

Annual Report 2007/08



2007/08





Financial and Fiscal Commission

Annual Report 2007/08



For an Equitable Sharing of National Revenue





Table of Contents

Part A

1.	Legislative Mandate	6
2.	Chairperson/Chief Executive's Review	7
3.	Highlights/Achievements and Challenges	9

Part B

4.	The Commission	11
4.1	Composition	12
4.2	Commissioners	13
4.3	Structure	17
4.4	Corporate Governance	18
4.5	Commission Committees	19
4.5.1	Audit Committee	
4.5.2	Remuneration and Performance Review Committee	
4.5.3	Research Committee	
4.6	Attendance of Meetings	23
4.7	Remuneration of Commissioners	24
4.8	Sustainability	25
4.8.1	Funding	
4.8.2	Risk Management	
4.8.3	Fraud Prevention	
4.8.4	Performance Budgeting and Management	
4.8.5	Balanced Scorecard Planning	
4.8.6	Code of Ethics	
4.8.7	Internal Controls	
4.8.8	Stakeholder Relations	



Part C

5.	Performance	29
5.1	Performance Information	30
5.2	2007 Commission Submission for the 2008/2009 Division of Revenue	43
5.3	Government Response to the Commission's 2007 Recommendations for the 2008 Division of Revenue	50
5.4	Commission Response to Division of Revenue Bill 2008/2009	55

Part D

6.	Annual Financial Statements for the Year Ended 31 March 2008	65
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Part E

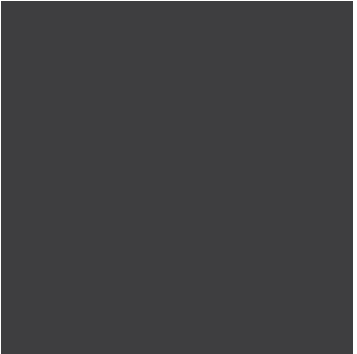
7.	Human Resource Management	97
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Part F

8.	Glossary	120
9.	Abbreviations and Acronyms	121

Part G

10.	Annexure A: Publications and Output of Research and Recommendations Programme	124
11.	Contact Details	128





Part A

Chapters 1 - 3

Chapter 1

Legislative Mandate

Chapter 2

Chairperson / Chief Executive's Review

Chapter 3

Highlights / Achievements & Challenges



Legislative Mandate

Chapter 1

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) (as amended) whereof provide among others that the Commission is an independent, objective, impartial and unbiased advisory institution that has to be consulted by Government with regard to division of revenue among the three spheres of government and in the enactment of legislation pertaining to provincial taxes, municipal fiscal powers and functions, and provincial and municipal loans.

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



Chairperson / Chief Executive's Review

Chapter 2

It is a privilege to present the Annual Report and audited Financial Statements of the Financial and Fiscal Commission. The year ended 31 March 2008 marks the third year of my term as the Chairman, and it was yet another year that the Commission delivered positive results, with the entire Constitutional and legislative requirements for the year being met. This report also reaffirms the Commission's commitments to sound financial management practices as indicated by the yet again unqualified report of the Auditor General.

The last year was characterised by significant developments in the work of the Commission. The Commission managed under very difficult circumstances to produce its Annual Submission on the Division of Revenue that was well received by Government and the broader stakeholder community. The Commission also dealt with supplementary submissions namely, the Submission on the Local Government Laws Amendment Bill, and the Municipal Fiscal Powers and Functions Bill. The Commission also finalised and tabled the report on the model for the financing of constitutionally mandated basic services which was conducted with the assistance of the Australian Government through the AusAid programme. Training to senior government officials and members of Parliament on the model was conducted by the Commission's technical team and hosted by the University of the Western Cape to which we are extremely grateful.

The Commission is also coordinating the review of the provincial equitable share formula (a joint effort of the Commission and the Technical Committee on Finance) as per Budget Council resolution of 2005. The Commission continued to interact with its stakeholders in the form of public hearings on its recommendations and consultations on its ongoing projects. Finally, I am pleased to report that the deficit that the Commission incurred in the 2006/07 financial year has been turned around and for this we are grateful for the assistance from the Minister of Finance, both financial and advisory, and from the painful but necessary austerity measures that were adopted by the Commission and implemented to the letter by the management team.

The past year has been a positive one for the Commission but as already indicated above, it was a very difficult one. The situation was exacerbated by the Commission's 2006/2007 deficit which required sacrifices to be made in order to turn it around. The key areas that were impacted included among others human resources (the suspension of the rollout of a human resource and retention strategy, and the deferment of all new training), travel (which was reduced to a bare minimum but is a key input in the Commission's work), and a freeze on all capital spending except maintenance. The result of these measures, coupled with an injection from the National Treasury was a wiping out of the deficit and a resultant surplus of R 1.4 million.

However the challenges that arise from the combination of the austerity measures are quite significant. The delayed implementation of the retention strategy has resulted in uncertainty among staff both in the research program and elsewhere and a significant number of staff resigned. This meant reallocating the work load among the remaining staff which further creates conditions for staff to look for alternatives elsewhere. Due to the nature of the skills required and reduced spending on training, the quality of the Commission's output may be negatively affected if nothing changes from a resource point of view.

The reduced spending on travel also impacted on the stakeholder liaison and consultation processes of the Commission as the bulk of the travel is within the Research Recommendations Programme of the Commission. It became increasingly more



discult to incorporate non full-time Commissioners in the Public Hearings processes of the Commission and imposed an even more onerous burden on the two full time Commissioners. The public accountability of the rest of the Commissioners thus becomes increasingly elusive.

The freezing of spending on capital items is also having a negative impact on the work of the Commission. Examples include the Commission's four year old Information Technology infrastructure that has negative implications for the quality of its work.

A further challenge that the Commission has been grappling with is the need to intensify its work in the local government sphere. The implementation of the Municipal Fiscal Powers and Functions Act (2007) and the possible implementation of the Money Bills and Amendment Procedure and Related Matters Bill of 2008 will require that the Commission deepens its capacity through the engagement of budget and local government finance expertise in its Research and Recommendations Program.

In dealing with challenges that the Commission faced in the past year, it is important to note that the governance matter relating to the constitution of the Commission's Audit Committee that was raised by the Select Committee on Finance has been addressed. The Chairperson of the Committee is, effective 07 November 2007, a non-commissioner. However, it should also be noted that Section 17(3)(b) of the Financial and Fiscal Commission of 1997 as amended specifically provides that only a Commissioner may chair a committee of the Commission. In order to address this matter, the Commission will be reviewing the Act for other inconsistencies that may violate principles of good corporate governance.

Through the review and reprioritization of its Repositioning Strategy, the Commission will continue to find ways to address these challenges and in this regard is counting on the support and assistance of its stakeholders in government and the legislatures in the three spheres of government.

I wish to extend a special word of thanks to all the members of the Financial and Fiscal Commission and in particular those Commissioners whose term of office has expired as at 31 December 2007. These Commissioners are Mr. Jaya Josie who was Deputy Chairperson of the Commission, Professor Anthony Melck, and Mr. Kamalasen Chetty. In the same vein we welcome new Commissioners that took office with effect from 1 March 2008, namely Mr. Bongani Khumalo (Deputy Chairperson), Mr. David Savage, Ms. Nelisiwe Shezi and Mr. Krish Kumar. Another word of thanks goes to the staff and the senior management team of the Secretariat for the support that they gave to the work of the Commission under the difficult year from which we have emerged.

Finally I extend a word of thanks to all our stakeholders who have maintained their confidence in the work that we do in spite of the challenges that we faced during the year. A final word of thanks to the Minister of Finance, Mr. Trevor Manuel MP, for his continued support.

Dr. Bethuel Setai

Chairperson / Chief Executive



Highlights / Achievements & Challenges

Chapter 3

A. Highlights / Achievements

Commission highlights and achievements for the reporting period include meeting all constitutionally mandated requirements including the Annual Submission for the Division of Revenue as well as the Commentary on the Division of Revenue Bill; the construction of a variety of world class models that are currently operational which include the Constitutionally Mandated Basic Services (CMBS) model, the energy Computable General Equilibrium (CGE) model and the 2010 FIFA World Cup Social Accounting Matrix (SAM) Model. The CMBS model was launched in October 2007 at an International Workshop organized by the Commission. The Commission also responded to all requests from stakeholders in line with the Financial and Fiscal Commission Act requirements details whereof are contained in Chapter 5 of this report. The Commission has further and in the spirit of NEPAD, assisted other African Countries in thinking around their own intergovernmental fiscal relations systems and efforts at fiscal decentralisation. These African countries include the Sudan, Nigeria as well as the Democratic Republic of Congo. The Commission has finally maintained its profile as one of the best practice institutions in the world in the area of fiscal decentralisation and intergovernmental fiscal relations.

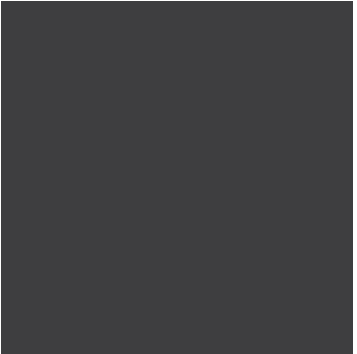
B. Challenges

In the past eight years, the Commission has experienced unprecedented levels of critical skills flight and with it the severe drain of its institutional memory and a serious decline in its knowledge holdings. This can have implications for the long-term quantity and quality of the Commission's output if not arrested. For example in the last two years, the Commission has had to scale down on certain necessary research projects while others have had to be put on hold because they could not be accommodated in the available resource envelope.

The need for the Commission to comply with several pieces of legislation also puts significant pressure on the resource envelope.

Finally, the implementation as of April 01, 2006 of the *Framework for the Devolution of Budgets and Associated Accommodation Charges* which was approved by Government is putting pressure on the Commission's budget as the requisite budget has not been transferred to the Commission.

A





Part B

Chapter 4 - The Commission

Contents

- 4.1 Composition
- 4.2 Commissioners
- 4.3 Structure
- 4.4 Corporate Governance
- 4.5 Commission Committees
 - 4.5.1 Audit Committee
 - 4.5.2 Remuneration and Performance Review Committee
 - 4.5.3 Research Committee
- 4.6 Attendance of Meetings
- 4.7 Remuneration of Commissioners
- 4.8 Sustainability
 - 4.8.1 Funding
 - 4.8.2 Risk Management
 - 4.8.3 Fraud Prevention
 - 4.8.4 Performance Budgeting and Management
 - 4.8.5 Balanced Scorecard Planning
 - 4.8.6 Code of Ethics
 - 4.8.7 Internal Controls
 - 4.8.8 Stakeholders Relations



4.1 Composition

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

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

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

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

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

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



4.2 Commissioners



Chairperson/Chief Executive

Dr Bethuel Setai

Dr Bethuel Setai is the Chairperson and Chief Executive of the Financial and Fiscal Commission. He formerly served as Director-General of the Free State province. Dr Setai possesses extensive lecturing experience, having taught *inter alia* at the Universities of California in Santa Cruz, Lincoln University in Pennsylvania University of Vermont in Burlington, Vermont, and the National University of Lesotho. He is a Presidential appointee and is currently serving a five-year term of office at the FFC. He was appointed as of 01 September 2008 and his term of office expires on August 31 2010.

B

Deputy Chairperson

Bongani Khumalo

Bongani Khumalo was appointed Deputy Chairperson of the Financial and Fiscal Commission as of 01 March 2008. He was previously the Program Manager for Fiscal Policy in the Secretariat of the Commission. He has worked on a variety of areas within the South African intergovernmental fiscal relations system, including the design of revenue sharing formulae, the financing of education, health care and social assistance, and sub national borrowing and taxation issues and on the design of conditional grants. Upon completing a Master of Science (Economics) degree from the University of Zimbabwe, Bongani Khumalo lectured at the same University in the areas of International Trade and Development and Public Finance. He then moved to Rhodes University in Grahamstown in 1994 where he lectured Public Policy, International Trade Policy and Development Economics until 1999 when he joined the Financial and Fiscal Commission as a researcher. He has published articles and contributed book chapters on Intergovernmental Fiscal Relations and on Public Finance. His term of office expires on 28 February 2011.



