during 2013. The South African Human Rights Commission is also working on a related project on "Policy options for addressing poverty traps and social exclusion among children in South Africa". The Commission participates as a Reference Group member on this project and a report on concrete policy recommendations to lift children out of poverty traps and closer to the goal of a more inclusive society will be produced.

4. Local government fiscal framework and adjustments to conditional grants

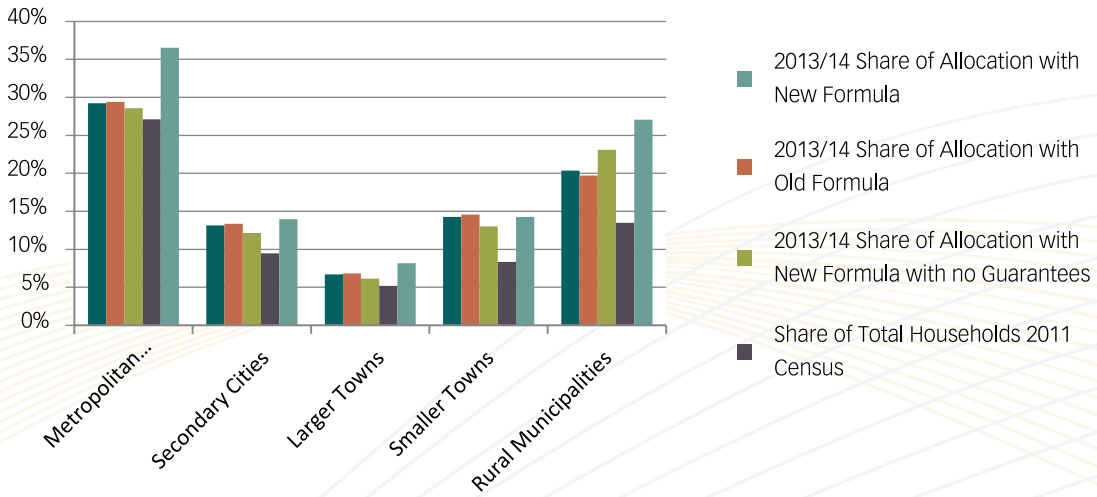
4.1. In total, the local government sphere receives R277 billion over the 2013 MTEF. Of this, the total local government baseline allocation will increase by a net R.12.1 billion over the MTEF period. Of the R12.1.billion additions to baseline, R8.2 billion is in respect to direct transfers to municipalities while R3.9 billion will be spent on behalf of local government in the form of indirect transfers.

Local Government Equitable Share

4.2. The 2013/14 financial year sees the introduction of a revised LES formula. In its advisory representation in the review process at both a technical and strategic level, the Commission also confirms that the new LES formula explicitly incorporates Commission recommendations that were previously proposed to Government. Some pertinent features of the new LES formula emanates from previous Commission recommendations as follows:

1. In its Submission for the 2011/12 Division of Revenue, the Commission recommended that the design of the LES formula should ensure greater support to poor rural municipalities, given the limited revenue raising ability in these areas. In this regard, the Commission welcomes greater resource distribution to poorly resourced municipalities via the new LES formula in line with the principle of equalisation. In terms of formula design, equalisation grants such as the LES should be targeted to municipalities with limited fiscal capacity and to places where there is greater need for services. The new formula achieves this goal more directly relative to the previous formula. This is confirmed by Figure 2 below that compares the allocations of the old and new formula. Allocations through the new formula have distributed relatively more funds to rural municipalities. The LES also better reflects the underlying demographics in local government. The majority of households and poor households in the country are in the metropolitan and rural municipalities. Consequently, these municipalities receive the largest share of allocations.

Figure 9: Comparison of old to new formula allocations



Notes:
Figure excludes allocations to district municipalities

The figure includes allocations with the new formula without the phasing-in provisions for comparative purposes

Poor households are defined as households earning less than R2300 per month in 2011

Source: Census 2011

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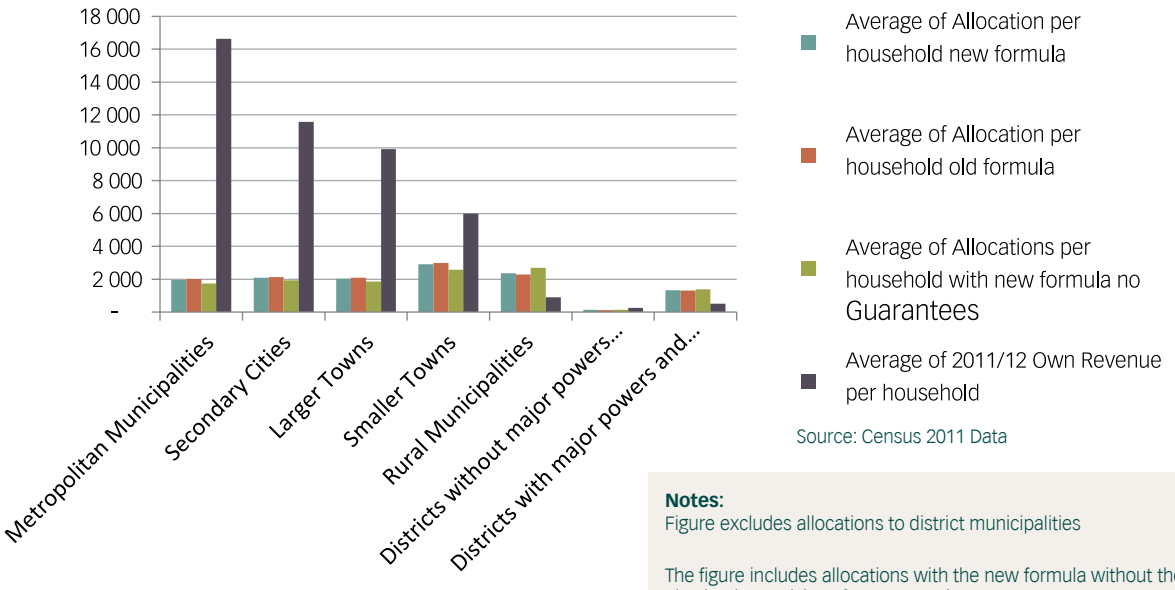
2. Furthermore in its 2011/12 Submission, the Commission recommended that government find a more effective way of accounting for a municipality's fiscal capacity through the revenue adjustment component to ensure that it does not create incentives for municipalities to not collect their own revenues (as in the previous formula). The Commission notes that the revenue adjustment component in the new LES formula is a fair and objective approach to account for the varying revenue raising capabilities across municipalities. Consequently, the new LES formula accounts better for the ability across the different municipalities in funding their expenditure mandates from own revenue sources. Figure 3 compares the average LES allocation per household with its average own revenue generated per household across the various types of municipalities. As the ability to generate own revenues decrease across the types of municipalities, the allocation per household tends to increase to some extent. This confirms that the formula accounts relatively well for the inability of rural municipalities to generate own revenues.

Figure 10: Comparative assessment of old to new formula (Redistributiveness)



Source: Census 2011 Data

Notes:
Figure excludes allocations to district municipalities

The figure includes allocations with the new formula without the phasing-in provisions for comparative purposes

3. Other prominent features of the new formula emanating from previous Commission recommendations includes the funding of additional services through the formula with the introduction of the community services component (which includes the funding of roads, fire fighting services and storm water drainage), the need to view development as an outcome of municipal service delivery (as opposed to explicitly funding development) and the explicit funding of repairs and maintenance associated with the delivery of basic services.

4.3. The Commission recommends that in the implementation of the new LES formula, the following aspects be monitored:

1. Previously, the Basic Services component provided different levels of funding to a municipality based on the number of households connected and not connected to infrastructure networks. The result was that those municipalities that were unable to roll out infrastructure received relatively lower allocations. The revised formula does not include that distinction such that all poor households qualify for a full basic services subsidy. Consequently, the onus in on the recipient municipality to ensure poor households are afforded adequate social assistances through the provision of Free Basic Services (FBS) (via the LES) and that service delivery backlogs are continuously eradicated through improved infrastructure investment. There is a need to ensure that parallel to increases in LES funding, adequate

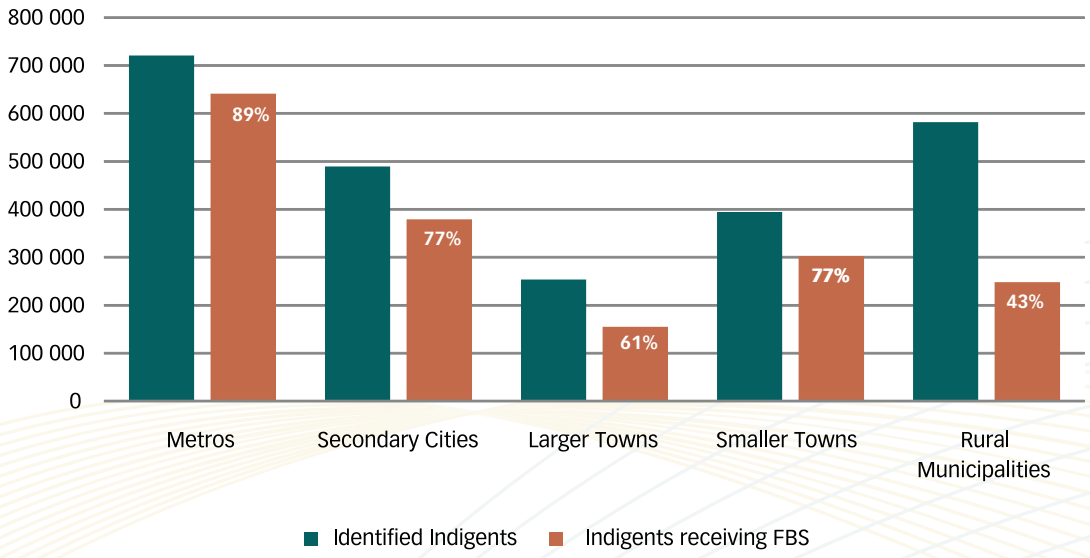
support mechanisms are in place to assist municipalities to absorb these increases and spend funds in accordance with the constitutional mandate attributed to municipalities.

2. In achieving the aim of improved grant outcomes and service delivery, it is important to emphasise that Section 154 of the Constitution requires national and provincial government to support and strengthen the capacity of municipalities to fulfil their constitutional mandates, including the appropriate utilisation of financial resources. Therefore, national and provincial governments are obligated to appropriately monitor the performance of local government and effectively support and build capacity in municipalities where necessary. In addition, the Constitution, through Sections 139 and 216(2), empowers national and provincial government to directly intervene in municipalities where constitutional mandates are not being achieved.

3. Building from the discussion above, emphasise need to be placed around efficiency and effectiveness issues of the recipient LES income. As indicated above, the revised formula will see greater funding being directed to poorer municipalities so as to account for their inability to generate sufficient own revenues. Equally important is the capacity of these municipalities to spend such funds and do so efficiently. Additional funding to municipalities that are unable to spend such resources will contribute to an increase in unproductive and inefficient expenditures. From a financial management perspective, most of the 70 municipalities gaining from the revised formula struggle to get unqualified audit outcomes. For example, in the 2010/11 financial year, 56% of these rural municipalities obtained either a disclaimer, adverse or qualified audit opinion. Only three municipalities received an unqualified audit with no matters of emphasis. Effectively, this places over 20% of LES allocations at risk for potential mismanagement and inefficient spending. More telling is the performance of these municipalities relative to the delivery of FBS to the poor within their borders. This aspect is important given that municipalities have a constitutional mandate to deliver basic services and the LES allocation is specifically aimed at funding the delivery of these services. Figure 4 indicates the delivery of FBS relative to the indigent households indentified by the municipality. It is concerning that the delivery of FBS is not provided to all households that qualify for such services across all types of municipalities, including the metros. Of greater concern are rural municipalities that only provide FBS to 43% of the households that qualify for such services.

Figure 11: FBS coverage against indigent registers 2010

Notes:
Free Basic Services are measured by the total number of indigents receiving at least one of the four basic services free (for illustrative purposes only)



Source: 2010 Non-financial Census of Municipalities (Statistics South Africa)

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4.4. Given the above discussion and the fact that as a result of the revised LES some municipalities will experience increases/decreases in their respective allocations, the Commission supports the proposed 5-year phasing-in approach as a measure to protect municipalities from large shocks to their allocations. Specifically, this timeframe should allow poorly resourced municipalities to ensure that there is a concomitant increase in their capacity to absorb additional funds.

4.5. The review of the LES formula should be seen as the first step in a greater urgent review of the general LGFF. The Commission supports Government's efforts in addressing this concern by undertaking a comprehensive review of the local government functional and fiscal framework. In this regard, the Commission would like to extend its experience and findings from its public hearings process on the review of the LGFF to assist in this process. It is important that the LES, conditional grants and own revenue sources of local government are well aligned to ensure proper funding and improved outcomes for municipalities. Furthermore, the Commission will continue to undertake research to improve on certain aspects of the formula. This includes research to improve the costing methodology proposed in the new LES formula, particularly in as far as this relates to the Basic Services component.

Local Government Conditional Grants

4.6. The local government sphere will receive four new grants, namely the Municipal Water Infrastructure Grant, Public Transport Network Operations Grant, Integrated Cities Development Grant and the 2014 African Nations' Championships Host Cities Operating Grant. The 2014 African Nations' Championships Host Cities Operating Grant is a once off grant that will assist host cities during the tournament that is scheduled to follow the Africa Cup of Nations. The Rural Households' Infrastructure Grant (RHIG) will become a direct grant having previously been an indirect grant implemented by the National Department of Human Settlements (DHS). Administration of the grant will, however, continue to rest with the DHS.

4.7. Over R2.3 billion has been reduced from Municipal Infrastructure Grant (MIG) over the MTEF towards the new Municipal Water Infrastructure Grant administered by the Department of Water Affairs. The Commissions supports efforts to align funding with functional assignment areas to improve accountability. However, Government should guard against the potential to create unintended overlaps across different grants with similar purpose that can arise. This has potential to undermine the original intentions of MIG to deal holistically with municipal infrastructure through a single grant. With respect to conversion of RHIG into a direct grant to municipalities, the Commission holds the view that interventions on the grant should be accompanied by improvement in collection of non financial performance information and spending capacity. The Commission welcomes government decision to reverse the 2012 division of revenue bill proposal to integrate RHIG into MIG. Further reforms on the grant should address reasons underlying the persistent sub-optimal performance of the grant. The grant receive R338 million over the 2013 MTEF.

4.8. The Commission welcomes Government plans to review the local government conditional grant system extensively. The need for this review is pivotal in improving the spending and outcomes of local government conditional grants. Proliferation of grants and piecemeal fixing of existing grants in an attempt to solve more fundamental problems in the system remains a concern in the local government fiscal framework. Figure 1 discussed earlier illustrates the point of grant proliferation. Over the period, the introduction of local government conditional grants into the system has been inconsistent, with the total number of local government conditional grants increasing sharply from 2010. Increasing the number of conditional grants to local government increases the administrative burden on a sphere characterised by large capacity constraints and may not be the desirable approach to ensuring the achievement of policy priorities and outcomes. In 2002, the Commission recommended a consolidated and coherent local government conditional grant system that would support improved outcomes of conditional grant spending while simultaneously limiting the administrative and monitoring burden placed on municipalities and national government departments respectively. The Commission reiterates this recommendation as a way of improving the monitoring and outcomes of conditional grants in local government.

4.9. The Commission welcomes the more effective monitoring of conditional grant allocations to local government. Direct interventions such as withholding transfers to ensure conditional grant expenditure can be useful especially where underlying problems resulting in under spending of grants have been addressed. Thus, capacity building initiatives must be made sensitive to the core problems contributing to the inability of municipalities to execute expenditure decisions in order to solve the perennial issue of conditional grant under spending.

Other Issues

4.10. The Commission notes efforts from Government to improve expenditure on rehabilitation and refurbishment, which are capital expenditure items, in order to protect existing municipal infrastructure networks. Such additions to the existing local government conditional grant framework will assist in ensuring funds are earmarked for such expenditures.

4.11. The Commission reiterates its concerns over poor expenditure on repairs and maintenance of existing municipal infrastructure on the operating budgets of municipalities. Current research being undertaken by the Commission indicates that municipalities underfund and under spend on repairs and maintenance. In addition, the current practice of spending on maintenance being benchmarked against percentage of operating budget allocated in respect of maintenance is flawed. Instead maintenance needs should be a function of the nature, extent, service commitments and compliance requirements related to a particular asset. A poorly maintained infrastructure network threatens the sustainability of quality service delivery and is likely to lead to greater financial and social costs in the long term. Whilst there is a mounting maintenance and renewals backlog and the condition of existing municipal infrastructure is deteriorating, additional assets are continually constructed. This effectively increases asset maintenance and renewal funding needs, often without a commensurate increase in municipal revenue. The challenge is that infrastructure and other community facilities are created through the grant system that create an operating and maintenance burden, as well as a future renewals burden, without a commensurate increase in operating revenue. It remains to be seen whether the inclusion of additional resources aimed exclusively at funding repairs and maintenance through the Basic Services component in the revised LES formula, will improve the situation. The Commission however is of the view that at this time no significant gains can be derived from increasing funding for asset care provisions when measures as the planning instruments through which to determine and allocate funding are flawed.