Commissioner

Tania Ajam

Tania Ajam is a Public Finance Economist. She is the Director of the Knowledge Centre at the Applied Fiscal Research Centre (AFReC) (Pty) Ltd, a UCT affiliated company and the Managing Director of PBS (Pty) Ltd which implements performance budgeting systems. Tania serves on the Financial and Fiscal Commission as a provincial nominee. She was appointed Commissioner as of 01 July 2004 and her term of office ends on 30 June 2009.



Commissioner

David Savage

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



Commissioner

Martin Kuscus

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



Commissioner

Nelisiwe Shezi

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



Commissioner

Blake Mosley-Lefatola

Blake Mosley-Lefatola is an Honours graduate in Industrial Sociology from Wits University. He is a local government specialist having worked in and with the Public Sector for 16 years. He has been appointed as Chief Executive Officer of the Gauteng Economic Development Agency (GEDA) with effect from 1 July 2008. He is the former Municipal Manager of the City of Tshwane Metropolitan Municipality and previous Group Chief Executive of the AKANANI Group Holding Company. He is a nominee of SALGA and will serve on the Commission until 30 June 2009.



Commissioner

Risenga Maluleke

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

Commissioner

Krish Kumar

Krish Kumar commenced work as a Trainee Accountant with the erstwhile Durban City Council in 1981 and progressed through the ranks to City Treasurer of the North and South Central Local Councils in 1997. In addition thereto, he was appointed as City Treasurer of the Durban Metropolitan Council in 1999. Finally, appointed as Deputy City Manager: Treasury of the eThekweni Municipality in 2001 and currently manages a budget of R23.2 billion. Under his management of the Treasury, the City has never received a qualified audit report and has achieved the highest credit rating for a municipality whilst also receiving numerous awards as the best run municipality and most economically viable municipality. Also a member of South African Local Government Association's (SALGA) Finance Working Group, Fellow of the Institute of Municipal Finance Officers (IMFO), chairman of Metro's CFO Forum, Past President of IMFO, member of Sidney Mufamadi, Project Consolidate team, project champion of new ERP billing system that is being built locally by the municipality and which it intends rolling out to other municipalities on a non-profit basis, and a member of the Divine Life Society. His guiding philosophy is that work is sacred. He is here to serve with passion and excellence. His favourite quote is "Service to mankind is service to God." He was appointed Commissioner commencing on 01 March 2008 and his term ends on 28 February 2011.





Jaya Josie

Jaya Josie was Deputy Chairperson of the Commission until the expiry of his term on December 31 2007. He was a national nominee. He was the full-time Commissioner responsible for the recommendations research programme since 2002; Acting Deputy Chairperson from 1999 to 2002 and a Commissioner since 1994. Prior to his appointment as Deputy Chairperson he was Director of Development Economic Services at Ernst and Young. Between 1991 and 1996 he was head of the Macroeconomic Research Group (MERG) and later Executive Director of the National Institute for Economic Policy (NIEP). Mr. Josie has published several research reports and articles on public finance and macroeconomic policy in South Africa. He is a trained development economist having undertaken post-graduate studies at the School of Oriental and African Studies (SOAS), University of London and the International Institute of Public Administration (IIAP), National School of Administration, Paris. He lectured in Public Finance and Macroeconomic Policy at School of Government (University of Western Cape) and the Institute of Government, (University of Fort Hare). He currently holds a part-time joint research fellowship from the Belgian Interuniversity Council and the University of the Western Cape (UWC).



Antony Melck

Antony Melck was previously professor of economics at the University of Stellenbosch and *inter alia* Principal and Vice-Chancellor at the University of South Africa (Unisa). He was a national nominee, the first deputy chairperson of the Commission and served two terms as a Commissioner. He is currently advisor to the Rector of the University of Pretoria. His term of office expired on December 31 2007.

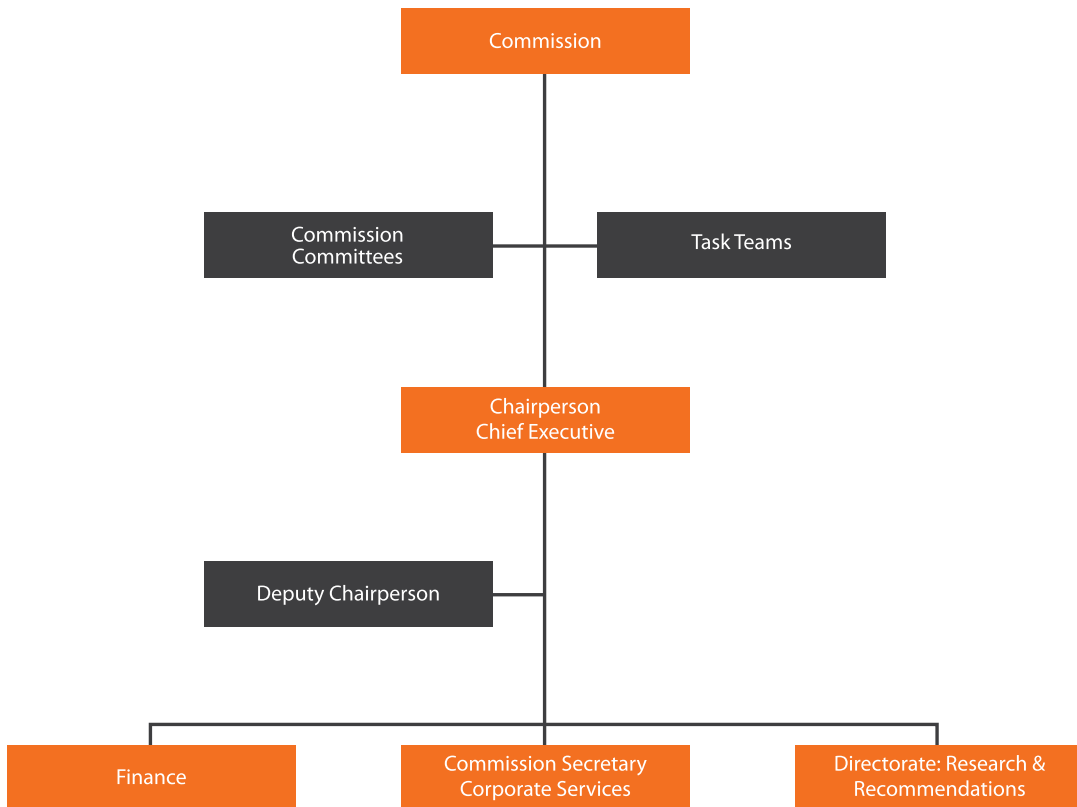


Kamalassen Chetty

Kamalassen Chetty was previously the Municipal Manager of the Cape Winelands District Municipality. He holds degrees from the University of Natal and Unisa in, Public Finance, Economics, and under-graduate degrees in Social Science as well as in Chemistry. Mr. Chetty has completed numerous short courses in Management, Finance and Development from various national and international institutions. He has wide ranging experience that includes numerous executive positions as the Chief Financial Officer of National Parliament, Institutional Economist in the World Bank, Director of FCR, a Research Institution, and an Analytical Chemist at Pfizer. His work experience includes projects in 15 countries internationally and in the Southern Africa. He currently serves on the following institutions: Corporate Footprint, Contact Trust, and chairs the reference group for the Earth Equity Fund, and the SAWIT Audit Committee. His term of office expired on December 31 2007.



4.3 Structure



B



4.4 Corporate Governance

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

The Commission endorses the principles of the South African Code of Corporate Practices and Conduct as recommended in the second King Report on Corporate Governance in South Africa (2002)(King II). The Commission continues to review and benchmark its governance structures and processes. The Commission considers corporate governance as a priority that requires more attention than merely establishing the steps to be taken to demonstrate compliance with legal and regulatory requirements. Issues of governance will continue to receive the Commission's and its committees' consideration and attention during the year ahead.



4.5 Commission Committees

4.5.1 Audit Committee

Membership

Jerry Sithole (Independent) (Chairperson of Committee as of December 07 2007)

Tania Ajam (Commissioner)

Martin Kuscus (Commissioner)

Antony Melck (Until December 31 2007)

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

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

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

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

The Committee meets the Commission's external and internal auditors and executive management regularly to consider risk assessment and management, review the audit plans of the external and internal auditors and to review accounting, auditing, financial reporting, corporate governance and compliance matters. It approves the external auditors' engagement letter and the terms, nature and scope of the audit function and the audit fee. The internal audit charter, internal audit plan and internal audit conclusions are similarly reviewed and approved by the Audit Committee.

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



4.5.2 Remuneration and Performance Review Committee

Membership

Risenga Maluleke (Chairperson)

Blake Mosley-Lefatola

Nelisiwe Shezi (As of April 2008)

Kamalasen Chetty (Until December 2007)

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

The role of this Committee is to:

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



4.5.3 Research Committee

Membership

Professor Bethuel Setai

Tania Ajam

Nelisiwe Shezi (As of April 2008)

Bongani Khumalo (As of April 2008)

Krish Kumar (As of April 2008)

David Savage (As of April 2008)

Jaya Josie (Until December 2007)

Antony Melck (Until December 2007)

Kamalasen Chetty (Until December 2007)

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

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

- Provide guidance to the Commission and oversee the activities of the Secretariat relating to research undertaken and recommendations made by or on behalf of the Commission by the Secretariat
- Facilitate and promote communication regarding the above and any other related matters between the Commission and the Secretariat



- Be able to assist the Commission and the Chairperson/Chief Executive of the Commission with the implementation and supervision of the Commission's plans and activities relating to and/or arising from the implementation of the Commission's research and recommendations programme
- Ensure that research and recommendations projects are consistent with overall programme direction of the Commission
- Review and assess all research plans and timeframes to ensure that their scope and depth fall within the broad scope and responsibilities of what's expected of the Commission
- Monitor and evaluate through reports from the research function progress with research plans, timeframes and activities
- Provide advice on the effective use of any such resources
- Assist in the supervision and assessment of the efficacy of the use of such resources for the implementation of the Commission's activities in carrying out its mandate
- Through the institution of a quality assurance regime, ensure that research outputs are of a quality and standard commensurate with the high level of rigor expected of/by the Commission
- Give advice, guidance, supervision and directives where/when appropriate, to the Secretariat in the preparation of the Commission's research outputs, submissions and final documents
- Give advice on and provide guidance on the use of external resources and inputs for the implementation of the Commission's research and recommendations activities and plans, and
- Evaluate and assess external inputs into the research process and oversee and guide the appropriate and relevant use of such inputs in research activities and tasks.
- Ensuring that research projects undertaken by the Commission's Research and Recommendations Programme are relevant, timeous, comparable with international and national best practice in terms of quality, and that they make optimal use of in-house research capabilities and resources.



4.6 Attendance of Meetings

Commissioners	Commission Meetings	Audit Committee	Remuneration and Performance Review Committee	Research Committee
Number of Meetings	10	4	2	4
Dr Bethuel Setai	10	4	-	4
Jaya Josie	2	-	-	1
Tania Ajam	10	3	-	3
Risenga Maluleke	4	-	1	-
Blake Mosley-Lefatola	7	-	2	-
Prof. Antony Melck	4	2		1
Kamalasen Chetty	2	-	2	3
Martin Kuscus	4	3	-	-
Bongani Khumalo	3	-	-	1
David Savage	-	-	-	-
Nelisiwe Shezi	-	-	-	-
Krish Kumar¹	-	-	-	-
Non Commissioner	Commission Meetings	Audit Committee	Remuneration and Performance Review Committee	Research Committee
Jerry Sithole	-	2	--	-

¹Commissioners Khumalo, Shezi, Savage and Kumar were to have attended three (3) of the ten (10) Commission Meetings while Commissioners Josie, Melck and Chetty were to have attended seven (7) of the ten (10).



4.7 Remuneration of Commissioners

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



4.8 Sustainability

4.8.1 Funding

The funds of the Financial and Fiscal Commission consist of money

1. appropriated by Parliament for the purpose of the Commission;
2. earned on investments;
3. obtained by the alienation or letting of movable or immovable property;
4. accruing to the Commission from any other source; and
5. otherwise becoming available to the Commission.

The Commission's planning and budgeting process is as follows:

- Each department will conclude a strategic session with the assistance of Corporate Affairs in December 2007/ January 2008.
- Each cost centre/department will then compile a budget
- Finance will consolidate the departmental budget and interrogate the numbers with the departmental executive.
- The departmental executive will present and motivate his/her budget for approval at EXCO. This ensures the following
 - Alignment in the FFC



- Optimal utilisation of resources amongst all departments
- Information sharing
- The budget will then be tabled to Executive Management for recommendation to the Commission for final approval
- The approved budget is then submitted to National Treasury and dealt with in terms of the normal Medium Term Expenditure processes.

The Commission may accept a donation or bequest, provided that it will not result in a conflict of interest. All donations and bequests are, however, disclosed in the Annual Report of the Commission, and all material donations or bequests are itemised.

4.8.2 Risk Management

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

4.8.3 Fraud Prevention

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

4.8.4 Performance Budgeting and Management

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

4.8.5 Balanced Scorecard Business Planning

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



4.8.6 Code of Ethics

The Commission is in the process of developing a Code of Ethics.

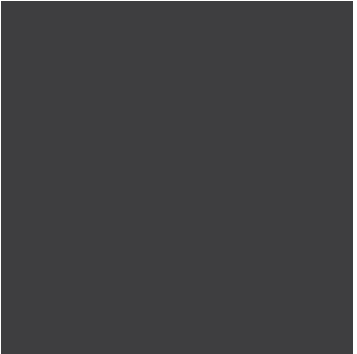
4.8.7 Internal Controls

A comprehensive Risk Management Framework has been developed and implemented.

4.8.8 Stakeholder Relations

The Commission has an ongoing formal and informal programme of engaging with stakeholders, identifying concerns, and responding to needs and expectations of its stakeholders. As is customary, the Commission held rigorous consultations over the reporting period with its primary stakeholders from the provincial and national legislatures expressed through the Finance committees, to Government, primarily via the Budget Council and Budget Forum and local government via the South African Local Government Association (SALGA).

B





Part C

Chapter 5 - Performance

Contents

- 5.1 Performance Information
- 5.2 2007 Commission Submission for the 2008/2009 Division of Revenue
- 5.3 Government Response to the Commission's 2007 Recommendations
for the 2008 Division of Revenue
- 5.4 Commission Response to Division of Revenue Bill 2008/2009

5.1 Performance Information

Strategic Objective	Project/Activities (Input)	Output (Deliverable)	Key Performance Measure/Indicator	Target	Actual	Outcome
Provide research excellence on current issues affecting IGFR	Primary Health Infrastructure and Health Outcomes	Reports	Contribution to Submission on the Division of Revenue 2009 - 2010	March 2008	Achieved	Discharge of Constitutional and Legislative Mandate
	Public Health-Care in South Africa: A Review of Performance and Capacity	Reports	Contribution to Submission on the Division of Revenue 2009 - 2010	March 2008	Achieved	Discharge of Constitutional and Legislative Mandate
	Strategy to Enhance Local Government Revenue Sources	Reports	Contribution to Submission on the Division of Revenue 2009 - 2010	March 2008	Achieved	Discharge of Constitutional and Legislative Mandate
	Performance of Provincial Education Departments	Reports	Contribution to Submission on the Division of Revenue 2009 - 2010	March 2008	Achieved	Discharge of Constitutional and Legislative Mandate
	Financing Basic Education in Public Ordinary Schools in South Africa: An Evaluation of the Provision of Learner Transport in the South African Public Ordinary Schooling Context	Reports	Contribution to Submission on the Division of Revenue 2009 - 2010	March 2008	Achieved	Discharge of Constitutional and Legislative Mandate

Strategic Objective	Project/Activities (Input)	Output (Deliverable)	Key Performance Measure/Indicator	Target	Actual	Outcome
Provide research excellence on current issues affecting IGFR	Deriving Urban and Rural Data from Existing Data Sets	Reports	Contribution to Submission on the Division of Revenue 2009 - 2010	March 2008	Achieved	Discharge of Constitutional and Legislative Mandate
	Assessment of Infrastructure Backlogs in South Africa	Reports	Scope	March 2008	Achieved	<ul style="list-style-type: none"> • Readiness for next phase of project • On hold on account of budgetary constraints • Future discharge of Mandate
	Monitoring and Evaluation within the Context of the FFC	Reports	Contribution to Submission on the Division of Revenue 2009 - 2010	March 2008	Achieved	Discharge of Constitutional and Legislative Mandate
	Measuring the Volume of Government Output in South Africa	Reports	Contribution to Submission on the Division of Revenue 2009 - 2010	March 2008	Achieved	Discharge of Constitutional and Legislative Mandate
	Local Government Data Collection Reform	Reports	Contribution to Submission on the Division of Revenue 2009 - 2010	March 2008	Achieved	Discharge of Constitutional and Legislative Mandate
	Oil Prices and the South African Economy: A Macro-Meso-Micro Modelling Approach	Reports	Publishable in Research Report 2008	March 2008	Achieved	Contribution to South African system of Intergovernmental Fiscal Relations
	Restructuring of the Electricity Distribution Industry	Reports	Contribution to Submission on the Division of Revenue 2009 - 2010	March 2008	Achieved	Discharge of Constitutional and Legislative Mandate



Strategic Objective	Project/Activities (Input)	Output (Deliverable)	Key Performance Measure/Indicator	Target	Actual	Outcome
Provide research excellence on current issues affecting IGFR	The Impact of Oil Price Changes on the South African Economy: A Vector Autoregression Approach	Reports	Contribution to Submission on the Division of Revenue 2009 - 2010	March 2008	Achieved	Discharge of Constitutional and Legislative Mandate
	Analysing the Impact of Alternative Policy Responses to High Oil Prices Using an Energy-Focused CGE Model for South Africa	Reports	Contribution to Submission on the Division of Revenue 2009 - 2010	March 2008	Achieved	Discharge of Constitutional and Legislative Mandate
	Impact of an Electricity Price Increase on the South African Economy: A Meso-Micro Modelling Analysis	Reports	Contribution to Submission on the Division of Revenue 2009 - 2010	March 2008	Achieved	Discharge of Constitutional and Legislative Mandate
	Efficiency and Equity Effects of 2010 FIFA World Cup Transport Infrastructure Spending: A SAM Modelling Exercise	Reports	Contribution to Submission on the Division of Revenue 2009 - 2010	March 2008	Achieved	Discharge of Constitutional and Legislative Mandate
	The Classification of Roads and Expansion of the National Road Infrastructure Network	Reports	Contribution to Submission on the Division of Revenue 2009 - 2010	March 2008	Achieved	Discharge of Constitutional and Legislative Mandate
	Assessment of the Provincial Budget and Expenditure Review (2003/04 to 2009/10): Transport, Roads and Public Works Departments	Reports	Contribution to Submission on the Division of Revenue 2009 - 2010	March 2008	Achieved	Discharge of Constitutional and Legislative Mandate

Strategic Objective	Project/Activities (Input)	Output (Deliverable)	Key Performance Measure/Indicator	Target	Actual	Outcome	
Provide research excellence on current issues affecting IGFR	Public Housing in South Africa: A Review of Performance 2003-2009	Reports	Contribution to Submission on the Division of Revenue 2009 - 2010	March 2008	Achieved	Discharge of Constitutional and Legislative Mandate	
	Institutional Bottlenecks Hampering Housing Delivery in South Africa	Reports	Contribution to Submission on the Division of Revenue 2009 - 2010	March 2008	Achieved	Discharge of Constitutional and Legislative Mandate	
	Empirical Analysis of the Provincial Equitable Share Formula	Concept Paper	Contribution to Submission on the Division of Revenue 2009 - 2010	March 2008	Achieved	Discharge of Constitutional and Legislative Mandate	
	International and Internal Migration in South Africa: Implications for Intergovernmental Fiscal Relations and Service Delivery	Reports	Contribution to Submission on the Division of Revenue 2009 - 2010	March 2008	Achieved	Discharge of Constitutional and Legislative Mandate	
	Development of Constitutionally Mandated Basic Services (CMBS) Model	Report	Publication	May 2007	Achieved	Contribution to South African system of Intergovernmental Fiscal Relations	
			Workshop	October 2007			
	Comply with Constitutional and Legislative Mandate and Accountabilities	Submission on the Division of Revenue 2008/2009	Submission document	Submission to Parliament	May 2007	Achieved	Discharge of Constitutional and Legislative Mandate
		Respond to Division of Revenue Bill 2009	Response	Submission to Parliament	February 2008	Achieved	Discharge of Constitutional and Legislative Mandate
		Draft Submission on the Division of Revenue 2009/2010	Final Draft	Approval by Commission	March 2008	Achieved	Discharge of Constitutional and Legislative Mandate



Strategic Objective	Project/Activities (Input)	Output (Deliverable)	Key Performance Measure/Indicator	Target	Actual	Outcome
Comply with Constitutional and Legislative Mandate and Accountabilities	Annual Report 2006/2007	Report with Audited AFS	Submission to Parliament	August 2007	Achieved	Discharge of Constitutional and Legislative Mandate
	Comment on PFMA Bill	Documented Comment	Submission to National Treasury	February 2008	Achieved	Discharge of Constitutional and Legislative Mandate
	Comment on Local Government Laws Amendment Bill	Documented Comment	Submission to National Treasury	July 2007	Achieved	Discharge of Constitutional and Legislative Mandate
	2007/2008 Internal Audit	Internal Audit Report with Management Comments	<ul style="list-style-type: none"> Final Report Approval of Report by Audit Committee 	March 2008	<ul style="list-style-type: none"> Partially achieved Audit delayed IT Audit not finalised Budget constraints 	Governance compromise
	2006/2007 External Audit	<ul style="list-style-type: none"> Submission by due date of Unaudited Annual Financial Statements to Auditor-General Cooperation with Auditor-General Audited Annual Financial Statements 	<ul style="list-style-type: none"> Due date Extent of adjustments 	<ul style="list-style-type: none"> May 31 2007 Less than 5% 	<ul style="list-style-type: none"> Achieved Partially achieved 	<ul style="list-style-type: none"> Compliant Partially compliant
				July 31 2007	Achieved	Compliant
				Unqualified Audit	Achieved	Compliant

Strategic Objective	Project/Activities (Input)	Output (Deliverable)	Key Performance Measure/ Indicator	Target	Actual	Outcome
Development and implementation of HR Strategy to support the core business of the FFC	Remuneration Strategy and Policy	Implementation of appropriate Remuneration Strategy and Policy	Formulation and adoption of FFC Remuneration Strategy and Policy	March 2008	<ul style="list-style-type: none"> Not achieved Proposed Strategy and Policy pending Commission approval Budget sufficiency considerations would in any event have curtailed implementation 	The challenges regarding the attraction, reward and retention of talent continue
	Retention Strategy and Policy	Implementation of appropriate Retention Strategy and Policy	Formulation and adoption of FFC Retention Strategy and Policy	March 2008	<ul style="list-style-type: none"> Not achieved Proposed Strategy and Policy pending Commission approval Budget sufficiency considerations would in any event have curtailed implementation 	The challenges regarding the attraction, reward and retention of talent continue
	Develop and implement Personal Employee Development Plans [PDPs]	• PDPs	• Implementation	May 2007	<ul style="list-style-type: none"> Not achieved PDPs developed but not implemented because of budget constraints 	No employee personal development