5. Government Responses To Commission Recommendations

5.1. The Commission tabled its Submission for the Division of Revenue 2013/14 to Parliament in May 2012. As required by the IGFR Act, Government published its response to the recommendations made by the Commission for the 2013/14 Division of Revenue when the Minister of Finance tabled the Division of Revenue Bill with the annual budget in the National Assembly. The recommendations by the Commission where structured into 10 chapters and set out plans to fundamentally reform three areas, namely (a) supporting inclusive growth – jobs, knowledge and regional development; (b) climate change and environmental sustainability – opportunities and risks for inclusive growth and innovation; and (c) institutional development for inclusive growth and innovation. In this year's explanatory memorandum, Government divided its response to Commission recommendations into three categories as follows: (a) Recommendations that apply directly to the division of revenue, (b) Recommendations that indirectly apply to issues related to the division of revenue and (c) Recommendations that do not relate to the division of revenue Government responded to the recommendations that apply directly to the division of revenue and to those on issues indirectly related to the division of revenue.

5.2. Government has agreed and accepted all of the recommendations made by the Commission. The Commission welcomes the Government's responses. The Commission is of the view Government has provided comprehensive responses to the recommendations and it will be up to oversight organs of state to ensure that the recommendations where they have been accepted are actually implemented by the various departments. The Commission appreciates that for certain recommendations there is an inevitable time lag between when they are accepted and when they are fully incorporated into government operations.

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6. Concluding Remarks

6.1. This Submission has provided commentaries on the 2013 Division of Revenue Bill. Government's plans to intensify efforts to carry out expenditure reviews aimed at increasing efficiency of spending and combating waste should be supported.

6.2. The recommendations by the Commission tabled in May 2012 set out plans to fundamentally reform three areas, namely (a) supporting inclusive growth – jobs, knowledge and regional development; (b) climate change and environmental sustainability – opportunities and risks for inclusive growth and innovation; and (c) institutional development for inclusive growth and innovation. In this year's explanatory memorandum. Government has agreed with the recommendations made by the Commission in this category. The Commission welcomes the Government's responses and looks forward to detailed proposals of institutional arrangements or legislation required to implement the recommendations.

6.3. Government is proposing far reaching reforms to the local government equitable share formula. The Commission endorses the proposed changes and has actively advised and participated in the technical review of the formula. The reform process was clearly constrained by the absence of data about the delivery of public service at the local government level and more work should continue in the coming year estimating the costs of delivering basic municipal services.

6.4. Although the new LES formula distributes additional resources to poorer rural municipalities, the evidence above suggests that the benefit of such funds to poor households may not be realised given the weak institutional and governance structures inherent in such municipalities. National and provincial governments have a role to play in ensuring that the outcomes of these funds are achieved by providing the necessary capacity support and proper monitoring of these poorly performing municipalities. In this regard, the Constitution, the establishment of the Municipal Infrastructure Support Agency (MISA) and other initiatives, such as the Local Government Turnaround Strategy, provide a comprehensive set of existing mechanisms to achieve these aims. Furthermore and where necessary, national and provincial governments can utilise greater punitive powers to intervene appropriately to ensure that the desired outcomes of grants (discretionary or non discretionary) improve. Thus, there is a structured set of mechanisms available to national and provincial government to ensure grant outcomes and effective service delivery occurs in places with weak municipal governments. These mechanisms need to be effectively utilised.

The Commission welcomes proposals to consolidate the number of provincial conditional grants and efforts to remedy the shortcomings of the old grant configuration by allowing for a two year lead time in planning for grants. Having said that, moves towards incentivising conditional grants require further work and interrogation by the Commission before it gives recommendations on this matter in the forthcoming Submission for the 2014/15 division of revenue. In similar vein, Government proposals to review the current local government conditional grant system in totality is welcome. The Commission will use such forums to contribute to this review.

2013 Submission on Fiscal Framework and Revenue Proposals

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

1.1 A recent achievement by the South African Government has been the development and adoption of a national development plan as the key driver for policy-making The National Development Plan (NDP) served as the starting point for the 2013 National Budget. Its principal objective is to eliminate poverty and reduce inequality by 2030.

1.2 The NDP identifies two clear, time-bound targets for increasing sustainable economic development in South Africa:

(a) To attain a growth rate of gross domestic product (GDP) of 5.4% per annum until 2030

(b) To eliminate poverty defined using the income based measure by 2030

1.3 To achieve increased sustainable economic development, South Africa needs to drive up its performance in relation to two key components: productivity and participation. This growth should also satisfy three desired characteristics – solidarity, cohesion and sustainability. Government has set targets and strategies relating to all these areas in the NDP.

1.4 The motivation for fiscal reforms contained in the 2013 Budget begins to create a fiscal framework which will give the country greater ability to increase sustainable economic development. This Submission presents an assessment on the likelihood of the fiscal framework and revenue proposals contained in the 2013 budget to meet Government objectives. The 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 (FFC) (hereafter the Commission) when considering Money Bills. It is also made in terms of the FFC Act (1997) as amended which requires the Commission to respond to any requests for recommendations by any organ of state on any financial and fiscal matter.

2 The 2013 Fiscal Framework: Macroeconomic Outlook and Sustainable Economic Growth

2.1 As noted in the Commission's response to the 2012 Medium Term Budget Policy Statement (MTBPS), the South African economy remains vulnerable to slow global recovery (slowdown in China's economic growth and decreased demand for South African exports by the European Union which is South Africa's largest trading partner) as well as to domestic factors such as the recent labour unrest. Economic growth (in real terms) has decreased from 2.8% in 2010 to 2.5% in 2012. The 2.5% growth recorded for 2012 is disappointing because it is much less than the upwardly revised 3.5% growth rate achieved in 2011. However, the economy still managed to register moderately positive growth for the third year in a row following the 2009 recession. The subdued growth rate perpetuates the trajectory of sub optimal growth. This implies that even though the economy may be performing reasonably and is certainly not collapsing, it is also not performing well enough to make a meaningful dent in the country's high unemployment rate. Furthermore, even though the economy is expected to slowly recover in the medium term, the economic growth forecasts fall below the 5.4% economic growth cited in the NDP document which is necessary to achieve job-creation and poverty reduction goals of the Government.

2.2 Government tabled a total national budget of R1.2-trillion to be spent between the three spheres for 2013 financial year, growing to R1.3-trillion in 2015/2016. A significant portion of this allocation is spent at national (47.6%) and provincial level (43.5%), while the local government sphere receives 8.9% of this allocation.

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2.3 Government believes that the best fiscal structure to achieve this is one that will lead to the creation of a fiscal policy making environment which is best placed to meet the challenges of ensuring:

(a) **Long-term competitiveness** – maximising opportunities to raise productivity, competitiveness and economic growth over the long-term; and

(b) **Responsiveness** – maximising opportunities to respond swiftly and effectively to changes in circumstances.

2.4 A central question relates to the likelihood of the fiscal framework and revenue proposals contained in the 2013 budget to meet these twin objectives. To address this question, the Commission is guided by two key criteria against which the options outlined in the budget are assessed. The two criteria are:

(a) **Enhanced Efficiency** – A fiscal framework that encourages economic efficiency is vital to ensuring that South Africa becomes a richer society and economy. Changes to the fiscal framework should create opportunities for raising efficiency and enhancing South Africa's competitive advantage.

(b) **Sustainability** – Changes to the fiscal framework should show the cost effectiveness of the funding mechanism and at the same time ensure affordability of tax and spending policies both in the short and long-term.

2.5 Enhanced Efficiency

(a) Public policies have an important role to play in boosting sustainable economic growth. Investments in capital, both physical and human, and research and development are essential drivers of South African productivity, competitiveness and sustainable economic growth.

(b) The establishment of clusters and key sectors is also vital to sustainable economic growth. The Nobel laureate Paul Krugman, in his theory of New Economic Geography[29], has stressed the importance of the growth and development of clusters and key sectors in developing networks, enhancing economies of scale, creating spillovers and ultimately boosting economic growth. Government policy has an important role to play in ensuring that regions and countries are well placed to take advantage of such opportunities.

(c) Under the **current framework**, Government has in place most of the key elements of supply-side economic policy, including education, skills and infrastructure, which are believed to be important determinants of competitiveness and long-term economic growth. In addition to education and infrastructure policies, other important economic policy levers with a bearing on economic growth rate include: (a) energy policy, (b) competition policy, (c) trade policy, (d) economic regulation of utilities (e.g. telecommunications, broadcasting and energy), (e) financial services and regulation of financial markets, (f) consumer protection and product and trading standards; and (g) policies affecting the labour market, including employment law and immigration. These are significant responsibilities which have a considerable bearing on the performance and the growth potential of the economy. Decisions in these areas by Government can also have important consequences for fiscal policy, at both a national level and in provinces and municipalities. For example, decisions on labour market policy, and particularly on immigration, can have an important influence on demand for public services and the size of the tax base. The challenge across the board is in the implementation of the policies in order to achieve the relevant objectives and address priorities of government.

[29] Krugman P., 1991, "Increasing Returns and Economic Geography", Journal of Political Economy, Vol. 99, pp. 483 – 499.

(d) Table 1 reports changes to the 2013/14 financial year, comparing MTBPS 2012 and Budget 2013. Welcome developments include significant upward revisions of science and technology by 12.4%. South Africa needs to improve the pipeline for developing infrastructure skills. Despite limited fiscal space, it is noteworthy that annual average growth of health and social protection and employment and social security all show increases. Expenditure in this area, especially for social security, provides an important buffer during cyclical downturns.

Table 7: Expenditure Component Revisions (Functional Classification)

2013/14 Figures			
R'billions	**2012 MTBPS**	**Budget 2013**	**% Change**
General public services	56.0	56.7	1.3%
Defence, public order and safety and state security	151.7	153.7	1.3%
Transport, energy and communication	91.5	88.6	-3.2%
Economic services	48.1	48.0	-0.3%
Local government, housing and community amenities	132.5	132.1	-0.3%
Health and social protection	267.8	268.5	0.3%
Education and related functions	234.0	232.5	-0.6%
Employment and social security	48.6	49.2	1.2%
Science and technology	14.5	16.3	12.4%

Source: MTBPS (2012); Budget Review (2013); Commission Calculations

(e) The following expenditure areas were revised downwards: economic infrastructure, economic services, local government, housing and community amenities and education and related functions The Commission notes the significant downward revision of economic infrastructure by 3.3%, a spending area that can have substantial economic benefits. Although this is due to factors such as underspending and reallocation of resources to higher spending areas, this could possibly compromise Government's outcome of raising output and achieving productivity gains.

(f) Overall the Commission supports the main themes in the 2013 Budget on exercising fiscal prudence and actively managing the sustainability of the fiscal framework despite the constrained resource envelope due to worse than expected economic conditions. The Commission is of the view that, given the prevailing economic climate, growth and employment in South Africa can only be achieved through a combination of fiscal consolidation and investment in future growth. In line with the NDP, the Commission supports the proposals to enhance the developmental impact of public spending and fight against corruption. Already a number of policies have been put in place such as the Special Economic Zones, Manufacturing Bonus Scheme and the cushioning of social services. However, while Provincial Governments have significant levers to shape spending programmes, for example, on education and skills, there is a need to enhance their abilities to shape the establishment of clusters and key sectors, levers that are seen as vital to sustainable economic development (a provincial function).

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2.6 Sustainability

(a) **Sustainability** – Changes to the fiscal framework should show the cost effectiveness of the funding mechanism and at the same time ensure sustainability of spending levels both in the short and long-term. There are three critical elements to be considered in relation to sustainability, (i) macroeconomic stability, (ii) budgetary stability; and (iii) affordability. Each of these is discussed in turn.

(b) Macroeconomic stability: The ability to respond flexibly to changing economic needs and circumstances is important in determining the ability of a country to stabilise its economy in the short-term as well as protecting long-term sustainability. This is especially important during periods of economic uncertainty. The ability to respond swiftly and decisively to short-term economic pressures and challenges is vital to minimise negative shocks to growth, jobs and investment, and enable a stronger, faster recovery.

- The origins of the current international economic difficulties lie in the collapse of the market for US sub-prime mortgage debt from mid-2007. On the foot of this, the outlook for the global economy – and for South Africa's main export markets in particular – deteriorated at a very rapid pace. Consequently South Africa experienced its first recession in 19 years in 2009. In line with the Commission's recommendations then, the Government made a commitment to cushion the poor by maintaining the social safety net.

- The worsening in the economic environment has had significant negative consequences for the public finances. General Government deficit of -5.2% of GDP is expected for 2013. This represents deterioration from the small surplus recorded in years up to 2007. While increases in global crisis-related spending have had a negative impact, the large deficits this year and the last are mainly the results of sluggish performance of tax revenues. Fluctuations in the economic cycle can have a significant impact on the fiscal position in any given period. In principle, the structural budget balance – the headline figure adjusted for the impact of the economic cycle – provides a more meaningful benchmark for assessing fiscal developments. In practice, however, there are considerable uncertainties attached to estimates of the structural position, especially in a South African context. Notwithstanding these uncertainties, evidence suggests that Government is committed to countercyclical fiscal policy and the fiscal guidelines, with plans to reprioritise the budget while also maintaining the social net. It is now also generally accepted that without prudent fiscal and macroeconomic policies, the effects of the 2008/09 crisis on the South African economy could have been a lot worse. Hence, Government must be commended for its role in this respect and encouraged to continue the good work.

(c) **Budgetary Stability:** Through the Equitable Share Formulae, Conditional Grants and the setting of three-year spending plans, the **current framework** provides predictability for the decentralised budget. The total appropriated expenditure for a given financial year comprises all government revenues, including revenues generated from taxation and debt incurred. This revenue supports all government expenditure and ultimately informs the division of revenue among the three spheres of government. However, prior to the division of revenue process, funds are "top sliced" from total government revenues to pay for the costs of government debt and to support a contingency reserve (see Figure 1). The contingency reserve aims to protect the country in instances of unforeseen or unavoidable expenditures or to support Government policy decisions that may arise during the financial year. Once these two expenditure items are accounted for, the remaining funds are available for the division of revenue process.

Figure 12: Vertical division of revenue

Source: Commission

- **Deteriorating external economic conditions, exacerbated by internal strife in the labour markets, resulted in a downward revision of core spending by R10.4-billion over the MTEF. Table 2 compares the MTEF estimates in the 2013 Budget with estimates in the 2012 MTBPS. The fiscal framework for the whole of government is revised upwards by R27 billion over the MTEF. In the 2012 MTBPS** average annual real growth in total MTEF allocations was projected to be 2.44%. Growth in the total MTEF allocation is slower in Budget 2013 (2.20%). Government is expected to spend R3.07 trillion over the 2013 MTEF period, with the national sphere making up 47% of total allocations followed by provincial government at 44%. Local allocations remain the lowest, at R277.7 billion, but are expected to grow faster than the other spheres, by 4.3% in real terms per annum over the MTEF period.

Table 8: Medium Term Expenditure Framework Division of Revenue

Division of Revenue	Total 2013/14-2015/16 (R'billions)		Real Average Annual Growth Rate	
	2013 Budget	2012 MTBPS	2013 Budget	2012 MTBPS
National Allocations	1 463.7	1 438.4	2.30%	2.49%
Provincial Allocations	1 330.3	1 343.3	1.90%	1.90%
Equitable Share	1 081.2	1 071.4	1.50%	1.63%
Conditional Grants	249.1	272.0	3.60%	2.99%
Local Allocations	277.7	276.8	4.30%	4.99%
TOTAL	**3 071.7**	**3 058.5**	**2.20%**	**2.44%**

Source: 2012 MTBPS, 2013 Budget, Commission's calculation

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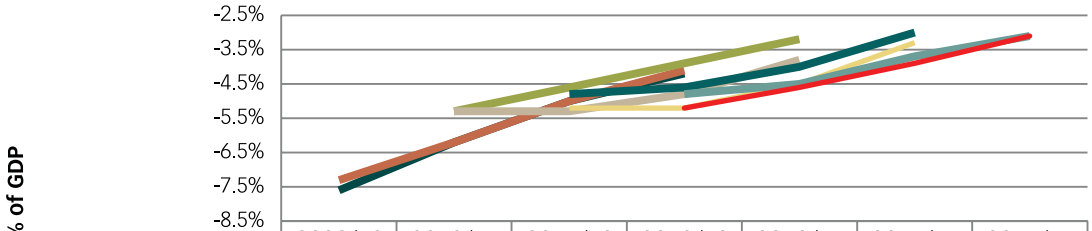
- gainst the backdrop of slower than anticipated economic growth, a subsequent decline in revenue collection and a widening of the deficit, budget stability that characterised South African budgetary stability should no longer be taken for granted. To illustrate this point, prevailing economic conditions have meant that Government's approach to moderated expenditure thus far has not seen a significant improvement in the budget balance. Figure 2 shows the results of a comparison of the budget deficit forecasts from 2010, 2011, 2012 and 2013 MTBPS reports and budgets.

- Compared to the 2010 Budget (light orange line) which indicated a fast pace to closing the budget deficit, Budgets 2011 (black line) and 2012 (blue line) indicated gradual declines in the first year of the MTEF followed by a more aggressive approach in the outer years of the medium term. Budget 2013 (dark orange line), indicates a reversal of the 2011 and 2012 trends. From an aggressive approach in the first two years of the MTEF, we see a slow down by year 3. In its response to the 2012 MTBPS, the Commission noted that the slowing down of fiscal consolidation since 2009 meant that South Africa would be unlikely to achieve -3% budget balance as a percentage of GDP over the medium term. Whether the planned moderation of growth in government expenditure as outlined in Budget 2013 will counteract the lower than expected revenue collection to result in the medium-term budget balance breaching the 3% to GDP level by 2015/16 remains to be seen.

Figure 13: Medium-Term Budget Deficit Projections



	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
2009 MTBPS	-7.6%	-6.2%	-5.0%	-4.2%			
2010 Budget	-7.3%	-6.2%	-5.0%	-4.1%			
2010 MTBPS		-5.3%	-4.6%	-3.9%	-3.2%		
2011 Budget		-5.3%	-5.3%	-4.8%	-3.8%		
2011 MTBPS			-5.2%	-5.2%	-4.5%	-3.3%	
2012 Budget			-4.8%	-4.6%	-4.0%	-3.0%	
2012 MTBPS				-4.8%	-4.5%	-3.7%	-3.1%
2013 Budget				-5.2%	-4.6%	-3.9%	-3.1%

Source: MTBPS (2009, 2010, 2011, 2012); Budget Review (2010, 2011, 2012, 2013).

- A critical pillar of the NDP is development of a society with zero tolerance for corruption. Corruption can prevent the equitable allocation of goods and services amongst spheres of government and eventually citizens. In 2012 Budget, a number of measures were put in place to improve financial management and to root out corruption in the public sector - these included cooperation with other bodies that deal with corruption, supply-chain management measures, capacity building programme for public sector financial management, strengthening of existing controls and increased allocations to the Office of Public Protector. Ensuring that moderated expenditure does not negatively affect service delivery will be crucial. Also, there are a number of bodies that deal with corruption in South Africa and their effectiveness in the fight against corruption can be increased greatly not only through cooperation and through increased resources that are available to them, but also by holding those guilty of corruption accountable by following through with the punishment prescribed by the laws against corruption (Municipal Finance Management Act, Public Finance Management Act

(PFMA), Protected Disclosures Act, Public Service Act, Prevention and Combating of Corrupt Activities Act, etc.). The Commission is working on some of these issues in collaboration with the Public Service Commission. The two Commissions are due to conclude a Memorandum of Understanding in April 2013 that will be used to steer this work

- In the interest of budgetary stability, the Commission believes that South Africa should continue on the path of gradual fiscal consolidation. Decelerating global economic growth presents substantial uncertainties and downside risks to the South African economy. This further indicates the need to rebuild fiscal buffers, which helped to moderate the effects of the 2008/09 recession and provided Government with the necessary fiscal space to act in a countercyclical manner. The Commission also notes that the demands on the South African budget are already significant (for example, spending on the public sector wage bill and on the social wage) and in some instances are unpredictable (for example, financial support to state-owned enterprises). Therefore, achieving a growth-friendly fiscal consolidation will involve some difficult choices in the future. As noted in the Commission's past recommendations, a successful fiscal consolidation requires deciding which components of the budget need to be consolidated and the pace at which to achieve fiscal consolidation.

(d) **Affordability:** Although South Africa has put in substantial effort aimed towards reducing poverty and inequality since 1994, there are many studies that show that inequality has risen while poverty has fallen marginally since 2000. Disappointment with upward trends in inequality amidst positive economic growth, heightened especially by the 2009 global financial crisis have all led to renewed interest in the relationship between macro (growth) and micro (poverty and distribution) issues. Increasingly Government economic programs and policies are, with stronger emphasis than before, aiming at the dual objective of accelerating growth and fighting poverty and unequal access to opportunities. Ambitious social reforms are being proposed to tackle poverty, growth and inequality problems. Big ticket project items are in Job Creation (including Manufacturing Competitiveness Enhancement Programme, the Jobs Fund, a Youth Subsidy, the Community Works and Expanded Public Works Programmes and the investment infrastructure programme (including Strategic Integrated Projects (SIPs)), Education (increase in funding to cover wage settlement costs but also to improve the delivery of school infrastructure and quality of education for learners from poor backgrounds), Health (health infrastructure and hospital revitalisation, National Health Insurance (NHI) and nursing colleges and schools) and Social development (strengthen selected child welfare programmes, improve the South African Social Security Agency's infrastructure and systems, employ additional social workers and funding non-profit organisations (NPOs)). The NHI promises to be the largest reform undertaken in the health sector since the end of apartheid. The Commission is still waiting for details on the financing model that government is working on.

- Any re-designed fiscal framework needs to be affordable. The relative fiscal strength of a country raises important considerations as to the best design of policy making and fiscal framework. On the one hand, increases in government expenditure can benefit the economy by affecting the level of income and its distribution. This can influence people's wages and returns to capital thereby affecting saving and investment, thus potentially boosting economic growth. However, increased spending, ceteris paribus, will translate into a greater debt, which might not be sustainable in the long run. Indeed, if the government increases its spending, it might need to either reduce them in the future or increase taxes in order to get back to its original debt-to-GDP ratio. Long-term economic development cannot be achieved on a sustainable basis without taking this into account.

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- The Commission fully endorses Government's ongoing efforts in developing a long-term fiscal report that assesses the sustainability of spending options in light of demographic and economic projections[30]. Analysis of trends over the next 15-25 years shows that current fiscal policy mix is sustainable, though vulnerable to shrinking fiscal space. Resource pressures on basic education sector and social grants on the fiscus are expected to decline over the next decade. These insights are corroborated by recent simulations by the Commission that focused on the intertemporal impact of increased current and investment spending[31]. Results show that an expansive fiscal policy would have short run positive impact on GDP but would translate into a greater debt to GDP ratio. Financing increased spending through taxation, direct or indirect, would mitigate this impact but would also have negative short run impact on macroeconomic variables. Increased investment spending would improve long run GDP, under any financing scheme, and would decrease debt-to-GDP ratio as well as deficit-to-GDP ratio. These conclusions are driven by the positive impact infrastructure has on total factor productivity. Without this feature, increased public investment would have almost no impact on the South African economy.

- It is important to point out that in these exercises, macro policies are calibrated to accelerate growth, enhance human development, reduce poverty, inequality and stabilize the economy using the state of the art technologies. Despite this sophistication, we still do not know many things. Importantly, much of the macroeconomic policy calibration and analysis assumes that policies are gender neutral – they are actually gender blind. Apart from the basic principle of promoting equality among citizens, gender equality can benefit the economy through efficiency gains. From the efficiency consideration, what is important is the social rate of return of investment in women, and in cases, this can be greater than the corresponding rate for men. Another way to look at the issue is through the "Capability Approach". Capabilities earn freedoms. They can also enhance productivity and maximize outputs. In order to show that much more work needs to be done and information needs to be gathered. Ritualistic preparation of gender Budgets will not service the purpose. Much more research has to go into the area of unravelling gender dimension in various macro policies, incidence of tax and benefits; and simply collecting the required volume of information. The effort should begin at the local level.

3. Sovereign Debt Downgrades and Public Debt

3.1 The current economic deficit represents the single biggest strategic risk facing South Africa. This followed a period of sustained economic growth which provided for a more ambitious and expansive fiscal policy not seen for many years. This fiscal downturn means that a prolonged period of consolidation in public expenditure will lead to difficult choices. In trying to balance the competing needs of fiscal sustainability and promoting growth, Budget 2013 has not drastically changed the composition of spending relative to the 2012 MTBPS. Within the confines of lower growth in expenditure, government has reprioritised resources so as to ensure that growth friendly expenditure despite being somewhat lower[32], is maintained. Moderate increases are planned with respect to the public sector wage bill (growth is projected at a real annual average rate of 1.3%). Given the widening of the deficit, there is a reversal of the 2012 MTEF trend of moderate decreases in state debt costs. This item becomes the fastest growing expenditure component over the 2013 MTEF period. There are two critical challenges that arise from this in relation to sustainability, (i) sovereign debt downgrades; and (iii) public debt stabilization. Each of these is discussed in turn.

[30] It should be noted that the Government has already published some fiscal guidelines (countercyclicality, debt sustainability and intergenerational equity) as well as agreed with the Commission that, given the uncertainty of economic projections, a low, medium and a high-economic growth scenario should be reported.

[31] This is based on work reported in Mabugu, R., Robichaud, V., Maisonnave, H., and Chitiga, M., (2013) "Impact of Fiscal Policy in an Intertemporal CGE Model for South Africa", Economic Modelling, 31: 775-782, Elsevier B.V. Publishers.

[32] Investment in infrastructure declines from R844.5 billion over the 2012 MTEF to R827.1 billion over the 2013 MTEF

3.2 Sovereign Debt Downgrades

(a) South Africa's sovereign debt was once again down-graded by Moody's rating agency[33], including debt issued by five metropolitan municipalities as well as Eskom[34]. Sovereign downgrades raise borrowing costs and debt service costs for governments and are also used as an indication of investors' confidence in the ability of governments to repay their debt. The reasons used to justify the recent downgrade ranged from increased levels of indebtedness by South African government to socioeconomic- and political factors (such as labour unrest, sluggish economic growth, lack of competitiveness, high labour costs and political instability). The Commission has noted in its 2012 response to the Fiscal Framework and Revenue Proposals that it does not necessarily agree that sovereign debt downgrades are warranted for South Africa. The Commission believes that there are some key factors that the rating agencies are not assigning enough weight to these, including South Africa's sovereign debt still being in a healthy position, with very little exposure to foreign debt and with average maturity of debt being quite high. Furthermore, the South African government has made a commitment to countercyclical fiscal policy and fiscal guidelines, with plans to reprioritise the budget while also maintaining the social net. There are no indications that government could abandon this fiscal policy stance, and therefore uncertainty is not a medium term policy issue in South Africa. It is now also generally accepted that without prudent fiscal and macroeconomic policies, the effects of the 2008/09 crisis on South African economy could have been a lot worse. Hence, the role of fiscal policy cannot be underestimated when considering sovereign debt issues. However, keeping that being said, greater strides on the issues of composition of expenditure (i.e. investment in infrastructure), eradication of wasteful expenditure and public sector wage bill can greatly increase the credibility of South African fiscal policy, which will bode well for future outlook on sovereign debt. Government therefore needs support from all sectors.

(b) The impact on the economy and how the fiscal policy stance outlined in the 2013 budget is likely to affect future decisions on riskiness of South Africa's sovereign debt. South Africa's placement on a negative outlook by the rating agencies could discourage investors because they anticipate future downgrades. However, a positive development in this regard is that South Africa has joined the Citigroup's World Government Bond Index (WGBI) which is likely to boost investment flows and reduce borrowing costs for South Africa. This, together with continued prudent fiscal policy actions, warrants for a more positive outlook for South African sovereign debt.

(c) It should also be noted that the reputation of rating agencies has been questioned ever since the 2008 crisis. Many believe that the ratings agencies had a very serious role in the crisis due to their overly optimistic ratings prior to 2008 which were quickly downgraded with the advent of the crisis, thus exacerbating the severity of the crisis. Furthermore, there are conflict of interest issues with the rating agencies charging fees to firms and governments whose debt they rate, thus possibly awarding good grades to debt even in there are reasons to doubt the safety of that debt. More recently, the US government is suing Standard & Poor's for an unwarranted debt downgrade, while Moody's and Fitch rating agencies have been excluded from this lawsuit (because they did not downgrade US debt). This illustrates the current skepticism that surrounds rating agencies, with calls to regulate these agencies by tightening accountability mechanisms, as well as monitoring their performance and accuracy of ratings. It must be accepted though that in lending to South Africa, investors will have regard to the state of our economy and public finances as well as the structural issues surrounding the country's labour markets. Consequently, for so long as South Africa relies on debt markets for funding, South Africa must be alert to the

[33] Moody's Investor Services and Standard and Poor downgraded South Africa's sovereign credit rating in 2012. Fitch followed suite in 2013.

[34] Given that South African government guarantees Eskom's debt, sovereign downgrading feeds directly into Eskom's rating. This implies higher costs of financing future expansion projects, which may be financed through higher electricity costs. This is also true in the case of the five metropolitan areas, with Moody's also citing large infrastructure requirements as a reason for the downgrades.

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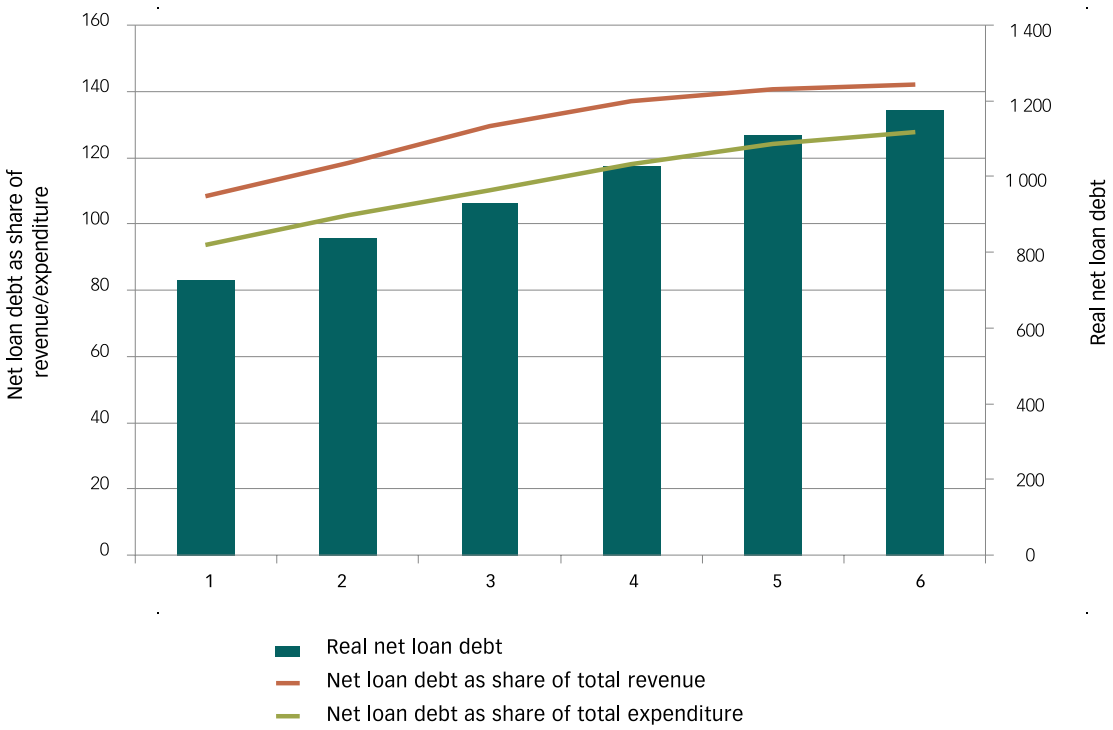
needs of those investors. Greater strides on the issues of composition of expenditure (i.e. investment in infrastructure), eradication of wasteful expenditure and public sector wage bill can greatly increase the credibility of South African fiscal policy, which will bode well for future outlook on sovereign debt and the economy.

3.3 Public Debt

(a) State debt increases over the medium term (absolute terms, percentage of total expenditure, and percentage of total revenue) (see Figure 3). Increasing state debt burden (state debt as percentage of total revenue) implies that expenditure increases are being financed by debt.