Strategic Objective	Project/Activities (Input)	Output (Deliverable)	Key Performance Measure/Indicator	Target	Actual	Outcome
Development and implementation of HR Strategy to support Commission Business	Develop and implement Organisational Training, Skills Development and Educational Programme	Organisational Training, Skills Development and Educational Programme	Implementation	May 2007	<ul style="list-style-type: none"> Organisational Training, Skills Development and Educational Programme developed but not implemented Not achieved because of budget constraints 	No training, skills development and education
	FFC Sabbatical Policy/ Programme	Formulation and adoption of Sabbatical Policy	Implementation of approved Policy	March 2008	<ul style="list-style-type: none"> Sabbatical Policy drafted and approved. No applications received Budget constraints may constitute an impediment to implementation 	Currently none but potential for positive impact on retention of talent and improvement on skills base
	FFC Internship Programme	Implementation of FFC Internship Programme	Minimum of ten (10) interns on April 2007 to February 2008 Programme	April 2007	<ul style="list-style-type: none"> Recruitment exercise conducted Programme suspended due to budget constraints. Not achieved 	<ul style="list-style-type: none"> No experiential learning for persons with appropriate educational qualifications but no practical experience Adverse consequences to potential for in-house development of talent

Strategic Objective	Project/Activities (Input)	Output (Deliverable)	Key Performance Measure/Indicator	Target	Actual	Outcome
Development and implementation of HR Strategy to support the Core Business of the FFC	Alignment of Performance and Remuneration systems with FFC work cycle	Integration of Performance and Remuneration system with FFC Work and Financial Cycle	Performance Assessments, Bonus Payments and Remuneration Reviews (CPIX and other) to be implemented at conclusion of Work and Financial Cycle	March 2008	<ul style="list-style-type: none"> Partially achieved Performance Bonus and CPIX adjustment implemented Promotions and notch adjustments not considered and effected because of budgetary constraints 	The challenges regarding the attraction, reward and retention of talent continue
	Reorganisation	<ul style="list-style-type: none"> Review of Organisational Structure in line with recently Revised Strategy Compilation of Job Profiles 	Implementation of revised structure	March 2008	<ul style="list-style-type: none"> Partially achieved Organisational structure updated. Job Profiles completed Structure not fully implemented because of budgetary constraints 	Challenges for delivery in terms of the Mandate of the Commission
	Recruitment and Staffing Strategy	Recruitment of properly qualified personnel as per organisational structure	Filling of vacancies	March 2008	<ul style="list-style-type: none"> Not achieved No recruitment for new and vacated positions suspended for lack of resources 	<ul style="list-style-type: none"> Increased workload on current staff Challenges for delivery in terms of the Mandate of the Commission



Strategic Objective	Project/Activities (Input)	Output (Deliverable)	Key Performance Measure/Indicator	Target	Actual	Outcome
Development and implementation of HR Strategy to support the Core Business of the FCC	Recruitment and Staffing Strategy	Recruitment of properly qualified personnel as per organisational structure cont ...	Filling of vacancies	March 2008	<ul style="list-style-type: none"> Not achieved Recruitment for new positions suspended for lack of resources Recruitment for vacated positions suspended for lack of resources 	<ul style="list-style-type: none"> Challenges regarding the attraction, reward and retention of talent
	Employment Equity	Compliance with targets set in the Employment Equity Plan for Senior Management	Preferential employment of female as opposed to male Senior Management Personnel	<ul style="list-style-type: none"> Male: 60% Female: 40% 	<ul style="list-style-type: none"> Male = 86% Female = 14% Not achieved Embargo on recruitment for new positions and filling of vacated posts 	Non-attainment of Commission Employment Equity targets
	Employment Equity	Compliance with targets set in the Employment Equity Plan for Professionals	Preferential employment of female as opposed to male Professionals	<ul style="list-style-type: none"> Male: 60% Female: 40% 	<ul style="list-style-type: none"> Male: 33.3% Female: 66.7% Achieved 	Result of embargo on recruitment and non-filling of positions vacated by male incumbents
	Remuneration Project	Alignment with Public Service / Market-related Pay Scales	Assessment of current pay structure and adjustments within DPSA Pay Scale guidelines	April 2007	<ul style="list-style-type: none"> Assessment completed and proposals formulated. 	<ul style="list-style-type: none"> Remuneration levels remain uncompetitive

Strategic Objective	Project/Activities (Input)	Output (Deliverable)	Key Performance Measure/Indicator	Target	Actual	Outcome
Development and implementation of HR Strategy to support the Core Business of the FFC	Remuneration Project cont...	Alignment with Public Service / Market-related Pay Scales	Assessment of current pay structure and adjustments within DPSA Pay Scale guidelines	April 2007	<ul style="list-style-type: none"> Approval of Programme pending Implementation would in any event have not been possible due to budgetary constraints 	<ul style="list-style-type: none"> Inability to attract and remunerate talent remains
	Retention Project	Development and implementation of Programme for retaining key talent	Identification of key talent and implementation of Programme	<ul style="list-style-type: none"> Maximum of 25% of key employees October 2007 	<ul style="list-style-type: none"> Proposal completed Talent identified Approval of Programme pending Implementation would in any event have not been possible due to budgetary constraints 	<ul style="list-style-type: none"> Skills flight
Access funding to support Commission Business	Develop multi-year Revenue Forecast Estimates	Documented MTEF Submission to National Treasury	Variance between allocation and submission	Less than 5% variance	<ul style="list-style-type: none"> Not achieved More than 5% variance 	Inability to fully discharge Commission Mandate in terms of Strategy and Business Planning



Strategic Objective	Project/Activities (Input)	Output (Deliverable)	Key Performance Measure/Indicator	Target	Actual	Outcome
Access funding to support Commission Business	Administer 2007/2008 Budget Process	Documented MTEF Submission to National Treasury	Variance between allocation and submission	Less than 5% variance	<ul style="list-style-type: none"> Not achieved More than 5% variance 	Inability to fully discharge Commission Mandate in terms of Strategy and Business Planning
	Request additional funding in terms of Section 23 (2)(b) of the Financial and Fiscal Commission Act	Documented Submission to National Treasury	Variance between approved budget adjustment and submission	Less than 5% variance	<ul style="list-style-type: none"> Not achieved More than 5% variance 	Inability to fully discharge Commission Mandate in terms of Strategy and Business Planning
	Access alternative sources of funding	AusAid Grant	Funding for development Model for Constitutionally Mandated Basic Services	80% of total funding	<ul style="list-style-type: none"> Achieved 	Discharge of Commission Mandate
Adopt prudent financial management in line with the PFMA and all other statutory requirements	Financial accounting and reporting	Monitor budgets against actual expenditure	<ul style="list-style-type: none"> Report on, provide explanations for, and correct variances 	Less than 5% variance	Achieved	Facilitate proper plan, prioritisation and spending within budget allocation
			<ul style="list-style-type: none"> Periodicity of reporting 	Monthly and Quarterly - Management @ 90%		
			<ul style="list-style-type: none"> Completeness of information 	Quarterly - National Treasury @ 90%		
			<ul style="list-style-type: none"> Elimination of 2006/2007 deficit 	<ul style="list-style-type: none"> March 2008 Nil 		
					Achieved	Compliant

Strategic Objective	Project/Activities (Input)	Output (Deliverable)	Key Performance Measure/Indicator	Target	Actual	Outcome	
Adopt prudent financial management in line with the PFMA and all other statutory requirements	Financial accounting and reporting cont ...	Monitor budgets against actual expenditure	<ul style="list-style-type: none"> Spending within 2007/2008 budget allocation Spending within 2007/2008 budget allocation 	<ul style="list-style-type: none"> Less than 5% variance March 2008 	Achieved	Compliant	
				<ul style="list-style-type: none"> Less than 5% variance March 2008 	Achieved	Compliant	
			<ul style="list-style-type: none"> Periodicity of reporting Completeness of information 	<ul style="list-style-type: none"> Management: Monthly and Quarterly National Treasury: Quarterly Management: 95% National Treasury: 95% 	Achieved	Facilitates planning, prioritisation, and spending with economy and within budget allocation	
				March 2008	Achieved	Compliant	
				March 2008	Achieved	Compliant	
	Develop and implement a Physical Asset Strategic Plan	Physical Asset Strategic Plan	Implementation		March 2008	Achieved	Compliant
					March 2008	Achieved	Compliant
					March 2008	Achieved	Fraud prevention
	Develop Comprehensive Risk Management Framework	Framework	First Draft		March 2008	Achieved	Compliant
					March 2008	Achieved	Compliant
Electronic Funds Transfer Capacity	Implementation of Electronic Funds Transfer System	90% of funds transferred electronically		March 2008	Achieved	Fraud prevention	
				March 2008	Achieved	Fraud prevention	



Strategic Objective	Project/Activities (Input)	Output (Deliverable)	Key Performance Measure/Indicator	Target	Actual	Outcome
Adopt prudent financial management in line with the PFMA and all other statutory requirements	Performance Based Budgeting	Cost Centres	<ul style="list-style-type: none"> Monthly Cost Centre Reports tracking budgets against expenditure, plans against actual performance 	March 2008	<ul style="list-style-type: none"> Partially achieved Cost Centres in place Software incompatibility Budget constraints 	Constraint in performance monitoring
	Exploratory discussions with Speaker of NA; Chairperson of NCOP; Secretary to Parliament; Committee Chairperson: NA; Chairperson: SCoF; Minister of Finance and Speakers of Provincial Legislatures	Documented Protocols	Common understanding of responsibilities, relationships, and interfaces	March 2008	<ul style="list-style-type: none"> Partially achieved Engagements with Minister of Finance and Speakers of Provincial Legislatures still outstanding 	Improved relations
Develop a Library, ECM and Knowledge Management System to service the core needs of the Organisation	Development of Online Catalogue	Catalogue	Publication	May 2007	Achieved	Knowledge sharing
	Knowledge Audit	Research Report	Acceptance of Recommendations	November 2007	Achieved	KM Strategy Recommendations
	Records Survey	Research Report	Acceptance of Recommendations	January 2008	Achieved	ECM Strategy Recommendations



5.2 2007 Commission Submission for the 2008/2009 Division of Revenue

Section 220 of the Constitution establishes the Financial and Fiscal Commission (FFC) as an independent and impartial statutory body. The Constitution mandates the Commission to make recommendations on the vertical division of nationally raised revenue among the three spheres of government, the horizontal division of revenue among provinces and among municipalities. Furthermore, the Commission is required to make recommendations under legislation pertaining to the issuing of loan guarantees by the three spheres of Government, provincial tax legislation, municipal fiscal powers and functions; and provincial and municipal borrowing powers (Sections 214, 218, 228-230).

Following Sections 214 and 222 of the Constitution, Section 9 of the Intergovernmental Fiscal Relations Act (1997) provides for the Commission to make annual recommendations to Parliament and the Provincial Legislatures on the vertical and horizontal division of revenue; Section 10 requires that Government considers the Commission's recommendations. In performing its functions, the Commission takes into account the factors listed in Section 214(2) [a-j] of the Constitution and the provisions in the Bill of Rights in Chapter 2 of the Constitution. This executive summary presents the main recommendations, observations and comments of the Commission. Part A presents recommendations and advisories for the 2008 Division of Revenue. Part B is a summary of the Commission's supplementary Submissions made in the cause of the 2006/07 period. Part C presents analyses of provincial spending and two analytical methods developed by the FFC. The methods will be used for future recommendations research.