Figure 14: State debt: share of total expenditure and revenue

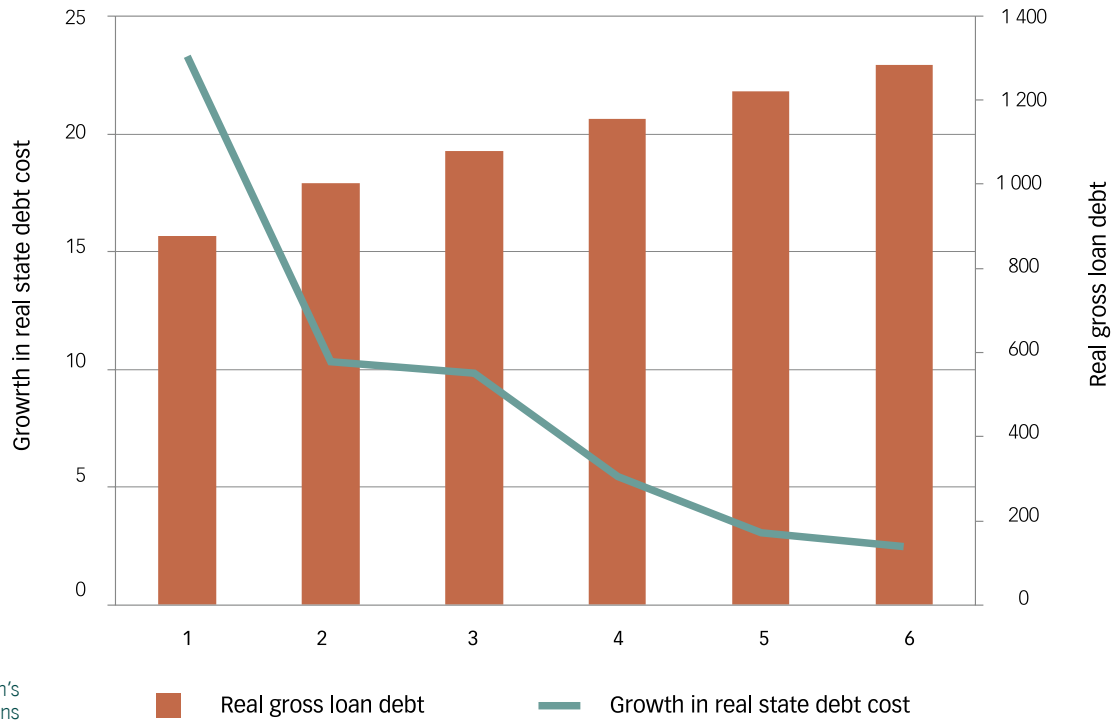


Source: Commission's calculations

(b) As Figure 15 shows, the real gross loan debt is increasing while real state debt costs are decreasing, reflecting Government's debt restructuring efforts through the switch programme[35] that was announced during the 2012 Budget.

[35] Switch programme entails the exchange of near-maturing bonds for longer dated debt in order for the Government to manage redemptions.

Figure 15: Gross loan debt and growth in real state debt cost



Source: Commission's calculations

(c) The Commission noted in its response to the 2012 MTBPS that while the switch programme reduces the current debt burden and limits the consolidation measures that are imposed on South African citizens (which is necessary in order for government to have the necessary resources to stimulate the economy and maintain the social net), sluggish economic growth may put pressure on Government to extend its switching programme. Refinancing near-dated debt with longer term maturity bonds is likely to put pressure on bond yields as investors will likely seek to be compensated for increased risks associated with deteriorating economic conditions and a wide budget deficit. Hence, although South African bonds are currently still over-subscribed, extending the duration of public debt combined with higher yields could result in increased costs for Government in the future. This is further exacerbated by the recent downgrading of South Africa's sovereign credit rating which may also negatively affect the longer term prospects of debt sustainability in South Africa as it is likely to result in higher costs of borrowing due to negative investor perception.

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4. Revenue Estimates and Tax Proposals

4.1 Tax Estimates

(a) Total tax revenue estimates for 2012/13 is R16.3 billion lower than the 2012 Budget estimates and R11.3 billion lower than the 2012 MTBPS estimate. The primary reason for these revised downward estimates is the weaker than expected economic growth. The only tax instruments that are revised upward are VAT, secondary tax on companies, excise duties and taxes on international trade and transactions. The impact of lower economic activity is evident on the core direct taxes of government although most taxes increase in absolute terms in 2012/13 from the 2011/12 outcome, with revised total tax revenues 9.1% higher than the 2011/12 outcome. Table 3 compares the 2011/12 Budget outcomes with the revised 2012 MTBPS and 2013 Budget 2012/13 estimates for selected taxes. Deteriorating economic activity from 2012 to 2013 results in constant downward revisions to major tax revenue instruments and total tax revenues. However, most tax sources increase from 2011/12 outcomes.

Table 9: Revenue Source Revisions and Growth

R'million	2011/12 Estimate	2012 MTBPS Estimate	2013 Budget Revised Estimate	% Change 2011/12 to 2013 Revised Budget Estimate	% Change 2012 MTBPS to 2013 Revised Budget Estimate
Persons and Individuals	250 400	282 000	274 020	9%	-3%
Companies	151 627	166 100	156 350	3%	-6%
Value-added Tax	191 020	212 000	217 000	14%	2%
Secondary Tax on Companies/Dividend	21 965	18 800	21 000	-4%	12%
Specific Excise Duties	25 411	28 500	28 360	12%	0%
Fuel Levy	36 602	41 000	40 500	11%	-1%
Customs Duties	34 198	38 000	37 640	10%	-1%

Source: MTBPS (2012); Budget Review (2013); Commission Calculations

(b) In achieving its goal of fiscal consolidation, government should be commended in striving for fiscal consolidation through the expenditure side and not by raising taxes on the revenue side. Given the current depressed economic conditions, it is important that contractionary fiscal policy in the form of tax increases is not adopted as these would not support growth, particularly in the short term. However, the continued buoyancy of tax revenues at current tax rates remain a concern if economic growth remain at lower than expected levels. Hence the call for a major tax reform during the course of the year by Government is welcome.

4.2 Proposed Tax Structure

(a) The 2013 Budget proposes income tax relief to individuals to the amount of R7 billion. This also includes increases to the medical tax credits. Income tax relief, particularly to low income earners, should be commended given the tight fiscal environment.

(b) Relief is also offered to small business and social-impact businesses by increasing the turnover threshold from R14 million to R20 million. The Commission supports such initiatives to promote the establishments of small and socially oriented businesses as a way of supporting greater economic growth and indirect social assistance to communities.

(c) Tax breaks to small business supports Government's efforts to promote employment. The Commission also notes Government's efforts to support youth employment through employment tax incentives.

(d) In terms of indirect taxes, Government is proposing a comprehensive Carbon tax to mitigate the impacts of climate change and encourage low pollution and energy efficient behavioural change to come into effect in 2015/16. The consideration of phasing-out the electricity levy is also a welcomed development given the general price inelasticity of electricity demand in South Africa. The intent of reducing carbon emissions and promoting the use of renewable energy sources could be better achieved through a comprehensive Carbon tax system. It will be important for the revenues from this source to be ring fenced and earmarked for a worthy cause such as youth unemployment or poverty reduction.

(e) The General Fuel Levy increases by 22.5 cents per litre. A portion (approximately 23%) of the General Fuel Levy is shared with metropolitan municipalities. The current state of this sharing arrangement is of huge concern to the Commission in terms of its implementation and sustainability. The allocation mechanism and agreed to principles underpinning the distribution of this portion of the General Fuel Levy to metros are changing every year based on metros effectively "negotiating" to protect their allocations. Whereas in 2009 it was agreed that fuel sales will be the basis for allocations and such allocations will be accepted (be it increasing or decreasing), these principles have largely been abandoned subsequently. In addition, given weaker economic activity, revenue from the General Fuel Levy is not expected to be as buoyant as before. Therefore, the Commission recommends a review of this revenue sharing arrangement.

(f) The Commission welcomes Government's efforts to broaden the tax base of VAT. This includes the proposal of having suppliers of digital products to register as VAT vendors and reviewing VAT implication for financial services. As this tax is a regressive tax, increasing the VAT rate in the current environment would not support the principles of equity and protecting the poor within the tax structure. Consequently, increasing the tax base of this tax instrument can ensure increased revenues without direct negative impacts on equity. These developments are in line with current Commission research exploring methods to increase the tax base to support fiscal consolidation.

5. How Can South Africa's Fiscal Framework Be Improved?

5.1 Long-Term Fiscal Reporting

(a) In 2010 and 2011, the Commission proposed the following:

i. A "multi-pronged" strategy to take long-term fiscal concerns into account in the short- to medium-term planning. The tenets of this include a budget process and framework that recognises more clearly the long-term fiscal risks and builds on existing work, strengthened analytic approaches and a blend of aggregate fiscal rules.

ii. The political economy challenge of dealing with long-term fiscal policy issues requires provocation of public debate on long-term fiscal challenges – implied intergenerational tradeoffs, degree of risk aversion, etc.

iii. Pertaining to fairness, Government should be required to publish analysis of the distributional impact of new policies. Requiring such analysis as a rule on all new policy would be welcome, as would a requirement to publish assessments of the inter-generational or long-term impact of policies whose effects vary over time and/or generations.

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(b) The Commission fully endorses Government's ongoing efforts in developing a long-term fiscal report that assesses the sustainability of spending options in light of demographic and economic projections and looks forward to publication of the report during the course of the year. The Commission recommends that Government further enhance long term reporting by including a gender dimension. Much more work needs to be done and information needs to be gathered in that respect.

5.2 Towards Consolidated Fiscal Reporting

(a) The national fiscal framework has evolved over time to capture various components of national and to larger extent of provincial government. While local government is also an important pillar of this framework a significant proportion of its contribution to public expenditure, particularly on infrastructure, from own revenue is absent in the national fiscal framework.

(b) For completeness future fiscal framework should attempt to integrate consolidated local government budget

5.3 Ndp and Budget Process Integration

(a) Government has made commendable efforts to integrate the NDP and the 2013 Budget process. The Commission seeks to contribute to on-going efforts towards the implementation of this integration.

(b) Within the context of this Submission, an important imperative is that South Africa already has multiple planning functions, instruments and procedures that it has developed which are well integrated with the current budget process. These planning functions, instruments and other processes of policy analysis and review that are integrated with MTEF, program budgets, and performance evaluations. The MTEF already has significant practical influence on resource allocation. There is therefore a strong case for refocusing and streamlining the new NDP planning process on the evaluation of high-level strategic issues, with a medium- to long-term time horizon, and monitoring progress in achieving the NDP and other priorities such as the millennium development goals (MDGs). At the same time, the MTEF could be further enhanced as the core instrument of medium-term policy-making while the NDP becomes the core instrument referred to in setting priorities for economic development and resource allocation across all the spheres of Government.

(c) It is important that an effective mechanism for coordinating the budget process and the annual, medium term and long term planning processes across spheres of governments and sectors continue to be developed. The MTEF can create a useful bridge between planning and budgeting, but it needs to evolve from simple macro-fiscal framework into comprehensive processes that, in effect, are driven and give effect to the NDP. The flexibility of the MTEF makes it potentially most effective than traditional sectoral plans in giving effect to this.

5.4 Tax Reform (And Debt Reform)

(a) Government should be commended in striving for fiscal consolidation through the expenditure side and not by raising taxes on the revenue side. Given the current depressed economic conditions, it is important that contractionary fiscal policy in the form of tax increases is not adopted as these would not support growth in a recessionary environment, particularly in the short term. However, the continued buoyancy of tax revenues at current tax rates remains a concern if economic growth remains at lower than expected levels.

(b) The Commission notes and welcomes the announcement by Government of its intention to evaluate the current tax system in terms of its ability to support economic growth and long term policy objectives later in the year. This measured approach is especially admirable given the pressing macroeconomic conditions and revenue shortfalls that would have made tax hikes an obvious choice.

(c) The Commission will engage in this process in line with the Commission's mandate. At this stage the Commission recommends that Government widen the evaluation to also include other important non tax revenue sources particularly ascertaining the optimal level of national debt to enhance further our fiscal frameworks.

6. Conclusion

6.1 This Submission has explored the options for reform and reviewed them against a number of key criteria to see how effective each option would be in achieving the aim of increasing sustainable economic growth and enable South Africa as a whole to realise its full potential as outlined in the National Development Plan. It has outlined the case for improving the current fiscal arrangements and the options for reform. It has made recommendations/suggestions on how South Africa can craft the fiscal framework and revenue proposals to ensure they can enhance the country's long-term competitiveness and ability to respond swiftly and decisively to short-term economic pressures.

6.2 The Commission is of the view that:

(a) A credible commitment to fiscal consolidation (within the framework of fiscal guidelines) is necessary to ease the frequency of sovereign debt downgrades as Government demonstrates its ability to control spending pressures.

(b) Government's plans to intensify efforts to carry out expenditure reviews aimed at increasing efficiency of spending and combating waste should be supported. In particular, in-house reviews should be complemented by independent expenditure reviews.

(c) Government's plans in 2013 Budget to intensify efforts to combat waste, inefficiency and corruption particularly the move to establish a Chief Procurement Office in the National Treasury and the alignment of the PFMA with the Public Service Act should be supported.

(d) Plans to evaluate the tax system later in the year should be supported. The evaluation should not just be confined to the issues of tax reform but should also include wider evaluation of all potential sources of Government finance including the optimal level of debt and borrowing policies with a view to putting forward borrowing policies that can enhance South Africa's long-term competitiveness and ability to respond swiftly and decisively to short-term economic pressures.

For completeness, the Government's long term fiscal report should attempt to integrate consolidated gender analysis. There is a growing awareness that gender inequality is inefficient to development. Empirical literature draws attention to these efficiency dimensions of integrating gender perspective into macroeconomic policies.

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Submission on 2013 Appropriations Bill

1. The Context

1.1 The submission is made in terms of Section 4 (4) (2) of the Money Bills Amendment Procedure and Related Matters Act (Act 9 of 2009) which requires Parliamentary Committees to consider any recommendations of the Commission when processing the Appropriations Bill[36]. It is also made in terms of Section 3 of the Financial and Fiscal Commission Act (1997), as amended, which requires the Commission to respond to any requests for recommendations by any organ of state on any financial and fiscal matter.

1.2 When the Financial and Fiscal Commission (the Commission) made its submission to Parliament on the 2013 Division of Revenue Bill and Fiscal Frameworks and Revenue Proposals, it pointed out that a major achievement by the South African Government has been the development and adoption of a national development plan (NDP) as the key driver for policy-making.

1.3 The NDP identifies two clear, time-bound targets for increasing sustainable economic development:

(c) To attain a growth rate of gross domestic product (GDP) of 5.4% per annum until 2030

(d) To eliminate poverty defined using the income based measure by 2030

1.4 The fiscal reforms contained in the 2013 Budget begin to create a fiscal framework which will give the country greater ability to increase sustainable economic development. This submission presents an assessment on certain key interventions to meet objectives relevant for Government's priority areas.

1.5 There are increasingly negative sentiments being expressed both internationally and in South Africa about the standard of South Africa's fiscal governance. Given that the Auditor General's latest Public Finance Management Act (PFMA) Consolidated Report for 2011/12 shows stagnant audit outcomes for provincial departments and persistent deficits in financial management practice and capability, these perceptions may not be entirely unfounded. The critical question is whether the PFMA has failed in what it attempts to do. Based on the prevailing economic environment and the fact that aggregate public finance envelopes will be constrained, it is critical that the root causes identified by the Auditor General be addressed. The Commission believes that the heart of these challenges does not lie in the fiscal domain, but in the political-administration interface, human resource management, organisational systems and capacity. Presently there is a process of tightening of regulations at the local level and also review of regulations to the MFMA. The amendments to the Municipal Systems Act effectively put in place criteria with respect to the competencies that persons holding certain posts must possess and various other regulations relating to conditions of employment of Section 57 managers are well defined and enforced. At present these developments are unique to the local sphere. Similar regulations do not exist at the provincial level where there are definite areas of performance and governance that require improvement.

[36] The Appropriation Bill is a piece of legislation that serves to appropriate money from the National Revenue Fund for the requirements of national government in order to provide for subordinate matters incidental thereto.

2. Macroeconomic And Fiscal Outlook

2.1 The views of macroeconomists towards fiscal policy have undergone substantial change over the last several decades. Prior to the Great Depression (1929-33), the idea of balanced budgets (government should offset deficits incurred during war with surpluses during peacetime) prevailed. Following the Great Depression when it became clear that economies would not self correct in the absence of stimuli, Keynesian ideas characterized by activist fiscal (and monetary) policy seen as a requirement to manage aggregate demand and ensure full employment dominated. Through the 1980s and 1990s, these ideas waned and fiscal policy was largely driven by concerns over macroeconomic imbalances (inflation, balance of payments, deficits and debt). Recently, issues of sustainability have come to the forefront. This is the idea that changes to the fiscal framework should show the cost effectiveness of the funding mechanism and at the same time ensure sustainability of spending levels both in the short and long-term. There are three critical elements to be considered in relation to sustainability: (i) macroeconomic stability, (ii) budgetary stability, and (iii) affordability. The Commission has commented on each of these aspects in its submission on the 2013 Fiscal Frameworks and Revenue Proposals.