Part A: Recommendations and Advisories for the 2008 Division of Revenue

1. *Observations and advisories on the economic impacts of the 2010 FIFA World Cup*

From a general public funding perspective, the financing of 2010 FIFA World Cup by the South African government does not negatively impact on considerations in section 214 (a-j) of the Constitution. More specifically, however, the Commission would like to submit the following observations and advisories given the likelihood of negative effects on some macroeconomic balances:

- Government's fiscal policy stance should continue to be focused on meeting the long-term objectives by ensuring that the overall budget deficit does not exceed 3% of GDP. However, in the event of major unforeseen shocks that may lead to overheating Government has the stabilizing option of fiscal policy intervention to support monetary policy.
- Government could also maintain the budget deficit at the required level by stimulating household savings.



- Government financing of 2010 FIFA World Cup will have a negative impact on the current account trade balance. However, the current account imbalance implied by the envisaged 2010 FIFA World Cup expenditure should not be viewed as a threat since a large portion of this trade deficit is a result of infrastructure investment.
- Rising inflation is likely to present a real threat. Essentially monetary concerns arise from impacts on balance of payments and nominal exchange rate movements as a result of the 2010 expenditure. The Commission believes, however, that increases in inflation driven by such causes do not justify an increase in interest rates.
- With respect to project management the Commission would like to highlight the possible public finance risks of cost overruns and project delays. The impacts of these risks have the potential to cause uncertainty and affect investment confidence in the country and the region. The increase in costs of materials during the construction phase might increase the magnitudes of the projects themselves. Project delays can in turn, increase interest rate risks.
- The Commission believes that the legacy effects of hosting the World Cup should be properly addressed, costed and financed. In its research the FFC identified specific legacy effects, namely: increased economic investments, football and sport development, human capital development, social and political development, infrastructure and technology development. These can be location specific or countrywide. However, there is not as yet an explicit commitment of resources by the government spheres to facilitate the sustainable realisation of these effects.
- The Commission proposes two approaches for sustaining the positive legacy effects of the 2010 World Cup:
 - The first is to appoint a national agency to oversee the legacy effects of a national character. In keeping with prudent macroeconomic behaviour that has characterised government policy thus far, it is recommended that household saving be stimulated and be seen as the main source of funds to finance such projects.
 - The Commission recommends, secondly, that the location specific legacy effects be left in the hands of hosting cities. As legacy benefits accrue to the City it is recommended that the City fund these from their own revenue sources.

2. *Extending the National School Nutrition Programme (NSNP) from Primary to Secondary Schools*

- All Provincial Education Departments (PEDs) should adopt and entrench the NSNP as their full responsibility.
- PEDs must engage the necessary personnel with appropriate skills levels for the implementation of the programme. PEDs should address the following as a step towards extending the programme from primary schools to secondary schools:



- Budget allocations for the NSNP in primary schools should be increased in order to cover learners that are presently not covered. The present situation is such that a number of learners in primary schools are not covered by the programme.
- It is necessary to boost both personnel numbers and skills levels in order to improve the implementation of the programme.
- PEDs should begin implementing the NSNP in schools that have been declared “no-fee-schools” by the Minister of Education. Presently, the “no-fee-schools” policy deals with learners attending school in quintiles 1 and 2. Typically, these are schools serving poorer communities with greater numbers of deserving learners.
- The National Department of Education should develop national norms and standards to guide the implementation of the NSNP in the country. Presently, there are no uniform national minimum norms and standards for the NSNP. The lack of such norms could encourage inequity in the implementation of the programme.
- The National Department of Education should ensure that the quality of information is improved. The information obtained would be useful in the planning and budget processes of the NSNP.
- Where necessary, PEDs should supplement the NSNP conditional grant with funds from their respective budgets. Presently, this is the case in the Northern Cape.
- Where necessary, improvements in procurement procedures should be undertaken.
- Improvements in kitchen equipment and infrastructure in all provinces require particular attention.
- Improvements in the monitoring and evaluation capacity of the NSNP are vital in order to address difficulties that arise in the course of implementation.
- Increase the number of feeding days beyond the prescribed minimum.
- In certain provinces, increase the per learner per day feeding amount.



3. A Review of the Financing of School Infrastructure and Education Outcomes

The Provincial Infrastructure Grant (PIG) has indicative proportions for backlogs in education, health, roads and agriculture. However, in practice, actual allocations are not directed to these functions. In one province 100% of the fund in one year was allocated to only one sector. A new and improved Register of School Needs would enhance the targeting of the education component of the grant.

There are still schools with no sanitation and electricity. Coordination of planning between the Municipal Infrastructure Grant (MIG) funded infrastructure outside the school and in the school premises is critical to deal with sanitation and electrification challenges. The absence of coordination of plans undermines the functioning of school infrastructure. The existence of a school library with no books also does not serve any useful purpose.

Based on the above observations the Commission recommends:

- That the conditions of the PIG targeting educational infrastructure specify the requirement for provinces to use such funds to support development of infrastructure in areas with need and where it is most likely to improve school outcomes.
- That effective coordination of planning for the various provincial and municipal infrastructure grants be instituted as a matter of urgency to ensure optimal outcomes from school infrastructure investment.

4. The Financing of Learner Support Materials (LSM) and the “No-Fee” School Policy

Non-personnel-non-capital (NPNC) classification for LSM is unclear and inconsistent across provinces contributing to low levels of budget allocations for some provinces. Although the situation has improved in recent years the FFC research indicates serious shortages of textbooks and stationery as a result of low prioritization and inadequate funding. As LSM contributes to education outcomes the Commission proposes:

- that LSM should be defined clearly and should mean stationery, textbooks, learner and teacher aids. Curriculum 2005 demands a well resourced classroom that should ideally include LSM such as textbooks for each learning area and other print based materials like atlases, dictionaries, stationery, and teaching equipment such as maps, charts and globes. International literature defines LSM as textbooks, stationery and reference books.
- a separate budget for textbooks, stationery, learner and teacher aids. This would help in monitoring and identifying how much was budgeted and spent in each area and help identify problems.
- a separate budget for maintenance, repairs and equipment.



In supporting the financing of the “No-Fee” school policy the Commission proposes that funding should be equitable and adequate to cover all the operations of the schools. The starting point to realise the goals of basic education for all is to provide primary education that is free and compulsory and, school fee exemptions only for deserving secondary learners. Taking this into account the Commission makes the following comments:

- Currently the FFC is reviewing the PES, hence it would consider the education component so that it reflects the socio economic profiles of learners with particular reference to the impact of income inequality and poverty.
- In addition the FFC proposes the setting of norms and standards that indicate the level of knowledge and skills that learners are expected to have acquired at various ages and stages within the schooling system.

5. *The Financing of Roads and Transport Infrastructure*

Currently not all provinces have good road management systems that are necessary in ensuring the accurate capturing of data on road conditions. In the absence of good data on the conditions of roads, funding will not go where it is most required. The Commission therefore proposes that:

- All provinces should put in place more effective road management systems that will ensure that they are able to gather accurate data on road conditions and use this information in their road spending priorities.

Unless the ongoing needs of provinces towards road maintenance are explicitly considered in the comprehensive review of the PES, the condition of provincial roads will continue to worsen and the cost thereof rise exponentially. The Commission therefore recommends that:

- The impending review of the PES formula should consider provincial road expenditure needs and should be reconfigured in a manner that enables provinces to fund their maintenance needs.

6. *A Review of the Financing of Housing Delivery*

Housing backlogs continue not only due to the legacy of the past but also because of high levels of unemployment, a growing population size and the HIV/AIDS pandemic. Other factors that compound the state of housing backlogs include the selling of subsidized houses by some beneficiaries. Housing need indicators are collected through housing surveys in other countries and homelessness is included as a variable in these surveys. This is more so because housing supply shortage is counted as one of the causes of homelessness.

In view of the analysis presented in this submission the Commission recommends that:

- A process for the collection of data on homelessness should be initiated. Such data should, in future, be included in the housing formula as part of the indicators of housing need.



Part B: Advisories and Recommendations from Supplementary Submissions made during the 2007/08 period

The Commission made three (3) supplementary Submissions in terms of the Financial and Fiscal Commission Act. These were:

7. *The Commission's Comments on the Local Government Laws Amendment Bill of 2008 submitted to the Department of Provincial and Local Government*
8. *The Commission's Comments on the Public Finance Management Bill of 2008 submitted to National Treasury*
9. *The Commission's Comments on the Municipal Fiscal Powers and Functions Bill of 2007 submitted to Portfolio Committee on Finance*

These are available on the Commission's website.

Part C: Financial and Fiscal Commission Analyses and Methods

10. *Budget Analysis: Spending Performance and Capacity of Provincial Government Departments 2003-2009*

Based on its analyses presented in this submission the Commission makes the following observations and recommendations:

- For the desirability of stable and predictable allocations of revenue shares between different programs and categories of spending Government should aim for stable budget growth paths especially in respect of infrastructure, capital and training budgets.
- The policy prioritisation of a department, program or category of spending should be supported by higher than average annual budget growth rates.
- The further institutionalisation of best practice project planning and budgeting methods should be encouraged.
- Every departmental service delivery program should be defined by and reported in the Provincial Budget and Expenditure Review according to:
 - actual and target beneficiaries,
 - personnel numbers and budget by occupational skills level and



- current items and capital assets utilised in service delivery. These delivery statistics should be reported by the department on behalf of its service delivery contractors.
- A methodology to measure the socio-economic impact of government capital and current spending should be standardized across government departments and programs.

11. *Comments on the vertical and horizontal Division of Revenue: A Model for Reviewing the Equitable Sharing of National Revenue*

- Based on the analysis and methodological framework presented in this submission, the Financial and Fiscal Commission will use the CMBS model as an analytical tool to inform its recommendations research and, its contribution to the review of equitable sharing formulae in the intergovernmental fiscal relations system with reference to:
 - The balance between the provision of constitutionally mandated basic services (CMBS) and macroeconomic and fiscal constraints that limit the availability of national revenues.
 - The objective determination of the equitable sharing of available revenue among the national, provincial and local spheres of governments.
 - The equitable allocation of provincial and municipal resources to capital spending in a way that is consistent with (a) and (b) above.

12. *A Framework for Assessing Function Shifts in South Africa's Intergovernmental Fiscal Relations System*

Having considered the FFC research into the principles and guidelines for instituting function shifts the Commission agreed to:

- Adopt the Checklist and Manual as the tools for use by the FFC in assessing function shifts.
- Accept that the framework will be updated from time to time as experience dictates.
- Distribute the documents to all organs of State to use in their own preparations for addressing proposals for a function shift.



5.3 Government Response to the Commission's 2007 Recommendations for the 2008 Division of Revenue

Section 214 of the Constitution and section 9 of the Intergovernmental Fiscal Relations Act (Act 97 of 1997) require the FFC to make recommendations in April every year, or soon thereafter, on the division of revenue for the coming budget. The FFC complied with this obligation by tabling its submission entitled Submission for the Division of Revenue 2008/09 to Parliament in May 2007. This part of the explanatory memorandum complies with the Constitution and section 10 of the Intergovernmental Fiscal Relations Act by setting out how government has taken into account the FFC's recommendations when determining the division of revenue for the 2008 MTEF.

Like the 2007 MTEF proposals, the current recommendations are divided into three main parts. Part A deals with the 2008 division of revenue, mainly focusing on the economic impact of the 2010 FIFA World Cup, the financing of learner support material and review of some of the conditional grants. Part B deals with supplementary submissions made during the 2006/07 period, while Part C covers the FFC's analyses of spending performance and capacity of provincial government departments (2003-2009), comments on the vertical and horizontal division of revenue, and provides a framework for assessing function shifts within the Intergovernmental Fiscal System.