2.2 The South African economy remains vulnerable to slow global recovery (slowdown in China's economic growth and decreased demand for South African exports by the European Union which is South Africa's largest trading partner) as well as to domestic factors such as the recent violent labour conflicts. Economic growth (in real terms) has decreased from 2.8% in 2010 to 2.5% in 2012. Against the backdrop of slower than anticipated economic growth, a subsequent decline in revenue collection and a widening of the deficit, Government tabled a total national budget of R1.2-trillion to be spent across the three spheres for 2013 financial year, growing to R1.3-trillion in 2015/2016. A significant portion of this allocation is spent at national (47.6%) and provincial level (43.5%), while the local government sphere receives 8.9% of this allocation. The 2013/14 baseline is revised upwards by R10 billion. This raises the total allocated expenditure for the three spheres to R951 billion. National government receives the largest share of revisions to baseline (R6.2 billion) while provinces and local government receive R3 billion and R800 million respectively. The total 2013/14 baseline revisions are made up of a combination of reprioritized funds and savings amounting to R7.2 billion and new additions amounting to R2.8 billion.

2.3 South African budgetary stability should no longer be taken for granted. To illustrate this point, prevailing economic conditions have meant that Government's approach to moderated expenditure thus far has not seen a significant improvement in the budget balance. Figure 1 shows the results of a comparison of the budget deficit forecasts from 2010, 2011, 2012 and 2013 Medium Term Budget Policy Statement (MTBPS) reports and budgets. Compared to the 2010 Budget (light orange line) which indicated a fast pace to closing the budget deficit, Budgets 2011 (black line) and 2012 (blue line) indicated gradual declines in the first year of the Medium Term Expenditure Framework (MTEF) followed by a more aggressive approach in the outer years of the medium term. Budget 2013 (dark orange line), indicates a reversal of the 2011 and 2012 trends. From an aggressive approach in the first two years of the MTEF, we see a slow down by year 3. In its response to the 2012 MTBPS, the Commission noted that the slowing down of fiscal consolidation since 2009 meant that South Africa would be unlikely to achieve 3% budget deficit as a percentage of GDP over the medium term as previously planned at the beginning of the MTEF. Whether the planned moderation of growth in government expenditure as outlined in Budget 2013 would counteract the lower than expected revenue collection to result in the medium-term budget balance breaching the 3% to GDP level by 2015/16 remains to be seen.

2.4 The problem which has attracted attention about the fiscal situation domestically has not been about its absolute level, but rather its direction. During the previous decade, the policy of Growth Employment and Redistribution (GEAR) had as one of its important tenets, the need to reduce South Africa's government indebtedness by running a tight ship on fiscal discipline. The policy succeeded in the sense that the public debt to GDP ratio fell enormously from close to 50% of GDP at the time of the arrival of democracy in 1994 (following enormous excessive expenditure

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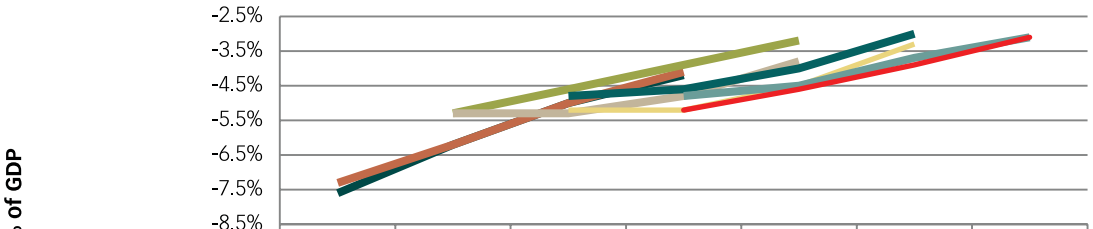
by the National Party to finance its homelands projects down to 22% of GDP by 2007/08). However since then, the ratio has risen quite sharply to close to 40% of GDP. This has raised alarm bells that, should this trend continue, then before too long, South Africa might end up the same way as the advanced economies. Advanced economies have now been obliged to follow fairly severe fiscal austerity in order to rein in their public debts and this is depressing their growth rates. Were South Africa to allow its public debt to rise commensurately, Government would be obliged to cut back on expenditure and raise taxes, which would also have a depressing impact on economic growth.

Figure 16: Medium-Term Budget Deficit Projections



	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
2009 MTBPS	-7.6%	-6.2%	-5.0%	-4.2%			
2010 Budget	-7.3%	-6.2%	-5.0%	-4.1%			
2010 MTBPS		-5.3%	-4.6%	-3.9%	-3.2%		
2011 Budget		-5.3%	-5.3%	-4.8%	-3.8%		
2011 MTBPS			-5.2%	-5.2%	-4.5%	-3.3%	
2012 Budget			-4.8%	-4.6%	-4.0%	-3.0%	
2012 MTBPS				-4.8%	-4.5%	-3.7%	-3.1%
2013 Budget				-5.2%	-4.6%	-3.9%	-3.1%

Source: MTBPS (2009, 2010, 2011, 2012); Budget Review (2010, 2011, 2012, 2013)

2.5 The most obvious manner in which South Africa could improve its fiscal situation is if the economy could grow faster. This would help generate higher growth in tax revenue and in this way, budget deficits could decline a lot faster and public debt begin to reduce accordingly. Indeed, to some extent the National Treasury has incorporated such a scenario into its three-year MTEF. GDP growth is projected to accelerate from a forecast level of 2.7% for this year, to over 3% for 2014 and over 4% for 2015. In this way, the Government has managed to budget for a reduction in the budget deficit as a percent of GDP from 5.2% in 2012/13, to just 3.1% in 2015/16. This enables the public debt to GDP ratio to top out at around 45% in 2016/2017. There are two obvious challenges in this regard. The first is whether the economy will actually accelerate its growth in such a way so as to enable these optimistic projections to be achieved. In this regard, the Government is dependent not only on addressing domestic structural impediments to economic growth, but also on the performance of the international economy, given the high correlation between the growth of South Africa's economy and that of the world. Should the world's leading countries not be able to extricate themselves from the low growth environment of the past year driven by the need to observe fiscal austerity in the face of huge public debt levels, South Africa's own economic growth will suffer. The hoped-for reduction in budget deficits and public debt will then be harder to achieve. Secondly, incorporated into these forecasts is the budgeted assumption that growth in the public sector wage bill, which was 8.3% per annum in the last three years, will decline to just 1.3% per annum over the next three years. In this regard, the Government rests its assumption on the fact that it has a three year public sector wage agreement with public sector unions in place, to grant increases of 1% above the consumer price index (CPI) inflation rate plus a further 0.3% per annum for notch increases.

2.6 The next macroeconomic issue concerns sustainability. Conventional assessments of fiscal sustainability project the implications of current fiscal/ monetary policies for deficits, real rates of interest and growth. A set of policies would be fiscally unsustainable if it would result in government being unable to pay its debts, i.e. if it resulted in insolvency. Fiscal sustainability analysis provides a judgment on whether a particular mix of fiscal/monetary policies could be sustained. From the 2013 Budget, it is important for this discussion to map public expenditure as it is a key channel for fiscal impact on economic growth[37]. Notice that much of the fiscal sustainability discussion focuses on the primary deficit surplus[38] and ignores the composition of expenditure. Even though there is concern for the long term budget constraint, it is confined to the way the deficit and its financing affect the economy. A central question is of course whether it would matter for growth if for the same deficit, a government spent on consumption or investment? It should, but most fiscal policy discussion ignores the key channel for fiscal policy to influence growth, i.e. the effect of the composition of expenditure (and taxation). Not surprisingly, fiscal adjustment has often been achieved in ways that would have undermined long term growth.

2.7 It is difficult to assess the growth consequences of South Africa's fiscal stance. In one respect, if GDP growth does not meet the Government's own forecasts and hence tax revenues fall short of budget, this in itself will cause the fiscal situation to deteriorate, necessitating further fiscal austerity, leading to lower economic growth. On the other hand, a better outcome for GDP growth would make it that much easier to meet the Government's deficit reduction programme. In this regard, to the extent that the deficit reduction programme is premised on reducing growth in the public sector wage bill, this in itself removes one of the pillars driving rapid growth in consumer spending between 2010 and 2012. With the planned substantial reduction in real growth of remuneration of public sector employees, growth in consumer spending is bound to slow, not only because of the planned effective erosion in disposable income of public sector employees, but also because the growth of unsecured lending to the public services is likely to diminish if Government refrains from employing more persons in the service. However, hopes still exist that in terms of the overall GDP growth rate, the slowdown in the growth of consumer spending will be counterbalanced by increased infrastructural investment spending and an improvement in exports and the trade balance on the back of the real depreciation of the Rand over the past year. Accordingly, it is still reasonable to project real economic growth in 2013 of between 2.5% and 3.0% and of slightly more than 3.0% in 2014. As will be elaborated on later, these insights are corroborated for South Africa by recent simulations by the Commission that focused on the intertemporal impact of increased current and investment spending[39].

2.8 Based on this analysis of the macroeconomic aspects of the 2013 Budget, it is clear that a solid understanding of the macroeconomics (and microeconomics) of the budget is essential for good oversight/review of the 2013 Budget. There is a need to engage Governments with a well developed view of how fiscal policy and public spending impact the growth and development process. While the analysis presented represent a credible scenario for the next few years, it is appropriate to outline the risks to the analysis. The majority of risks to the outlook appear to be on the downside. The main identifiable risks include:

- A steeper or more prolonged downturn in South Africa's main trading partners
- The possibility that global financial market problems persist for longer than expected
- Further exchange rate depreciation, particularly against the Euro;
- Further out, there is the possibility that structural unemployment may persist, thus limiting the ability of the economy to achieve growth above trend.

[37] Economic growth refers to an increase in the total amount of output, income and spending in the economy. (Budget Review 2013)

[38] Primary balance refers to the difference between total revenue and non-interest expenditure. When revenue exceeds non-interest expenditure, there is a surplus and vice versa (Budget Revenue, 2013).

[39] This is based on work reported in Mabugu, R., Robichaud, V., Maisonnave, H., and Chitiga, M., (2013) "Impact of Fiscal Policy in an Intertemporal CGE Model for South Africa", Economic Modelling, 31: 775-782, Elsevier B.V. Publishers.

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2.9 The main upside potential stems from the possibility that the various stimulus packages being put in place around the globe have a more rapid and more beneficial impact on world demand than is currently assumed.

3. General Assessment: Giving Effect to Government's Priorities

3.1 The South African Government has adopted four overarching priorities under the banner of the 2013 Division of Revenue Bill. These four priorities are:

- Promoting economic support and development
- Investment in infrastructure
- Job creation; and
- Enhancing local government capacity

3.2 Promoting Economic Support and Development

(d) Under the current framework, Government has in place most of the key elements of supply-side economic policy, including education, skills and infrastructure, which are believed to be important determinants of competitiveness and long-term economic growth. In addition to education and infrastructure policies, other important economic policy levers with a bearing on economic growth rate include: (a) energy policy, (b) competition policy, (c) trade policy, (d) economic regulation of utilities (e.g. telecommunications, broadcasting and energy), (e) financial services and regulation of financial markets, (f) consumer protection and product and trading standards; and (g) policies affecting the labour market, including employment law and immigration. These are significant responsibilities which have a considerable bearing on the performance and the growth potential of the economy. Decisions in these areas by Government can also have important consequences for fiscal policy, at both a national level and in provinces and municipalities. For example, decisions on labour market policy, and particularly on immigration, can have an important influence on demand for public services and the size of the tax base. The challenge across the board is in the implementation of the policies in order to achieve the relevant objectives and address priorities of government.

(e) Table 10 reports changes to the 2013/14 financial year, comparing MTBPS 2012 and Budget 2013. Welcome developments include significant upward revisions of science and technology by 12.4%. South Africa needs to improve the pipeline for developing infrastructure skills. Despite limited fiscal space, it is noteworthy that annual average growth of health and social protection and employment and social security all show increases. Expenditure in this area, especially for social security, provides an important buffer during cyclical downturns.

Table 10: Expenditure Component Revisions (Functional Classification)

2013/14 Figures			
R'billions	**2012 MTBPS**	**Budget 2013**	**% Change**
General public services	56.0	56.7	1.3
Defence, public order and safety and state security	151.7	153.7	1.3
Transport, energy and communication	91.5	88.6	-3.2
Economic services	48.1	48.0	-0.3

Table 10: Expenditure Component Revisions (Functional Classification)

2013/14 Figures			
R'billions	2012 MTBPS	Budget 2013	% Change
Local government, housing and community amenities	132.5	132.1	-0.3
Health and social protection	267.8	268.5	0.3
Education and related functions	234.0	232.5	-0.6
Employment and social security	48.6	49.2	1.2
Science and technology	14.5	16.3	12.4

Source: MTBPS (2012); Budget Review (2013); Commission Calculations.

(f) Overall the Commission is of the view that given the prevailing economic climate, growth and employment in South Africa can only be achieved through a combination of fiscal consolidation and investment in future growth. Already a number of policies have been put in place such as the Special Economic Zones, Manufacturing Bonus Scheme and the cushioning of social services. Were the country to succeed in implementing the NDP (which has been officially endorsed by Government and the African National Congress), there is reason to believe that the country's sustainable growth rate would rise sufficiently in a manner that enables the country's public debt to GDP ratio eventually to decline on the back of enhanced tax revenues. Included in the NDP as strategies to improve sustainable economic growth are an increase in the focus on education and skills development, a less adversarial relationship between business and organised labour, more focus on improving small business development of entrepreneurship, increased infrastructural investment, greater cooperation between public and private sectors, improved capacity of the public sector to implement projects and strategies to reduce corruption.

(g) For Provinces and Local Government, establishment of clusters and key sectors is vital to sustainable economic growth. The Nobel laureate Paul Krugman, in his theory of New Economic Geography[40], has stressed the importance of the growth and development of clusters and key sectors in developing networks, enhancing economies of scale, creating spillovers and ultimately boosting economic growth. Government policy has an important role to play in ensuring that provinces and economic regions are well placed to take advantage of such opportunities.

(h) While Provincial Governments have significant levers to shape spending programmes, for example, on education and skills, there is a need to enhance their abilities to shape the establishment of clusters and key sectors, levers that are seen as vital to sustainable economic development (a provincial function). Ensuring an improvement in the quality of provincial spending is equally important.

[40] Krugman P., 1991, "Increasing Returns and Economic Geography", Journal of Political Economy, Vol. 99, pp. 483 – 499.

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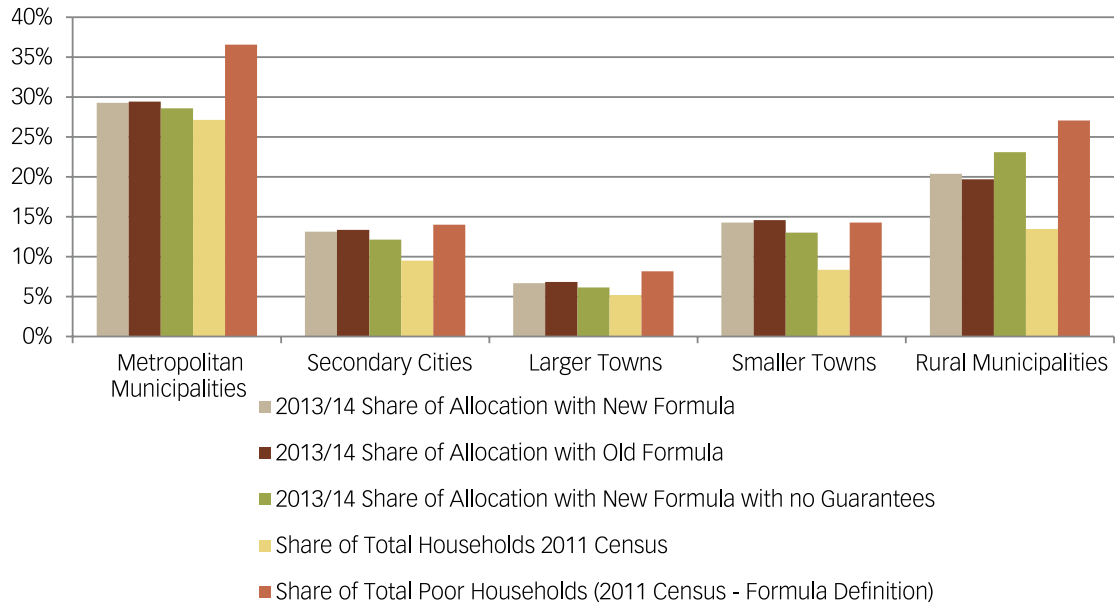
(i) In the main, national departments have not established precise and costable norms and standards for concurrent functions for provinces to implement. This implies that accurately costing a standard basket of social/economic services across provinces is currently not possible. The access to and quality of services enjoyed by beneficiaries from different provinces is therefore uneven. A further consequence of inadequately specified, financed and implemented norms and standards is the possible disproportionate economic growth of provinces along different development trajectories.

(j) In accordance with Section 153 of the Constitution, municipalities promote and provide economic support and development through the delivery of basic services such as water, sanitation, electricity and refuse removal. The provision of these services are funded through the local government equitable share (LES)[41] allocation and municipal own[42] revenue. For the 2013/14 financial year just over R40 billion is allocated in respect of this discretionary funding to municipalities. Notable revisions have been made to the LES funding mechanism that will ensure greater funding support to poorer and more rural municipalities (Figure 2).