Part A: Recommendations and advisories on the 2008/09 division of revenue

FFC comments on the economic impacts of the 2010 FIFA World Cup

The FFC did not make direct proposals regarding the financing of the 2010 FIFA World Cup. It cautioned that care should be taken to ensure that the financing of 2010 FIFA World Cup by the government should not negatively impact on considerations in section 214 (a-j) of the Constitution. The FFC further highlighted the importance of managing the risks associated with inflation, the current account deficit, government dissaving (through a higher budget deficit), poor project management and cost overruns.

The FFC believes that the legacy effects of hosting the 2010 FIFA World Cup should be properly addressed, costed and financed. In its research the FFC identified specific legacy effects, namely: increased economic investments, football and sport development, human capital development, social and political development, infrastructure and technology development. These can be location-specific or countrywide. The FFC proposes two approaches for sustaining the positive legacy effects of the 2010 FIFA World Cup:



- Appoint a national agency to oversee the legacy effects of a national character. In keeping with prudent macroeconomic behaviour that has characterised government policy thus far, it recommends that household savings be stimulated and be seen as the main source of funds to finance such projects; and
- Make the hosting cities responsible for sustaining location-specific legacy effects. As legacy benefits accrue to the city it is recommended that the city fund these from their own revenue sources.

Government response

Government agrees that the financing of the 2010 FIFA World Cup should be done in a manner that does not adversely impact on the considerations in section 214 (a-j) of the Constitution. Government is taking steps to ensure that the costs of hosting the World Cup remain reasonable. Despite the large investments made for the 2010 FIFA World Cup, social spending, particularly spending targeted towards the poor, grows sharply over the 2008 MTEF. In this regard, for the 2008 MTEF, R45.7 billion additional allocations are made for key pro-poor functions like education, health, social welfare and housing, while about R3 billion is allocated to the 2010 FIFA World Cup. The secondary effects of the event are positive as jobs are created, greater interest and confidence is shown in the country, and the public transport systems of the country's major centres are transformed. Government agrees with the FFC's observation that the macroeconomic and fiscal risks be closely monitored and minimised.

With respect to the legacy effects, government also agrees that these be properly addressed, costed and financed and that these be managed and financed by the host cities. Government does not support the establishment of a national agency to oversee the legacy effects of a national nature. It is of the view that existing institutions can manage this, and if needs be such institutions can be strengthened.

FFC proposal on the National School Nutrition Program (NSNP) grant

As a step towards extending the programme to secondary schools the FFC recommends that: budget allocations for the NSNP in primary schools should be increased to cover learners that are presently not covered, and to increase the number of days beyond the prescribed minimum; the requisite capacity (human resource and infrastructure) be put in place to improve the implementation of the programme; the programme be implemented in all "no-fee" schools; national norms and standards to guide the implementation of programme be developed; the quality of performance information be improved to support planning and budgeting; and where necessary, provinces supplement the conditional grant with funds from their equitable share.

Government's response

While government supports some of the observations put forward by the FFC, it wishes to caution that decision to extend the programme to secondary schools has not yet been taken.



Government agrees that steps should be taken to improve the overall performance of the programme. While there may be implementation challenges, generally the programme is successful, covering 6 million learners in 18 000 schools. The programme receives an additional R1.8 billion over the next three years to improve the quality of the meals; to extend coverage of all eligible learners (including learners in all “no fee” schools) in primary schools; and to provide meals on more school days. A baseline study on the programme has been completed and informs its present functioning. Government’s approach seeks to improve the effectiveness and efficiency of the programme before looking at the possibility of extending it to secondary schools.

FFC proposal on financing school infrastructure and education outcomes

FFC proposes that the conditions of the infrastructure grant to provinces targeted at educational infrastructure should specify the requirement that provinces should use such funds to exclusively support development of education infrastructure in areas of most need and where they are most likely to improve school outcomes. Further, that effective coordination of planning for the various provincial and municipal infrastructure grants should be instituted as a matter of urgency to ensure optimal outcomes from school infrastructure investment.

Government response

Government agrees that greater investment in school infrastructure (classrooms, science and computer laboratories, and libraries) is key to improving the quality of schooling. To foster social cohesion within a school setting, Government extends infrastructure needs to the development of sports and recreational facilities within schools.

The recently published national education infrastructure management system shows that while further infrastructure investments needs to be made, great strides have been made in addressing education infrastructure needs. Past budgets, through the provincial equitable share, have provided for greater investment in laboratories (science and maths) and libraries. These are to be extended in the years ahead. Over the next three years R2.7 billion is added to the infrastructure grant to provinces to address school infrastructure needs including replacing unsafe and inappropriate school structures. The rules of the grant have been revised in line with objectives of addressing education infrastructure needs, with strong emphasis on channelling funds towards maintenance of school infrastructure.

Government agrees that coordination between provincial and municipal infrastructure grants be improved to ensure optimal outcomes from infrastructure investments. In general municipal infrastructure development supports school infrastructure. To address misalignment where this exists, Government introduced the electricity and water and sanitation grants to ensure that municipal infrastructure supports the school infrastructure programme.

FFC proposal on the learner support material

The FFC recommends that learner support material be clearly defined and its meaning restricted to stationery, textbooks, learner and teacher aids. The FFC further recommends that there should be a separate budget line item for learner support material as this would ensure that budgets and spending is properly monitored.



With respect to maintenance, repairs and equipment, the FFC recommends that this also be reflected in a separate line item to monitor spending.

Government response

Government's definition of learner support materials is in line with the FFC's recommendation. Government agrees that there should be separate line items for learner support materials and maintenance, repairs and equipment. The 2008 Provincial Budget Format Guide which informs the 2008 Provincial Budget Statements requires provincial education departments to clearly show spending and budgets for learner support materials and maintenance, repairs and equipment separately. This practice is extended to all other provincial sectors.

FFC proposal on "no-fee" school policy

The FFC believes that the application of the "no-fee" school policy is sound. However, challenges that hinder the implementation process need to be addressed. The FFC proposes that funding should be adequate to cover all the operations of the schools.

Government response

Government agrees with the proposal that the "no-fee" schools policy should adequately cover all the operations of the schools. However this needs to be viewed within the minimum and maximum funding levels as prescribed by the norms and standards policy. Excluding the Eastern Cape, most provinces are already funding at a maximum level.

FFC proposal on roads and transport infrastructure

The FFC proposes that all provinces should put in place a more effective road management system that will ensure that they are able to gather accurate data on road conditions and use this information in their road spending priorities.

The FFC is of the opinion that unless the ongoing needs of provinces towards road maintenance are explicitly considered in the comprehensive review of the provincial equitable share, the condition of provincial roads will continue to worsen, and the cost thereof rises exponentially. The FFC recommends that the impending review of the provincial equitable share formula should consider provincial road expenditure needs and should be reconfigured in a manner that enables provinces to fund their maintenance needs.

Government response

Government agrees with the proposal that provinces should put in place more effective road management systems and that such systems should guide resource allocation.



With respect to funding roads infrastructure maintenance, large funding is channelled to provinces via the infrastructure grant to provinces. Provinces augment this allocation from their equitable shares. However one needs to be cautious in linking targeting through an allocation formula with providing adequate resources for roads infrastructure development. Targeting through a formula does not necessarily result in increased spending. The FFC is spearheading the review of the provincial equitable share formula. The financing of roads infrastructure will be dealt with within the context of that review.

FFC's proposal on housing delivery

The FFC recommends that a process for the collection of data on homelessness be initiated and that such data should be included in the housing formula as part of the indicators of housing need.

Government response

Government agrees that homelessness should be quantified. The current housing allocation formula takes into account homelessness when determining the housing need across provinces.

Part B: Supplementary submissions made during the 2006/07 financial year.

Part B of the FFC's recommendations deal with the supplementary submissions made during 2006/07. The supplementary submissions covered the fiscal implications of the re-demarcation of provincial boundaries; the Municipal Fiscal Powers and Functions Bill; initial comments on the draft policy paper on the framework for considering market-based instruments to support environmental fiscal reform in South Africa; and the fiscal regime for windfall profits in the liquid sector. These proposals were addressed in 2006 and 2007.

Part C: FFC analyses and methods

This part of the FFC's submission analyses the fiscal and financial performance of provincial government departments with the view of making proposals on how capacity to improve performance can be further developed. It also looks at a model for reviewing the equitable share and provides a framework for assessing function shifts within the intergovernmental fiscal system. These proposals are work-in-progress and just for noting by Government.



5.4 Commission Response to Division of Revenue Bill 2008 / 2009

1. Introduction

The Financial and Fiscal Commission's submission on the 2008 Division of Revenue (DoR) Bill is made in terms Section 214 (1) of the Constitution of the Republic (1996) and Section 35 of the Intergovernmental Fiscal Relations (IGFR) Act (1998). The IGFR Act requires that the Minister of Finance consult the Commission at least 14 days prior to the tabling of the Division of Revenue Bill in Parliament. This submission is therefore also made in the context of the consultations that have taken place with the Minister of Finance and National Treasury officials during the course of 2007/08 fiscal year. These consultations involved discussions around the Commission's recommendations and also around the broader objectives of government in as far as they are relevant to the Commission's mandate.

The submission is presented as follows. First there are in-principle observations with respect to certain clauses that appear in the Bill. Secondly there is an assessment of the various schedules attached to the Bill that deal with different grants and the frameworks for different conditional grants. The final section presents the Commission's comments on the Government's response to the recommendations that it tabled in its Submission for the 2008 Division of Revenue.

2. General observations on the Bill

The Commission generally welcomes the DoR Bill as tabled and makes specific comments relating primarily to changes that have been introduced compared to what was contained in the 2007/08 DoR Act. The following are the specific comments of the Commission.

Comments on the Bill

Clause 15:

The requirement that the municipal infrastructure grant be transferred via a category C to a category B municipality has been removed irrespective of the conditions that accompanied it. The changes implemented in this clause imply that grants will have to be transferred directly to the municipality that has the powers and functions in line with the relevant section of the Municipal Structures Act. There are further reporting requirements that the transferring officer must comply with, that are introduced to ensure that program spending performance information is available and any material problems experienced regarding the allocation are addressed through the appropriate interventions. The Commission supports this principle as it will assist in the identification of capacity and therefore resolve the capacity issues through the relevant departments rather than through a category C municipality.



Clause 16:

The Bill lists the Gautrain Rapid Rail Link Grant as a Schedule 5 allocation. As the FFC has previously pointed out, even though the Grant currently appears as a Schedule 5 Grant, in actual sense, it forms a component of the total cost of the project, part of which will be funded by loans guaranteed by National Government. The lack of conditions on such loans in the draft Bill has the potential for causing moral hazardous behaviour which may have repercussions on the vertical and horizontal division of revenue.

Clause 17:

The Commission notes that the clause has been changed to remove the subsection on the need for municipalities to be accredited in line with Section 10 of the Housing Act (1997). It will be recalled that the Commission first made recommendations around the need for those municipalities that have the capacity to be accredited so that the roll-out of the housing delivery program could be speeded up in its submission for the 2006 DoR. As a follow up on the progress, the Commission is currently conducting an investigation on the implementation of this clause of the Act by the relevant authorities and will be making further comments on the matter in its forthcoming submission on the 2009 Division of Revenue. One of the key concerns is the slow pace of the accreditation process which has a negative impact on the roll-out of the housing program and also the negative incentives associated with uncertainty on the part of municipalities. The Commission will be making further proposals in its forthcoming submission for the 2009 MTEF.

Clause 18:

The Bill lays out the framework for government funding of 2010 FIFA World Cup. Part 5, (18), item 1(a) in particular might need to be reworked to take into account current economic issues that might affect the budgets or cost associated with the Cup, for example, the upsurge in inflation, fuel costs and electricity interruptions. These issues may combine and result in budget overruns that are outside the control of the hosting cities. Government should consider inserting a clause that where budgets are exceeded, sound reasons must be provided [this would be similar to item 4 (ii) of the MIG section] and this will be consistent with FFC recommendation last year that '...where National Government has ascertained that cost escalations are genuinely outside the control of host-cities and suppliers, it should compensate for such shortfalls'. This negates the genuine risk that money meant for other services will end up being diverted towards financing world cup expenditures that would have risen due to factors beyond a municipality's control.