Figure 17: Comparative Assessment of Old and New Formula[43]



(k) The Commission supports the changes made to the LES mechanism[44] . As the revised formula is phased in over the next five years, the Commission recommends that Government closely monitor the ability of poorer, rural municipalities to absorb and effectively spend additional funding. To this end, Section 154 which describes the support that provincial and national governments need to provide to municipalities is important if municipalities are to successfully promote economic support and development.

[41] The LES is an unconditional transfer to municipalities via the annual Division of Revenue process

[42] This refers to revenue that a municipality raises and has discretion over. Revenue derived from property rates represents an example of own revenue.

[43] Notes: Figure excludes allocations to district municipalities, but includes allocations with the new formula without the phasing-in provisions for comparative purposes. Poor households are defined as households earning less than R2300 per month in 2011

[44] For further information on the Commission's views on the LES and other local government fiscal framework issues, please consult the Commission report titled: "Sustaining Local Government Finances: Final Report on the Financial and Fiscal Commission's Public Hearings on the Review of the Local Government Fiscal Framework". The full report can be accessed on the Commission's website - http://www.ffc.co.za/

3.3 Investment In Infrastructure

(l) With respect to provincial conditional grants, a saving of R1.7 billion, achieved during 2012/13, has been added to the current financial year's allocation. As a result, the total 2013/14 allocation in respect of provincial conditional grants amounts to R8.2 billion. The increase in conditional grants to provinces is largely to fund infrastructure in health and education

(m) Increased health and education infrastructure spending is meant to stimulate job creation and create social capital that will boost social and economic development. Provinces have historically underspent on infrastructure budgets. A concern for the Commission was the poor planning and critical skills shortages in provincial infrastructure delivery. The revised design of the provincial infrastructure grant will incentivize good performance and re-locate resources to where such resources are being spent. Close scrutiny on spending of these grants will be important to ensure policy priorities are adequately provided for. The Auditor General's recent performance report[45] on health and education infrastructure in provinces highlighted an accountability deficit, especially in relation to supply chain management. Consolidation efforts must be accompanied by interventions to address underlying drivers of poor performance and improvement in accountability framework.

(n) Much of the investment in infrastructure takes place within municipalities and is channeled to the local sphere through conditional grant funding. There is particular emphasis on water (through the newly created Municipal Water Infrastructure Grant) and electricity (through the Integrated National Electrification Programme (INEP)). In terms of additions to the baseline for 2013/14, water and electricity receive R312 million and R511 million respectively. The Commission is pleased to note that a proportion of the baseline addition to the INEP is in respect of piloting an approach to asset management[46], an aspect that is sorely lacking across the local government sphere. The introduction of the new Municipal Water Infrastructure Grant is noted. The Commission would advise Government to guard against creating overlaps across different grants with a similar purpose. In this case, both the Municipal Infrastructure Grant (MIG) and the newly created grant, aim at increasing access to water to poor/rural households. This type of arrangement has the potential to undermine the original role of the MIG as the tool to deal holistically with municipal infrastructure.

(o) Historically, municipalities have not been able to spend infrastructure budgets effectively. Performance has been characterized by delays, poor planning, lack of project management capacity and poor oversight on the part of provincial and national government. If planned investment is to foster stronger economic growth, these challenges will need to be overcome. Existing capacity building initiatives such as the Infrastructure Skills Development Grant and the recently established Municipal Infrastructure Support Agency (MISA) reflect attempts to address these long-standing issues. Given that these two interventions are relatively new, it would be premature to judge their performance at this early stage.

(p) The Commission would like to emphasise that alongside investment in new infrastructure, there is a pressing need to maintain and renew existing infrastructure adequately. Research conducted as part of the Commission's Submission for the 2014/15 Division of Revenue indicates that municipalities underfund and underspend on maintenance and renewals, thus putting at risk the potential benefits that could be reaped as a result of Government's large investment in infrastructure.

[45] For further information visit www.agsa.co.za

[46] The pilot will fund implementation of the Approach to Distribution Asset Management (referred to as ADAM). Asset management practice incorporates the practice of decision-making, planning and control over the acquisition, use, safeguarding and disposal of assets to maximise their service delivery potential and benefits and to minimise their related risks and costs over their entire life.

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3.4 Job Creation

(d) While post-apartheid South Africa has witnessed many positive developments, unemployment and poverty remain serious challenges. Unemployment has been consistently very high in the last two decades. Unemployment increased from 1995, and from 1996 rates remained stubbornly above the 20% threshold. Persistently high unemployment has many negative repercussions on individuals, families, government and broader society. Not only does it place psychological and financial strains on those unable to find work and their families especially given the high dependency ratios in South Africa, it also places budgetary pressures on the national government and on provincial and local governments, as tax revenues decline and expenditures increase. In the long term, unemployment erodes skills thereby reducing future national productivity and income.

(a) Government has maintained focus on job creation as a key priority over the MTEF. As Table 2 shows, job creation and social security expenditure increased from R41.7 billion in 2012/13 to R61 billion in 2015/16 financial year. In 2013/14, job creation has been allocated an amount of R33.6 billion. Of this amount, about 68.3% is allocated for social security funds. The total social security funds include unemployment insurance fund, compensation funds and road accident fund.

(b) The 2013/14 budget also makes provision for other job creation initiatives such as expanded works programme (EPWP) and community work programme (CWP). Through its coordination of the EPWP, the Department of Public Works aims to create 3.7 million work opportunities by the end of 2016. In addition, it also makes provision to support the work of the Commission for Conciliation, Mediation and Arbitration in preparation for amendments to labour legislation. The EPWP Integrated Grant (R355.9 million) and the Social Sector EPWP incentive grant (R257.6 million) for provinces are the main job creation funding streams identified in the Appropriation Bill for provinces. Both grants steadily increase over the MTEF and are solely for job creation projects. Several other grants also have a job creation component, but there are also other objectives these grants have to achieve. For example, the grants under the Provincial Departments of Agricultural all aim to create jobs, but also include objectives such as training, and capacity development, technical advice, disaster relief and support.

Table 11: Employment and Social Security Expenditure, 2009/10-2015/16

	2012/13	2013/14	2014/15	2015/16
	R'million			
National departments	11 332	13 181	15 134	15 497
Provinces	1 265	1 671	1 677	1 720
Social security funds	28 476	33 633	39 579	42 893
Public entities	604	746	849	905
Total	**41 677**	**49 232**	**57 239**	**61 015**
Of which:				
Expanded public works programme	1 729	1 948	2 076	2 156
Community work programme	1 348	1 675	2 390	2 505
Commission for Conciliation, Mediation and Arbitration	479	594	687	734

	2012/13	2013/14	2014/15	2015/16
		R'million		
Growth Rates (%)		**2013/14**	**2014/15**	**2015/16**
National departments		16	15	2
Provinces		32	0	3
Social security funds		18	18	8
Public entities		24	14	7
Total		**18**	**16**	**7**
Of which:				
Expanded public works programme		13%	7%	4%
Community work programme		24%	43%	5%
Commission for Conciliation, Mediation and Arbitration		24%	16%	7%

Source: Adapted From National Treasury Budget Review (2013)

(c) At the local sphere, CWP grant provides work opportunities for historically marginalized communities and is projected to grow by 23% over the MTEF period. The EPWP Integrated Grant for Municipalities is a conditional grant aimed at promoting greater use of labour intensive methods in delivering municipal services. R610 million is allocated in respect of this grant for the 2013/14 financial year. On their own, the initiatives are unlikely to make a significant dent on unemployment. Part of the problem lies in the inability of municipalities to effectively spend allocated resources. For example in 2011/12, only 54% of the total available for this grant was allocated to eligible municipalities[47].

(d) As can be deduced from the discussions above, the main pillars of government economic policy, the New Growth Path (NGP), the Industrial Policy Action Plan and the NDP for 2030 are anchored in a significant ramping up of capital expenditure by the state which they expect will contribute significantly to meeting the government job-creation target of 5-million jobs in 2020 (NGP) or 11 million jobs by 2030 (NPD). So much is riding on this state infrastructure spending as the solution to reducing poverty, inequality and unemployment and generating economic growth. The Commission has examined these broad arrays of policy approaches designed to reduce unemployment[48]. The main finding involves the negligible impact on employment growth of interventions such as an expansive infrastructure strategy or expanded public expenditures. The analysis shows clearly that fiscal policy (infrastructure and current expenditures) alone is not going to solve job-creation problems unless complemented by these other interventions.

(e) At the very least, the finding suggests government interventions that emphasise infrastructure alone are unlikely to make an impression on employment. While infrastructure development is a critical fiscal lever for expanding employment, if we want to see the type of growth in jobs envisaged by the NGP and NDP this is not enough. Rather than replacing ageing infrastructure, policy should therefore target public investments that serve as a

[47] ligible municipalities refer to those municipalities that actually made greater use of labour intensive methods in the delivery of services. The grant allocation is based on past performance – thereby creating the incentive effect.

[48] For further information, please refer to chapter 1(titled: Perspectives and Prospects for Job Creation and the Intergovernmental Fiscal Relations System) of the Commission's 2013/14 Submission for the Division of Revenue.

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catalyst to shifts towards jobs and knowledge-intensive production and provision of government services (including maintenance of existing infrastructure). We need to look at shifting the skills mix, other regulatory constraints and possibly even the informal and SMME sector to create jobs in the short term. Similarly, the 'prisoner's dilemma' scenario[49], which is currently preventing realization of a coordinated social compact among the role players who can influence employment, requires urgent redress.

3.5 Enhancing Local Government Capacity

a) Limited capacity is often cited as a hindrance to good performance at the local level. A number of initiatives aim to address this challenge. Section 155(6) of the Constitution requires that the provincial government must provide for the monitoring and support of local government in the province, and the promotion of local government capacity. Section 105(1)(a-c) of the Municipal Systems Act (Act 32 of 2000) places the responsibility on the provincial department of co-operative governance to monitor the development of local government capacity in the province and assess the support needed by municipalities to strengthen their capacity to manage own affairs, exercise their powers and perform assigned functions. The Appropriation Bill does not contain any specific funding that is channeled to provinces for local government capacity building. Funds for these initiatives are usually allocated through the provincial appropriations process.

b) The 2013 Appropriation Bill allocates R763.6 million in respect of capacity building at the local level. This includes the Municipal Systems Improvement Grant (R240.3 million), the Infrastructure Skills Development Grant (R98.5 million) and the Local Government Financial Management Grant (R424.7 million). The impact and outcomes attached to these initiatives (in terms of producing a more skilled and efficient civil service) are critical if the public sector is to achieve more within the constraints of limited resources. The ability of the civil service to do more with fewer resources is particularly important if South Africa's economic growth remains subdued. Going forward it will be important to ensure that municipalities are able to absorb and utilize the funding available through these conditional grants, particularly the Infrastructure Skills Development Grant which is projected to increase by 56% between 2013/14 and 2014/15 (see Table 3).

Table 12: Key Local Government Capacity Interventions

R'million	2013/14	2014/15	2015/16
Municipal Systems Improvement Grant	240	252	261
Local Government Financial Management Grant	425	449	470
Infrastructure Skills Development Grant	99	154	179
TOTAL	**764**	**855**	**910**
Annual Growth (%)			
Municipal Systems Improvement Grant		5	4
Local Government Financial Management Grant		6	5
Infrastructure Skills Development Grant		56	16
TOTAL		**12**	**6**

Source: Adapted from Appropriations Bill (2013)

[49] Prisoner's dilemma' refers casually to situations where role players (unions, government and business) could gain important benefits from cooperating but suffer from the failure to do so, finding it merely difficult or expensive, (but not necessarily impossible) to coordinate their activities to achieve cooperation.

c) The Commission would like to reiterate two capacity related recommendations made in its Submission for the Division of Revenue 2013/14[50]:

- The first regards the need to strictly enforce the minimum competencies as entrenched in the Municipal Finance Management Act (MFMA) so as to ensure that appropriate technical skills are in place. This is critical in light of the Auditor-General pointing out that one of the root causes for poor audit outcomes is the fact that officials in key positions at over 70% of municipal auditees do not have the minimum competencies and skills to perform their jobs[51].

- The second is the need for the conditions attached to capacity grants to commit municipalities to specific, independently verifiable capacity and performance improvements. This can assist in attaining the desired outcome of a more skilled and professional local government work force.

4. Assessment of Infrastructure Investment in National Government

4.1 Presidential Infrastructure Coordinating Commission

a) As in previous years and alluded to above, investment in infrastructure represents Government's focus for growing the economy. In the 2013/14 budget, Government continues to focus on financing infrastructure investment. An amount of R827 billion has been budgeted and approved for infrastructure investment over the MTEF. Of this amount, about R430 billion is allocated from the fiscus.

b) In 2011, the Presidential Infrastructure Coordinating Commission (PICC) was established. The PICC is composed of ministers, premiers and metropolitan municipality mayors. Its main function is to identify, prioritize and coordinate infrastructure development. Thus far it has prioritized 18 strategic infrastructure projects (referred to as Strategic Integrated Projects (SIPs)). Most of these projects focus specifically on infrastructure falling within the ambit of local government. This includes plans to:

- Expand the electricity distribution network and provide access to electricity

- Develop national capacity to assist the 23 least resourced districts in addressing their maintenance backlogs and upgrading water, electricity and sanitation bulk infrastructure

- Coordinate planning and implementation of public transport, human settlement, economic and social infrastructure so as to create sustainable urban settlements[52].

4.2 National Infrastructure Plan

c) Table 4 gives the national investment plan over the MTEF. Over the MTEF period, an amount of R397 billion is allocated to state-owned companies. Of this amount, a significant portion is allocated mainly to Eskom (R205 billion) and Transnet (R124 billion). This money will be used to fund ongoing building of power stations and the rolling out of new electricity transmission, new rail, ports, pipelines and water transfer scheme.

[50] For further details, see Chapter 9 of the FFC's 2013/14 Submission for the Division of Revenue.

[51] See foreword contained in the Consolidated Report on the Audit Outcomes of Local Government, 2010/11.

[52] For further details, see the PICC Report for 2012.

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d) The majority of public infrastructure expenditure will be by state owned companies (with Eskom and Transnet accounting for the largest proportion), followed by provincial departments and then local government. The national departments are responsible for a smaller share of public infrastructure investment equivalent to 4.8% over the 2013 MTEF. When state owned companies and other extra budgetary institutions are included, the national government's share of public infrastructure investment increases to 60.9% leaving provinces and municipalities with a respective share of 17.9% and 18.2% respectively over the 2013 MTEF period.

Table 13: Public Sector Infrastructure Expenditure by Area of Responsibility, 2011/12-2015/16

R' Billion	2011/12	2012/13	2013/14	2014/15	2015/16	MTEF Total
National departments	6 599	10 802	11 225	14 046	14 329	39 600
Provincial departments	43 449	43 762	46 202	49 385	52 098	147 685
Local government	33 239	38 489	46 940	50 506	53 161	150 607
Extra-budgetary institutions	15 418	15 697	21 493	21 909	23 176	66 578
of which:						
SANRAL non-toll building programme	8 296	9 667	10 206	10 433	10 960	31 599
Public-private partnerships	10 710	17 955	7 145	4 504	13 713	25 362
General government	**109 415**	**126 705**	**133 005**	**140 350**	**156 477**	**429 832**
Eskom investment programme	58 815	76 141	72 107	68 016	64 934	205 057
Transnet investment programme	21 821	31 183	37 320	38 815	48 026	124 161
SANRAL	5 683	2 012	1 785	1 620	2 669	6 074
Central Energy Fund	1 209	5 226	3 719	2 061	398	6 178
Trans-Caledon Tunnel Authority	1 191	1 659	1 230	3 068	1 871	6 169
Rand Water	1 514	1 352	2 108	1 966	1 820	5 894
Other state-owned companies	8 638	11 627	11 537	15 184	16 992	43 713
State-owned companies	**98 871**	**129 200**	**129 806**	**130 730**	**136 710**	**397 246**
Total	**208 286**	**255 905**	**262 811**	**271 080**	**293 187**	**827 078**
Annual Growth (%)		**2012/13**	**2013/14**	**2014/15**	**2015/16**	
National departments		64	4	25	2	
Provincial departments		1	6	7	5	
Local government		16	22	8	5	

R' Billion	2011/12	2012/13	2013/14	2014/15	2015/16	MTEF Total
Extra-budgetary institutions		2	37	2	6	
of which:						
SANRAL non-toll building programme		17	6	2	5	
Public-private partnerships		68	-60	-37	204	
General government		**16**	**5**	**6**	**11**	
Eskom investment programme		29	-5	-6	-5	
Transnet investment programme		43	20	4	24	
SANRAL		-65	-11	-9	65	
Central Energy Fund		332	-29	-45	-81	
Trans-Caledon Tunnel Authority		39	-26	149	-39	
Rand Water		-11	56	-7	-7	
Other state-owned companies		35	-1	32	12	
State-owned companies		31	0	1	5	
Total		**23**	**3**	**3**	**8**	

Source: Adapted From National Treasury Budget Review (2013)

4.3 Assessing Credibility Of National Infrastructure Plan

a) A vital component of Government policy is hence increased spending on public infrastructure, in particular accelerated investment in social and economic infrastructure. This raises a number of critical questions, including how the money should be spent and how the expanded spending should be financed. A recent study[53] by the Commission oriented towards constraints the government faces in financing its infrastructure expenditures (including SIPs) provides answers to these questions. The findings are that in the short term, real GDP stays about the same as before the increase in expenditure, but investment decreases, which affects the long-term value of GDP. The impact on investment is greater when the additional spending is financed by increasing either income tax or the deficit. Increasing indirect taxes to finance additional spending affects investment less in the short term, but in the longer term leads to a similar decrease in real GDP.

b) To ascertain the sustainability of increasing public spending in this manner, the debt-to-GDP and deficit-to-GDP ratios were calculated over the next 60 years. The impact of the three financing methods on these ratios was found to be different (whereas they have a similar effect on macroeconomic variables). In the short term, modelling suggests that the

[53] For more details, the interested reader is referred to Mabugu, R., Robichaud, V., Maisonnave, H., and Chitiga, M., (2013) "Impact of Fiscal Policy in an Intertemporal CGE Model for South Africa", Economic Modelling, 31: 775-782, Elsevier B.V. Publishers.