Clause 23:

The Commission is of the view that in principle, the system of intergovernmental fiscal relations that South Africa opted for requires the three spheres of government to act independent but also recognise the interdependence of these three spheres in a unitary state. This principle is succinctly captured in Chapter 3 of the Constitution. In context of the discussions that took place among stakeholders on this clause last year, the FFC is guided by the principle that municipalities (councils) constitute a sphere of government in their own right and should make decisions on projects that they must roll out independently so long as this is done consistently with all relevant legislation. National Departments have a duty to



ensure that resources allocated through conditional grant mechanisms are utilised in a manner that is consistent with the conditions as specified in the framework of the grant. This implies that municipalities should comply with all the conditions in the framework and the National Departments are responsible for those frameworks. In order to facilitate comprehensive reporting and monitoring, it is necessary that information on the projects in the form of a register is made available to the relevant National Department. The Commission would like to emphasise the point that the registration of projects should be in principle only for reporting and monitoring which will enable a comprehensive evaluation of government programs nationally. Any other conditions that National Departments may deem necessary can be captured through the framework for the grant rather than in the DoR Bill. The Commission therefore supports the clause as it is currently crafted as it ensures that municipalities are accountable to their constituencies for decisions that they make.

Clause 31:

The Commission notes and supports the changes that have been introduced in this clause. It is the view of the Commission that 31(2a) in particular is a very important advancement of the principles of transparency and accountability to the management of public finances and will enhance the information base for monitoring and evaluation of the performance of government programs. It is particularly important for schools, hospitals and municipalities to know what transfers they will be receiving over the MTEF to enable them to integrate their plans. For example, where transfers from the Integrated Human Settlement Grant to a municipality are unknown, the municipality may not be able to appropriately plan for the roll-out of complimentary infrastructure from the MIG allocation. This can often result in the lack of alignment between the two programs. The new additions go a long way towards addressing a past recommendation of the FFC on the need to align or link the two grants.

The additions to the clause are also important for schools especially non section 21 schools to know their allocations in advance. The requirement for gazetting should in fact be extended to publication on the websites of relevant departments and community newspapers in order to empower school governing bodies and parents and entrench accountability and transparency. There have been cases in the media indicating that some schools that have been declared no fee schools have been seen to be charging fees because the process has not been transparent.

3. General Comments on the Allocations to Provincial and Local Government

The 2008 MTEF division of revenue is premised on five key policy priorities namely, investment in economic and social infrastructure, improved quality of public services in health, education, other social services including agricultural extension services and post resettlement support, increasing the efficiency of the criminal justice sector and raising the productive capacity of the economy. These policy priorities are accommodated through a process of reprioritization and additions in the resource envelope to the three spheres of government over the MTEF. The Commission notes that in arriving at the final allocations government needs to balance competing demands of the social sector and those of the economic services sector that ultimately have an impact on the sustainability of the improvements in access to basic services through the creation of jobs and improvements in infrastructure.



Allocations to provincial governments

Provinces

Year	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Equitable Share	134,706	150,753	171,271	199,377	225,500	246,300
Conditional grant	74,567	25,926	31,494	38,699	42,692	47,334
Total	209,273	176,679	202,765	238,076	268,192	293,634
CG as % total	0.36	0.15	0.16	0.16	0.16	0.16

The Commission notes that there has been an increase in conditional grants to provinces as a share of total transfers to provinces. While 2005/06 is explained by the Conditional grants for social security transfers, the increase between 2006/07 and over the 2008 MTEF may be reflective of an increased appetite for conditional grants by the National Departments. The Commission reiterates its recommendation that government should in principle reduce conditional grant funding to only those areas where there are spill-overs and where there are programs that require institutionalisation in provincial budgets and in the latter case phase into the equitable share.

For the 2008 MTEF the provincial equitable share is revised upwards by R24, 4 billion while conditional grants are increased by R12, 7 billion. There are slight changes to the revisions made in the 2007 MTEF period. During 2007 revisions to equitable share were estimated to be R24, 6 while conditional grants were R14, 6 billion. The change in the 2008 MTEF revisions to the provincial allocations baseline may be an indication towards a movement to a relatively tighter fiscal framework. The overall transfers to provinces increase from R205, 5 billion in 2007/08 to R238 billion in the 2008/09 financial year.

During the last financial year the Commission agreed that the equitable share formula would not be revised to cater for the re-demarcation of provincial boundaries. The full impact of demarcation has generally been fully reflected in the formula with only a few exceptions whose financial situation has been addressed through the adjustments estimates process. There was no need to phase in the changes. For the 2008 MTEF the formula still maintains its structure and the only changes effected are updates for new data in the various components. The formula update for data from the Community Survey however generated certain shocks and in order to cushion the provinces from the shocks, government has decided to phase-in the changes over three years. The Commission would like to note that the process of dealing with shocks through the phasing-in of changes should not be institutionalized. In this regard, the current review of the PES formula will focus on some of the structural problems that generate these unintended outcomes when the formula is updated for new data. It may well be the case that the over-reliance of the formula on demographics creates problems as migration intensifies and may have counter-productive results on the quest for equity across the provinces.



Conditional grant allocations to provinces

For the 2008 financial year two changes are effected to the current conditional grant framework. The FET college re-capitalisation grant is phased into the provincial equitable share formula from 1 April 2009. The Commission welcomes this as FET colleges are a direct function of the provinces. A new grant (devolution of property rates grant) is introduced for dealing with the devolution of property rates payments from the department of public works to provinces. The grant is allocated R2, 9 billion over the MTEF period starting from 2008. While the Commission supports the logic for not including this allocation in the equitable share, it would be prudent to ensure that there is a timeframe over which this transitional grant will be in existence and ultimately phased into the equitable share.

Allocations to local government

Local Government

Year	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Equitable Shares	7,811	9,808	18,442	21,297	25,750	31,011	36,766
Infrastructure CG	6,936	8,053	9,300	17,309	18,018	18,393	20,581
Capacity Building CG	768	654	664	929	430	988	773
Total CG	7,704	8,707	9,964	18,238	18,448	19,381	21,354
Total transfers	15,515	18,515	28,406	39,535	44,198	50,392	58,120
CG as % of total	0.50	0.47	0.35	0.46	0.42	0.38	0.37

National transfers to local government are projected to increase from R44, 2 billion in 2008/09 to R58, 1 billion in 2010/11. For the previous MTEF allocations to municipalities were estimated as follows R 34.3 billion in 2007/08, R41.8 billion in 2008/09 and R45 billion in 2009/10. The current MTEF projection represents a significant increase in annual growth rate from 6.5% to 7.7%. The share of conditional grants as a percentage of total transfers to local government is declining and this is a welcome development that will allow an increasing amount of non-conditional funding to local government.

The Commission notes the ongoing work on the local government fiscal framework that the Government is currently engaged in and will also be making recommendations on some of the issues in its forthcoming submission on the division of revenue for the 2009 MTEF.





4. Some Observations on Conditional Grant Frameworks

The Commission notes that there have not been too many significant changes to the conditional grant frameworks. There are however issues that the commission would like to raise with respect to the grants associated with the FIFA 2010 World Cup.

Stadium Development Grant

This grant is designed to fund the design and construction of new stadia and upgrading of designated stadia and supporting bulk infrastructure in World Cup host cities.

The **measurable outputs** section claims that this substantial investment is warranted because it will bring significant economic benefits — in terms of 40,000 new jobs (30,000 short term and 10,000 long term jobs).

Unfortunately, economic studies show that soccer stadiums do not promote such high economic development and that public subsidies for stadium construction do not “pay for themselves” by generating increased tax revenues. Most of the jobs directly created by stadiums are day-of-game jobs, which are part-time and have low pay and limited benefits. Many independent economic analysis of the impact of stadiums have found no predictable positive effect on output or employment. Some studies have even concluded that there is a possible negative impact. This perhaps surprising finding largely reflects the fact that families and individuals who spend money to attend a soccer game spend less on other forms of entertainment than they would in the absence of a stadium as well as crowd out effects of such investments. As a result, the new jobs created by the grant would be offset by reduced employment in other parts of the area.

Given these uncertainties, this measurable output appears unrealistic and an overkill. Our proposal is that the measurable output be changed to “Short term jobs created”, “Long term jobs created” and “Gender of job recipients” without assigning a quantitative magnitude to these given huge uncertainties with such quantitative outputs.

The **conditions section** of this grant stipulates that “If there is a shortfall in funding for the construction of the stadium, the municipality...May approach the Development Bank of Southern Africa for a concessionary loan. The interest on the loan will be subsidized from the National Revenue Fund up to a maximum amount provided for in the Division of Revenue Act and only in financial years 2009/2010 and 2010/2011. To claim the interest subsidy the municipality must provide the loan agreement to the transfer”.

Because stadiums do not contribute strongly to economic growth, public subsidies for stadium construction typically do not generate enough new tax revenue to offset the construction costs. Publicly financed soccer stadia would not contribute



substantially to the local economy's economic growth, and it would have real costs that would limit resources for other public services.

As a result, alternative proposals for funding such stadia construction must be found without necessarily resorting to municipal borrowing for this purpose.

Public Transport Infrastructure and Systems Grant

This grant is to provide for accelerated planning, establishment, construction and improvement of new and existing public transport and non-motorised transport infrastructure and systems. The fund is permanently created, with an initial, specific focus on projects linked to the 2010 FIFA World Cup

This large amount of earmarked funds used for roads should not be a permanent feature as it is distortionary. Making the grant permanent has the effect of perpetuating such distortions as well as discriminating against other innovative forms of transport finance that may come up. From an environmental and social perspective, the tax rate on fuel or vehicles should eventually be set in such a way that users of roads bear the social cost and are not subsidized by such grants.

The Commission is of the view that as a matter of principle, this grant must have a termination date and eventually become part of the equitable share as it deals with a constitutionally assigned function.

5. Comments on Government's Response to Recommendations for 2008 Division of Revenue.

The response from Government to the recommendations of the FFC focuses on those recommendations that have been deemed to be relevant to the division of revenue for 2008. The response of Government is made in compliance with Section 214 (1) of the Constitution and Section 10 of the IGFR Act (1997) and details how the recommendations of the FFC have been taken into account in analysing the division of revenue for the 2008 MTEF period.

In general, Government has positively received the recommendations of the Commission and where there disagreement, Government has in most instances also indicated why recommendations can not be accepted.

With respect to the 2010 FIFA World Cup financing Government has agreed with the FFC's observations and recommendations. Government also indicates that it is taking the necessary steps to ensure that the costs of hosting the Cup remain within the budget. Government also emphasises the fact that despite the large investment associated with the Cup, allocations for social spending are growing and those targeted to the poor receive additional allocations. This implies that Government has ensured that the costs of hosting the world cup do not crowd out spending on the delivery of social services and other mandates of Government across the three spheres. Furthermore government agrees with the Commission that legacy



effects should be costed and managed by the host cities. Government does not however agree with the Commission's advisory that a national agency should be established for this purpose. While the Commission is not entirely aligned to the idea of an agency, there is still a need for government to explain more on why consideration should not be given to such an institution. The Commission's principal point of emphasis is the need to institutionalise the response mechanism to the legacy effects management in whatever form Government chooses in order that dedicated resources can be set aside for this purpose.