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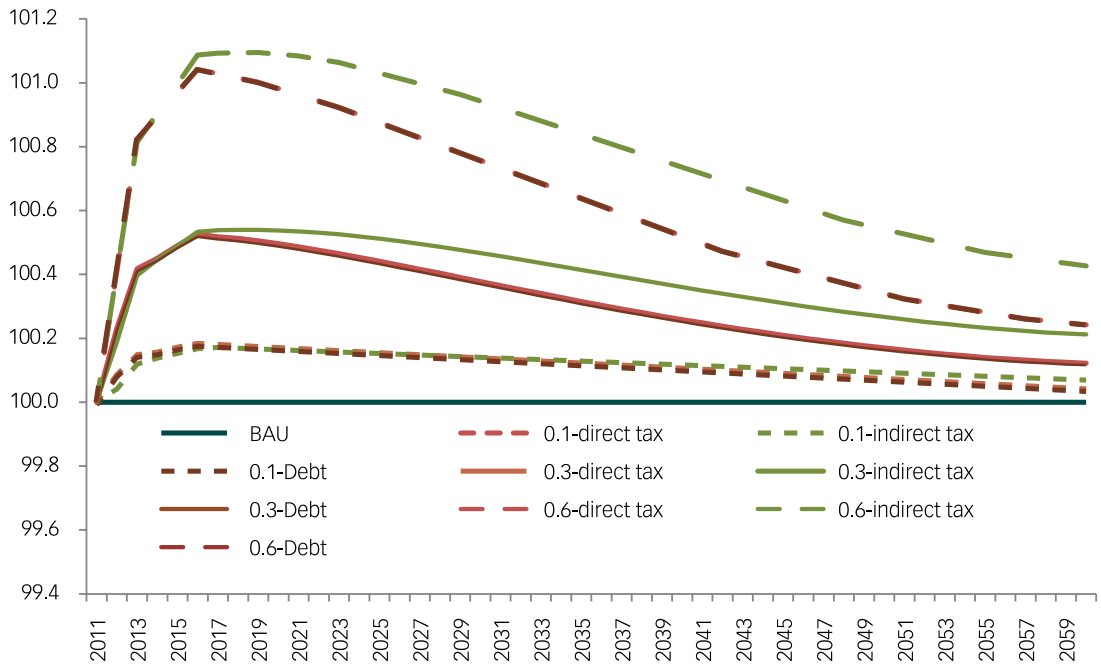
impact on real GDP is negligible if government increases its investment spending. However, in the medium and longer term, GDP grows because spending on investment leads to increased infrastructure and economic output. Under a rigid deficit, taxes would eventually go down as a result of greater production in the economy. As the GDP grows over time, a constant deficit translates into an improvement of both ratios. More surprisingly, the greatest improvement happens in the debt-financed scenario. If tax rates are kept the same throughout the period (2011–2059), government revenues will increase in the longer term and thus allow for a smaller deficit in the future.

c) To test the robustness of these findings, the Commission performed various sensitivity tests to see how increased public investment affects GDP under the three financing methods, using different values of 0.1, 0.3 and 0.6 (for the impact such expenditures have on total factor productivity in South Africa). Figure 3 presents the impact on real GDP. Whatever the financing method used, the results are similar for all three values (within a range of less than 1%).

Figure 18: Impact of increased public investment on GDP



d) The lessons learnt are extremely valuable for South Africa where considerable attention is being given to the use of expansive fiscal policy for economic growth and the creation of jobs. These conclusions are driven by the positive impact infrastructure has on total factor productivity. Without this feature, increased public investment would have almost no impact on the South African economy. However other factors also need to enhance productivity, including better management, skills development, research etc.

5. Measures To Stimulate Cost Efficiencies

5.1 Defining And Measuring Cost Efficiencies

(a) Cost-effectiveness that the Appropriations Committee requested briefing on is clearly a desirable attribute. This is because using a cost-effective instrument involves allocating the smallest amount of resources to reaching a priority, conditional on a given target being achieved. It has the minimum opportunity cost. Hence, the use of cost-effective instruments is a prerequisite for achieving an economically efficient allocation of resources. Three policy issues emerge as important in inter-governmental relations from this. One is how to balance the need to provide constitutionally mandated basic services (CMBS)

with macroeconomic constraints that limit the available resources. Another is how to objectively determine the equitable sharing of available revenue amongst the national, provincial and local spheres of governments. The final one is what resources need to be allocated to capital spending in a way that is consistent with the answers to the first two questions. Despite the centrality of cost efficiencies to this and considerable amounts of work and interest that have been devoted to it, providing a comprehensive and directly available measurement of public sector costs, for a large number of countries and time periods, remains an incredibly difficult challenge.

(b) There are at least two conceptual approaches to deriving the cost of providing provincial, local government and national government services. One approach, the so-called costed norms method proposed by the Commission in 2001, is to estimate the average cost of providing a particular service. This estimate is usually based on historical estimates of capital, labour and variable inputs costs, per unit of service provided. The next step is to devise output standards that are to be achieved for each service. Using the estimates of average cost it is then possible to deduce the total cost of providing a service at some specified standard. If one then sums across all services, it is possible to obtain an estimate of the total costs to be met by each province and the national government based on the derived average costs and chosen output standards. A second approach is to estimate a 'cost function' for each nationally, provincially and local government provided service. Cost functions are widely used in economic analysis and for given costs of inputs define the minimum cost of producing various levels of output. For given values of the input prices and poverty/inequality disabilities, the cost function yields the minimum cost of providing a given service in a particular province/local government. Cost measurement approaches suffer from severe limitations and can be only partial in terms of cost factors coverage and data availability. Indirect approaches based on fiscal and financial volumes and/or prices by definition provide less information about the priorities policymakers should target in order to meet a certain target.

5.2 The Cost Chain

(a) Looking back at the various cost components enumerated in previous sections, several dimensions of costs can be identified that recur along the whole fiscal chain. These can be interpreted as "underlying" or "primary" sources of costs. Identifying the major underlying sources of costs can help prioritise the policy reforms meant to reduce these costs and enhance the efficiency of the IGFR system. The first primary factor identified relates to issues of (un)certainty, (un)predictability and (un)reliability in delivery, transport delays and/or payments, which are largely related to indirect cost components. These concerns are commonly mentioned as one of the main hindering factors of trade flows in business surveys, and are often a central and explicit motive of international and regional trade agreements. Yet, uncertainty may rise at many different points all along the supply chain. Risks of corruption and bribery at the borders, insecurity, roadblocks and checkpoints on transit routes, terms-of-trade and exchange rates volatility, non-transparent legislations and trade regimes, political risks, etc., are as many sources of variation and uncertainty about what shipping a good from the producer to its final user will actually cost.

(b) The second major underlying factor relates to the discrepancy between costs and prices that households and firms have to incur, due to numerous windows of opportunity for intermediaries to extract rent all along the trade chain. Rent extraction represents in many regards a direct cost for trade operators. Whether rent extraction is due to uncompetitive regulations, to monopolistic powers in the transport, customs brokerage, telecommunication, or financial services sectors, to corrupt customs officials or to informal smugglers, it often adds a significant burden on both exporters and importers. As already suggested, rent extraction strongly complicates the design of remedial policies because they have to ensure that when reducing/removing rent at some point of the chain they do not generate new rent seeking behaviours at other points.

(c) The third underlying source of trade costs and of difficulties in addressing them is related to the political economy of business policy. Despite the fact that the benefits of participation

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to international trade on income levels and growth are widely acknowledged, policymakers may opt for policies that depart from a presumably optimal free trade regime in order to serve political economy considerations under the pressure of vested interests. These policies may tend to favour certain groups by transferring resources (through subsidies and taxes, market access restrictions, protectionist regulations), display partisan preferences, or promote re-election.

(d) They may also interact with policy preferences of various types of private interest groups like lobbies, political parties, unions, consumers' associations, etc. As Rodrik (1995) reminds us, business policy instruments are far from being distribution-neutral, and plenty of trade models have exposed how organised groups or individual voters can influence the income-distribution consequences of trade flows. In order to internalise political-economy considerations in the design of policies meant to facilitate trade, the reciprocal causation between trade flows, trade costs and business policy need to be kept in mind.

5.3 A Diagnostic Tool To Assist Identifying Cost Efficiencies

(a) The aim of this section is not to tell legislators what they should target as a priority, but rather how they should think of the fiscal system chain and what questions they should ponder in order to build the appropriate policy/oversight agenda and, ultimately, reduce costs in a cost-effective manner. The necessity to adopt a comprehensive view on all costs along the fiscal system chain does not however mean that all issues/components should be addressed evenly and at the same time. With respect to many dimensions, costs as well as the marginal benefits associated with their reduction vary according to a jurisdiction's per capita income level, stage of development, institutions, geopolitical and business climate. In addition, jurisdictions differ in financial, institutional and political implementation capacities. Therefore such variation rather calls for a pragmatic case-by-case policy approach, instead of mechanically replicating "best-practices" or "benchmarks" that tend to overlook the idea that costs may be generated by all sorts of different reasons. Appropriate policies are almost always context specific; the prioritisation and sequencing of reforms should be designed in order to accommodate each jurisdiction's specificities. The prime determinants of fiscal costs matter, and a diagnostics framework could help legislators identify them in the specific circumstances of their oversight work.

(b) The conceptual advantage of a diagnostics approach is that it gives priority to identifying the most binding constraints, or, more precisely, the ones binding disproportionately, the ones whose relaxation will bring the biggest returns. At their core is the identification of what we called the "primary" or "underlying" causes of costs.

(c) The "costs diagnostics" approach can be summarised in the following sequential questions:

- What is the underlying source of costs?
- Where it is primarily and most heavily located in the fiscal system chain?
- What is the implementation cost of relaxing the constraint, given national capacities?
- What is the impact of remedial policies at this given point on downstream/upstream links?
- How much is the cost factor dependent on other policies?

(d) This diagnostics approach proposes a pragmatic tool that the Committee can use to identify the most binding barriers to service delivery and prioritise policy reforms meant to reduce costs. Such prioritisation needs to account for the inter-dependences between all cost factors and between jurisdictions policies in a context of fragmented supply chains, and should be revised according to jurisdiction resources, institutions and implementation capacities. It is crucial that costs are not only measured but well managed. To this end, proper human resource management and development is important for ensuring quality and productivity improvement.

6. Other Related Matters

6.1 Provincial Budget Overview

(a) The Commission is pleased to note provincial expenditure on personnel budget is within the spending limits for 2012/13 as at March 2013 (see Table 5). This suggests provinces are exercising stricter controls on the provincial wage bill. This is reassuring as resources allocated to other important government priorities are protected from potential over-expenditure on personnel expenditure budget. The Commission is concerned though over the high under expenditure on capital assets (7.2%). The opportunity cost of such under spending is high given that significant backlogs in critical infrastructure still persist.

Table 14: Total Provincial Aggregated Budgets and Expenditure as at 31 March 2013

	Adjusted Budget R'million	Actual spending as at 31 March 2013 R'million	Actual spending as % of adjusted budget	R'million	Under R'million	Net R'million	% (Over)/ under of adj. budget	% share of Tot. Prov. Expend.
Eastern Cape	57 397	55 928	97.4		1 469		2.6	14.2
Free State	25 906	25 618	98.9		288		1.1	6.5
Gauteng	74 687	73 760	98.8		927		1.2	18.7
KwaZulu-Natal	86 183	85 729	99.5		454		0.5	21.7
Limpopo	47 955	45 869	95.7		2 086		4.3	11.6
Mpumalanga	31 553	31 346	99.3		207		0.7	7.9
Northern Cape	11 795	11 235	95.3		560		4.7	2.8
North West	26 910	25 588	95.1		1 322		4.9	6.5
Western Cape	40 256	39 937	99.2		319		0.8	10.1
Total	**402 641**	**395 010**	**98.1**		**7 631**	**7 631**	**1.9**	**100.0**
Per Key Departments								
Education	168 215	166 073	98.7		2 141		1.3	42.0
Health	123 509	122 609	99.3		900		0.7	31.0
Social Development	12 278	12 091	98.5		187		1.5	3.1
Total	**304 002**	**300 773**	**98.9**		**3 229**	**3 229**	**1.1**	
Per Key Economic Classification								
Personnel	236 012	234 014	99.2		1 998		0.8	59.2
Goods and Services	77 502	75 280	97.1		2 222		2.9	19.1
Payment for Capital	30 762	28 358	92.2		2 405		7.8	7.2

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	Adjusted Budget R'million	Actual spending as at 31 March 2013 R'million	Actual spending as % of adjusted budget	R'million	Under R'million	Net R'million	% (Over)/ under of adj. budget	% share of Tot. Prov. Expend.
Transfers and Subsidies	58 340	57 230	98.1		1 110		1.9	14.5
Local government		16	22	8	5			
Payment for Financial	11	89	811.7	-78	-		-7	0.02
Total	402 627	394 970	98.1	(78)	7 735	7 657		
Per Revenue Source								
Provincial Equitable Share	313 016	313 016	100.0		-		0	78
Conditional Grants	75 708	75 343	99.5		365		0.5	18.8
Own Revenue	11 885	13 251	111.5	-1 365			-1.8	3.3
Total	**400 609**	**401 609**	**100.2**	**(1 365)**	**365**	**(1 000)**	**-0.3**	**100.0**

Source: National Treasury S32 Reports (2013)

6.2 Water Affairs

(d) As shown in Table 6, the Department of Water Affairs (DWA) consists of six programmes, with Water Infrastructure Management (25%) and Regional Implementation and Support (59%) comprising 84% of the total budget in 2013/14. The departmental allocation is R1.43 billion more in 2013/14 compared to expenditure in 2012/13. Departmental estimates over the baseline are expected to increase by 15.9 % per annum in real terms compared to 5.6% per annum growth in expenditure between 2009/10 and 2012/13. Significant increases over the baseline period are expected in Water Infrastructure Management (16.3% per annum) and Regional Implementation and Support (18.8% per annum) Programmes[54].

(e) Approximately 41% (R 4.2 billion) of the total funds appropriated for DWA in 2013/14 are conditional grants compared to 59% (R5.985 billion) direct allocation. Over two thirds of conditional grants (R 3 billion) are for regional bulk infrastructure projects in district municipalities. An important consideration here is the need to provide adequate support to these district municipalities to spend the funds efficiently and also to have proper processes in place for the timely transfer of funds.

(f) The department's spending performance has worsened from 2010/11 (96% of total budget spent) to 2011/12 (90% of total budget spent). Pre-audited figures for the 2012/13 financial year suggest that the department had spent 96% of its total budget. In-year spending trends indicate a 'hockey-stick effect', with nearly half of the total budget in 2011/12 and 2012/13 being spent in the last quarter of the year. A disaggregated analysis suggests most of the funds spent in the last quarter are on transfers and subsidies and payments for capital assets. This suggests the department may not have adequate in-year budget monitoring

[54] 92% of all funds in the Water Infrastructure Management Programme is transferred to the Water Trading Entity.

processes in place to monitor spending plans. It also suggests a broader problem of inadequate financial management systems in place. The Auditor-General has also highlighted this concern in his 2011/12 audit report. Despite proactive steps taken by the department, such as establishing a budget committee, it does not seem the department has made sufficient progress to avoid the 'fiscal dumping' that is evident in the in-year spending trends.

Table 15: Overview of the Department Budget

Programme	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2009/10 - 2012/13	2013/14 - 2015/16
	R'million							Real Avg. Growth p.a. (%)	Real Avg. Growth p.a. (%)
Administration	865	827	782	865	979	1 068	1 126	-4.2	4.1
Water Sector Management	444	424	512	454	516	598	619	-2.8	5.9
Water Infrastructure Management	2 108	2 132	2 384	2 138	2 565	2 945	3 813	-3.6	16.3
Regional Implementation and Support	3 063	3 499	4 376	5 154	5 983	7 685	9 772	14.5	18.8
Water Sector Regulation	73	126	91	110	119	122	126	17.2	-0.6
International Water Cooperation	11	16	21	29	25	32	33	31.2	0.4
Department of Water Affairs	**6 564**	**7 024**	**8 165**	**8 749**	**10 187**	**12 449**	**15 488**	**5.6**	**15.9**

Source: Adapted from Estimates of National Expenditure (2013).

(g) At the end of 2011/12, the department reported a total of R1.085 billion in irregular expenditure. Most of the irregular expenditure accrued as a result of poor Supply Chain Management (SCM) practises and internal controls. In 2011/12 the department investigated several cases of SCM irregularities to ascertain possible impropriety in instances where irregular expenditure were reported. In 2011/12, the department also incurred R18.8 million of fruitless and wasteful expenditure. This was largely due to overpayments, value added tax (VAT) paid to non-VAT vendors and VAT incorrectly calculated.

(h) In its 2011/12, the department received a qualified opinion as a result of pre-payments made to implementing agents, inadequate systems to monitor actual expenditure against advance payments, insufficient audit evidence for certain entries, no supporting documents for a contingent liability of R60.7 million and loan amounts between financial statements with no valid explanation provided. The Auditor General also found that the department had not completely met 92% of its planned targets. Further, 91% performance of indicators in programmes 1 and 4 were not verifiable and lacked key controls in terms of collection, collation, verification and storage of indicator data. This suggests that although 90% of the budget was spent in 2011/12, the funds at the disposal of the department may not have been spent effectively. The department would therefore need to strengthen its internal controls to ensure the 11% real increase in funding for 2013/14 is spent towards achieving its targets and that funds spent are properly accounted for.

(i) **New Grant:** A new municipal water infrastructure grant administered by the DWA is being introduced for 2013/14. An amount of R4.3 billion is allocated over the MTEF period[55]. The grant provides funding to municipalities to construct new water infrastructure and refurbishment and extension of existing water schemes. A key concern here is whether the

[55] R602 million in 2013/14, R1.05 billion in 2014/15 and R2.67 billion in 2015/16

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funds will be adequately spent given the prevailing challenges at local government level. The Commission welcomes the grant as it could address some of the backlog problems at local government level but cautions that without proper technical, management and financial support, municipalities the funds may not be fully absorbed by municipalities. Similarly there is need to avoid duplication of what the MIG intends to do with this grant.

(j) **Economic Support and Development:** The Commission commends the Water for Growth and Development framework the DWA has developed that intends to support the broad national economic and social development goals whilst also maintaining the sustainability of water resources. The DWA is also providing a subsidy of R5.5 million in the 2013/14 Appropriations Bill for emerging farmers to equip them with rainwater harvesting tanks, meant to improve access to water for food production. A concern for the Commission is the reported double-digit increases in municipal charges for water supply. There is a need for better coordination to deal with inflation pressures and a possible rise in the costs of production that may negatively impact on economic development.

(k) **Infrastructure Investment:** The DWA is allocated R4.3 billion over the MTEF for municipal water infrastructure grant to provide water supply to rural households in 23 district municipalities prioritized by Cabinet. An amount of R3.7 billion over the medium term is set aside for regional bulk infrastructure grant for upgrades and refurbishment of 6 existing plants and bulk water infrastructure projects and R1.5 billion is being allocated for upgrading of a pipeline and construction of a new pipeline. The DWA is therefore investing heavily in water infrastructure to meet future water demand from a growing economy and expanding population. Despite increased levels of infrastructure investment, scarce skills such as infrastructure planning, project management and coordination and maintenance spending remain a concern. The Commission commends DWA for developing the Infrastructure Investment Framework that is meant to inform future water sector funding requirements, which is needed to take a longer term view of an important national resource.

(l) **Job Creation:** DWA's flagship Working for Water Project created 28 400 jobs in 2011/12. A further 4505 jobs was created through the regional bulk infrastructure programme in 2011/12. DWA also developed 50 graduate trainees and placed them in candidate positions. These job creation initiatives are funded through the Regional Implementation and Support Programme. Funds for these job creation initiatives are subsumed in sub-programme budgets and as a result specific funds set aside for these projects cannot be identified either from the Appropriations Bill or the 2013 Budget Statements for the Department.

(m) **Enhancing Local Government Capacity:** The Commission welcomes the signing of the Enhanced Local Government Support Concept Paper by the Minister in 2011, which provides a framework for a more structured approach to local government support. The Department has established a number of initiatives to assist local government with provision of water supply, consistent with one of its strategic objectives which is to 'ensure provision of local government support'. The Commission also commends the establishment of the rapid response unit to address local government emergencies such as floods, pollution of water, draughts etc. Of concern are the ongoing delays in the transfer of funds from national to local municipalities. In 2011/12 and 2012/13, 50% and 46% of transfers and subsidies from DWA were disbursed in the final quarter of the financial year respectively, which includes transfers to municipalities. The funds transferred are typically not absorbed by municipalities because there is insufficient time to spend the funds. The problem is also hampered by challenges at local government level, such as delays in supply chain procedures, problems between contractors and municipalities, lack of capacity, etc. Transfer funds that are unspent at local government level exacerbate the backlog in water reticulation and infrastructure and waste-water treatment is being further delayed impacting on an important lever to support economic growth and local development. Only 22 out of 52 municipal schemes were refurbished in 2011/12 because of these delays. The Department

seems to be following a strategy of extending the footprint of water boards so that they are able to support municipalities and provide service delivery on behalf of poorly capacitated municipalities, especially in rural areas. The Commission views this approach as a short-term measure that should be supplemented with intensive initiatives to improve capacity of poor performing municipalities to ensure proper accountability and service delivery to communities are sustained.

6.3 Human Settlements

(c) The main aim of the Department of Human Settlements (DoHS) is to facilitate the creation of sustainable human settlements and to improve the quality of the lives of households. This aim is implemented through the use of conditional grants (Human Settlements Development Grant (HSDG), Rural Household Infrastructure Grant (RHIG) and Urban Settlements Development Grant (USDG)) among other things.

(d) HSDG is a key conditional grant in the delivery of housing and is transferred to all provinces using a formula that takes into account housing needs, migration patterns and development potential. A large number of municipalities are dependent on this grant for housing delivery since they lack capacity to raise own revenue. Two new grants within the human settlements sector include RHIG and USDG. RHIG was introduced in 2010 to assist with achievement of universal access to water and sanitation by 2014. This grant was established as a result of high levels of backlogs in water and sanitation in most rural municipalities and the fact that some settlement patterns are so dispersed that it would require excessive funds to build the necessary infrastructure and to connect households. USDG grant was introduced in the 2011 MTEF for metros to improve the efficiency and coordination of investments in the built environment. The performance for the past three years and allocation over 2013 MTEF is shown in Table 7 below.

Table 16: Overview of performance of DoHS Grants

R'000		2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
HSDG	Allocation	10 819	13 032	15 121	15 725	16 983	17 918	19 667
	% Spent	99	98	98				
HSDG	Allocation		100	258	340	106	113	118
	% Spent		67.7*	72.8**	17.9***			
HSDG	Allocation			6 266	7 392	9 076	10 334	10 699
	% Spent			44	45 ***			

Source: Commission's calculations based on Estimates of National Expenditure (2013)

* March 2011;
** March 2012;
*** January 2013

(e) Generally, overall spending on the HSDG has been good over the period. Spending stood at 99% in 2009/10, 97% in 2010/11 and 98% in 2011/12. Real average growth over the 2013 MTEF is about 7.7%. The Commission views this growth as reasonable response given the past good performance of this grant.

(f) RHIG performance has been poor since introduction. In the 2012/13 financial year, allocation was R479 million. The allocation was reduced by R138 million following a request by DoHS. The allocation has since remained at R340 million. Although reducing the allocation retards the pace towards achievement of universal access to sanitation especially in rural areas, the reprioritisation of funds carried was essential given the consistent poor performance of the grant. The allocation for the 2013 MTEF decreases by (-57%) from base allocation with a further reduction of about 68% in 2013/14 and slight growth in the two outer

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years. The lower grant base will provide both the DoHS and municipalities an opportunity to resolve current challenges affecting performance of this grant. In 2013/14 financial year, RHIG has been changed from Schedule 6B (indirect conditional grant to municipalities) to Schedule 5B (direct grant to municipalities).

(g) The USDG has not been performing well since inception in 2011/12 with an expenditure of 44% of total allocated funds. By January 2012/13 expenditure stood at 45%. Average annual growth over the 2013 MTEF is about 13% which is relatively high in relation to the poor past performance of the grant in its first year.

(h) Clearly these three programs contribute to achieving the country's human settlements priorities in one way or another. Improving the leverage of DoHS programmes is key towards fulfilling national development goals on human settlements and optimise equity. Given their significance, it is essential not only that baselines to programmes are increased but importantly that these amounts are spent in the intended areas. Revisions to the baseline of housing delivery grant must take into consideration both spending performance and impact on service delivery. In this regard, over the 2013 MTEF the RHIG allocation grows by a nominal growth rate of 10% while HSDG and USDG grow by 15% and 17% respectively. While the revisions upwards in baseline for HSDG are merited on the basis of past performance, there are serious questions about RHIG and USDG baseline that need redress.

7. Conclusion

The Commission is of the view, that in the context of the Appropriations Bill::

7.1 Government has continued with its good fiscal track record which has allowed for sustained economic growth and set the foundations for an ambitious and expansive fiscal policy.

7.2 The current economic deficit represents the single biggest strategic fiscal risk facing South Africa. This fiscal downturn means that a prolonged period of consolidation in public expenditure will lead to difficult choices. In trying to balance the competing needs of fiscal ssustainability and promoting growth, it is critical that fiscal consolidation be done in such a way that (a) short run growth is least compromised, (b) the potential for long run growth is increased and that (c) gains in the progressive realisation of socio-economic rights are not rolled back but are in fact extended, (d) the impact of existing public spending is raised and (e) institutional capability, accountability and performance orientation is built. Taken together, these measures will be instrumental in maintaining a positive economic growth rate and prudent financial management and importantly move the country towards attaining the identified priorities of (a) promoting economic support and development, (b) investment in infrastructure, (c) job creation and (d) enhancing local government capacity.

7.3 The underlying message from the Commission's analysis is that while resources are generally efficiently allocated to priority areas, the need remains for Government to improve the spending impact in order to positively contribute to the lives of all South Africans. Within the confines of lower growth in expenditure, strategies included in the NDP to improve sustainable economic growth, a less adversarial relationship between business and organised labour, more focus on improving small business development of entrepreneurship, increased infrastructural investment, improved capacity of the public sector to implement projects and strategies to reduce corruption, must be supported.

Government should ensure that enabling pieces of legislation (such as MFMA, PFMA) evolve to ensure an effective public sector. In addition, Government should ensure that enabling legislation is complied with and that appropriate measures are taken where such legislation is violated.

ANNEXURE H

Additional 2012/2013 Commission Submissions

1. Xhariep District Municipality Advisory on Equitable Share
2. Western District Municipality Advisory on Equitable Share
3. Road Traffic Management Corporation on eNaTIS fees Advisory
4. South African Local Government Association (SALGA) Implementation of the Administrative Adjudication of Road Traffic Offences Act, 2008S Advisory
5. Nama-Koi in-year budget allocations changes Advisory,
6. Department of Human Settlements assignment of the administration of national housing programmes to six Metropolitan Municipalities by MECs Advisory
7. Parliament December 2011 National Government Intervention in the administration of financially distressed Provincial Government Departments

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Publications and Output of Research and Recommendations Programme

A Publications in peer-reviewed / accredited journals

1. **Mabugu, R., Robichaud, V., Maisonnave, H., and Chitiga, M.,** (2013) "Impact of Fiscal Policy in an Intertemporal CGE Model for South Africa", Economic Modelling (2013), 31: 775-782, Elsevier B.V. Publishers. http://dx.doi.org/10.1016/j.econmod.2013.01.019

2. **Mabugu, R., Chitiga, M., and Fofana, I.** (2012) "The Poverty Implications of High Oil Prices in South Africa", Environment and Development Economics, 17(3): 445-462, Cambridge University Press 2012. doi: 10.1017/S1355770X1200186

3. **Ncube, M., Zikhali, P., and Musango, J.K.,** (2012) "The impact of climate variability on water and energy demand: the case of South African local governments", Water and Environment Journal. Print ISSN 1747-6585, doi:10.1111/j.1747-6593.2012.00323.x

4. **Marinkov, M., and Burger, P.,** (2012), "Fiscal rules and regime-dependent fiscal reaction functions: The South African case", OECD Journal on Budgeting, Vol. 12. http://dx.doi.org/10.1787/budget-12-5k9czxjth7tg

5. **Mahabir, J.** (2012). "Towards a new Local government equitable share formula: progress in the review process", Local Government Bulletin, Vol. 14, Issue 4

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7. **Mabugu, R., Maisonnave, H., Robichaud, V., and Chitiga, M.** (Article in Press) "Economywide Consequences of Attaining Millennium Development Goals in South Africa", ADREV-01-2013-0570

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9. **Mabugu, R., and Chitiga M.** (Article in Press). "Can Trade Liberalization in South Africa Reduce Poverty and Inequality While Boosting Economic Growth: Macro-Micro Reflection. Development Southern Africa, Published by Taylor and Francis

10. **Mabugu, R., Chitiga, M., and Fofana, I.** (Article in Press) "A Multi- Region General Equilibrium Analysis of Fiscal Policy in South Africa", Economic Modelling, Elsevier B.V. Publishers Press. doi: to be assigned.

11. **Mabugu, R., Fofana, I. and Chitiga, M.** (Article in Press) "Oil prices and the South African economy: A macro-meso-micro analysis". Energy Policy, Published by Elsevier Ltd, doi: to be assigned.

12. **Mabugu, R. and Mohamed, A.,** (Under second review) "The Economic Impacts of Government Financing of the 2010 FIFA World Cup". Development Southern Africa, Published by Taylor and Francis

B Books and/or chapters in books

1. **Ramos Mabugu, Van Heerden, J., Tol, R., Gerlagh, R., Hess, S., Horridge, J.M., Mabugu, M., and de Wit, M.,** (2013) "Double Dividends of Additional Water Charges in South Africa", Chapter 15 in van Beukering, PJH., Papyrakis, E., Bouma, J., and Brouwer, R., (eds) , Nature's Wealth: The Economics of Ecosystem Services and Poverty, Cambridge University Press; UK. Pp. 317-334. March

2. **Ramos Mabugu, Chitiga, M., Decaluwé, B., Maisonnave, H., Robichaud, V., Shepherd, D., van der Berg, S., and von Fintel, D.,** (2012) "Child Poverty in South Africa and the Global Financial and Economic Crisis", Chapter 6 in Mendoza, R et al (eds) Children in Crisis: Seeking Child Sensitive Policy Responses, Palgrave Macmillan, Macmillan Publishers Limited, Hampshire, UK.

3. **Ramos Mabugu, Maisonnave, M., and Chitiga, M.,** (2013), "The Impact of the Economic Crisis in South Africa: A Dynamic Computable General Equilibrium Model", Chapter 9 in Celia M. Reyes, Allelie B. Sobrevinas and Marsmath A. Baris Jr. (editors), Monitoring and Mitigating the Impact on Poverty of the Global Financial and Economic Crisis, PEP Network

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1. **Ramos Mabugu, Margaret Chitiga, Luca Tiberti, Helene Maisonnave, Stephane Hoareau, Véronique Robichaud, and Stewart Ngandu** (2013), The Economywide Impacts of the South African Child Support Grant: a Micro-Simulation-Computable General Equilibrium Analysis, CIRPéE Cahier de recherché/Working Paper; 13-03, Mars/March 2013, 38pp.

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3. **Mabugu, R., Mahabir, J., Maisonnave, H., and Chitiga, M.,** (2013) "The impact of the global economic crisis on sub-national government – lessons from the Free State Province in South Africa", University of Laval, Canada.

4. **Ramos Mabugu, Margaret Chitiga, Hélène Maisonnave and Véronique Robichaud** (2012) Building a Social Accounting Matrix and Computable General Equilibrium Model for City of Johannesburg. Technical Report, Human Sciences Research Council, South Africa

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5. **van Niekerk, D., and Madubula, M.,** (2012) Alternative Financing Mechanisms for Disaster Risk Management in South Africa, Chapter 5 in FFC (Financial and Fiscal Commission). 2012. Technical Report: 2013/14 Submission for the Division of Revenue. Online at: www.ffc.co.za.

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1. FC (Financial and Fiscal Commission). 2012. Submission to the Medium Term Budget Policy Statement. Midrand: FFC.

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