With respect to the National School Nutrition Program, Government agrees in general with the observations and advisories made by the Commission. However, government cautions that the Commission's recommendation that the program be extended to include learners in secondary schools falls outside the scope and mandate of the FFC. While the Commission accepts that the issue of whether or not the program should be extended to secondary schools is a policy matter and therefore may not be within the purview of the Commission's mandate, it should be noted that the recommendation was informed by the work that the Commission carried out in response to a request from the Chairperson of the Select Committee on Finance to investigate the "feasibility" of extending the NSNP to secondary schools. The Commission established that it was indeed feasible to extend the program if its profile were to be raised within the provinces as a key responsibility of PED's for which funds are allocated over and above the allocations from the conditional grant.

In the process of preparing the response to the Chairperson of the Committee's request, the Commission became aware of the significant number of issues and challenges that would need to be addressed before any consideration to extend the program could be considered. In the context of the submission for the division of revenue 2008, therefore, the Commission's views are in principle not in contrast with those of Government but rather emphasise the need to ensure that institutions and systems are put in place to address the current implementation challenges faced by the provincial education departments [and the national education department] before any consideration is given to extending the program to secondary schools.

With respect to the financing of school infrastructure and educational outcomes, government agrees with the Commission and also reiterates the need to link school infrastructure delivery through the provincial infrastructure grant and supporting municipal infrastructure roll out. In this regard where misalignment has been identified, government has introduced the electricity and water and sanitation grants to ensure that municipal infrastructure supports the school infrastructure program. The Commission welcomes the additional R2.7 billion to address school infrastructure needs including replacement of unsafe and inappropriate school structures.

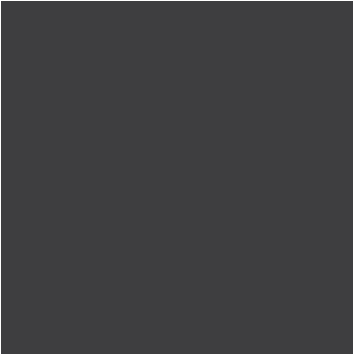
With respect to the proposal on learner support materials, Government notes that the current definition of LSM is in line with the FFC's recommendations. There is agreement on the proposal that there should be separate line items for LSM and maintenance, repairs and equipment. The 2008 budget formats Guide captures this particular recommendation. The Commission welcomes the fact that this practice is not only limited to education but is extended to all other sectors.



With respect to the proposal on the “no-fee” school policy, government agrees that the funding should cover all school operations but emphasises that this should be viewed within the minimum and maximum funding levels. Further Government indicates that except for the Eastern Cape, most provinces are already funding at a maximum level. It should be noted that the Commission indicated in its last submission that work around this matter would continue as the program is being rolled out. In this respect, the Commission will be making further inputs on this matter in its forthcoming submission for the 2009 MTEF.

With respect to the proposal on roads and transport infrastructure, government is in agreement with the Commission on the need for provinces to improve systems that will in turn guide the allocation of resources. Government also highlights the large injection of funds through the IGP. The area of concern raised is the implication around the possibility of targeting roads through the formula and the inherent assumption on the impact on spending. However Government agrees that the matter be revisited as part of the review of the PES formula. The commission will take this into consideration in reviewing the formula.

With respect to the proposal on homelessness and the allocation formula for the Human Settlement and Development Grant (housing subsidy conditional grant), Government agrees that homelessness should be quantified and further adds that the current formula does take homelessness into account when determining needs country wide. The Commission notes that the new formula does indeed include homelessness as an indicator as detailed in the framework for the grant.





Part D

Chapter 6 - Annual Financial Statements for the Year Ended 31 March 2008

Contents

- 6.1 Approval of the Annual Financial Statements
- 6.2 Report of the Accounting Officer
- 6.3 Report of the Auditor-General
- 6.4 Report of the Audit Committee
- 6.5 Statement of Financial Position
- 6.6 Statement of Financial Performance
- 6.7 Statement of Changes in Net Assets
- 6.8 Cash Flow Statement
- 6.9 Statement of Accounting Policies
- 6.10 Notes to the Annual Financial Statements
- 6.11 Statement of Application of Foreign Donations Received



6.1 Approval of the Annual Financial Statements

The Annual Financial Statements, which appear on pages 76 - 95 have been approved and authorised for issue on date of signature by the Commission and is signed on its behalf by:

Dr. Bethuel Setai

Chairperson / Chief Executive

31 May 2008



6.2 Report of the Accounting Officer for the Year ended 31 March 2008

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

1. General review of the state of financial affairs

The Commission has been an integral part of the effort to improve financial accountability and implement prudent financial management as required by the Public Management Act. This has been evidenced by consistent unqualified audit reports and the move from a R3 million deficit in the 2006/2007 Financial Year to a R1.5 million surplus during the period under review.

This however has been achieved at a price. The socio-economic challenges that are facing the country have placed an ever increasing burden on the Commission's resources and its ability to deliver fully on its mandate. The deficit recorded in the 2006/2007 Financial Year, the scaling-down and/or suspension of a number of essential research projects during the reporting period, the Commission's inability to attract and retain key talent for the past eight (8) years, as well the restrictions that it has had to impose on all capital projects and the filling of some key vacancies are all evidence of such fact. This circumstance can only be reversed through a substantial increase to the Commission's baseline allocation.

2. Services rendered by the department

Not applicable.

3. Trading activities

Not applicable.

4. Trading entities

Not applicable

5. Public entities

Not applicable.



6. Public/private partnerships

Not applicable.

7. Risk management and fraud prevention

This matter is more fully dealt with in Annexure A hereto

8. Discontinued activities/activities to be discontinued

Not applicable

9. New/proposed new activities

The Commission will be resuscitating activities that have been placed on hold and expanding those that, because of budgetary constraints, have been down-scaled.

10. Events after the accounting date

See sections 7 and 9.

11. Other

Kindly find the attached statements on foreign donations.

Approval

Dr. Bethuel Setai

Chairperson/Chief Executive

31 July 2008



6.3 Report of the Auditor-General to Parliament on the Financial Statements & Performance Information of the Financial & Fiscal Commission for the Year Ended 31 March 2008

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Financial and Fiscal Commission (FFC) which comprise the statement of financial position as at 31 March 2008, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 76 to 95.

Responsibility of the accounting authority for the financial statements

2. The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) and the Financial and Fiscal Commission Act, 1997 (Act No.99 of 1997). This responsibility includes:
 - designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
 - selecting and applying appropriate accounting policies
 - making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor-General

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) and section 25 of the Financial and Fiscal Commission Act, 1997 (Act No.99 of 1997), my responsibility is to express an opinion on these financial statements based on my audit.



4. I conducted my audit in accordance with the International Standards on Auditing and *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
6. An audit also includes evaluating the:
 - appropriateness of accounting policies used
 - reasonableness of accounting estimates made by management
 - overall presentation of the financial statements.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis of accounting

8. The constitutional entity's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in accounting policy note 1.

Opinion

9. 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 2008 and its financial performance and cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) and the Financial and Fiscal Commission Act, 1997 (Act No.99 of 1997).

OTHER MATTER

Without qualifying my opinion, I draw attention to the following matter that relates to my responsibilities in the audit of the financial statements:



Matters of governance

10. The PFMA tasks the accounting authority with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which I have assessed as follows:

Matter of governance	Yes	No
Audit committee		
<ul style="list-style-type: none"> The constitutional institution had an audit committee in operation throughout the financial year. 	✓	
<ul style="list-style-type: none"> The audit committee operates in accordance with approved written terms of reference. 	✓	
<ul style="list-style-type: none"> The audit committee substantially fulfilled its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulation 3.1.10. 	✓	
Internal audit		
<ul style="list-style-type: none"> The constitutional institution had an internal audit function in operation throughout the financial year. 	✓	
<ul style="list-style-type: none"> The internal audit function operates in terms of an approved internal audit plan. 	✓	
<ul style="list-style-type: none"> The internal audit function substantially fulfilled its responsibilities for the year, as set out in Treasury Regulation 3.2. 	✓	
Other matters of governance		
The annual financial statements were submitted for audit as per the legislated deadlines.	✓	
The financial statements submitted for audit were not subject to any material amendments resulting from the audit.	✓	
No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.	✓	
The prior year's external audit recommendations have been substantially implemented.	✓	



OTHER REPORTING RESPONSIBILITIES

Reporting on performance information

11. I have reviewed the performance information as set out on pages 30 to 42.

Responsibilities of the accounting authority for performance information

12. The accounting authority has additional responsibilities as required by section 40(3)(a) of the PFMA to ensure that the annual report and audited financial statements fairly present the performance against predetermined objectives of the constitutional institution.

Responsibility of the Auditor-General

13. I conducted my engagement in accordance with section 13 of the Public Audit Act, 2004 (Act No. 25 of 2004) read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*.
14. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
15. I believe that the evidence I have obtained is sufficient and appropriate to report that no significant findings have been identified as a result of my review.



APPRECIATION

16. The assistance rendered by the staff of the Financial and Fiscal Commission during the audit is sincerely appreciated.

Auditor-General

Pretoria

31 July 2008



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6.4 Report of the Audit Committee

Year ended 31 March 2008

We are pleased to present our report for the financial year ended 31 March 2008.

Audit Committee Members and Attendance

The Audit Committee's responsibilities are in compliance with Section 38 (1)(a) of the Public Finance Management Act (PFMA) and Treasury Regulation 3.1.13. During the reporting period, the Audit Committee adopted appropriate formal terms of reference, and regulated its affairs in compliance with these guidelines, discharging its responsibilities as contained therein. The Committee was responsible for the financial oversight of the external and internal audits, the internal audit three-year plan, fraud prevention plan, supply chain management policies, risk management processes and approved financial statements, ending 31 March 2008.

The Effectiveness of Internal Control

In the 2007/2008 Financial Year the integrity of this system and the internal audit process was placed under threat by ever escalating audit fees and the finite nature of the Commission budget allocation, This was however preempted by the introduction and entrenchment of austerity measures with the result that threat was averted.

The internal and external audits conducted during the 2007/8 financial year, established that though appropriate and effective internal controls were largely in place, there was still room for improvement and further that there were certain administrative matters that required attention. The risk management process initiated by the Commission (which is more fully set out in Annexure B to this Report), has already been implemented and the areas of concern that have been identified will be addressed during the forthcoming financial year.

Quarterly reports were prepared and issued by the Accounting Officer and the Commission, during the period under review.

The Audit Committee will continue to monitor the Executive Management processes, procedures and measures, to enhance compliance and rectify these shortcomings.



On the whole, the Committee is satisfied that the systems of internal control are efficient and effective.

The Quality of In-Year Management and Monthly Reports Submitted in Terms of the Act

The Audit Committee is satisfied with the content and quality of the quarterly reports prepared and issued by the Accounting Officer and the Commission during the 2007/8 financial year.

Evaluation of Financial Statements

The Audit Committee has:

- Reviewed the audited annual financial statements to be included in the annual report;
- Reviewed the Auditor-General's Management Letter and Management Response;
- Reviewed the Report of the Auditor-General;
- Reviewed significant adjustments resulting from the audit, and
- The Audit Committee concurs and accepts the conclusions of the Auditor-General 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.

Signature

Mr. Jerry Sithole

Chairperson of the Audit Committee

25 August 2008





6.5 Statement of Financial Position as at 31 March 2008

	Notes	2008 R	2007 R
ASSETS			
Non-current assets		2,363,220	3,132,210
Plant and equipment	2	2,257,787	2,850,862
Intangible Assets	3	105,433	281,348
Current assets		323,274	22,356
Trade and other receivables	4	151,191	2,838
Cash and cash equivalents	12	172,083	19,518
Total assets		2,686,494	3,154,566
CAPITAL, RESERVES AND LIABILITIES			
Capital and reserves		751,277	(733,549.39)
Capital contribution	5	918,752	918,752
Accumulated (deficit)		(167,475)	-1,652,301.39
Current liabilities		1,820,444	3,862,959
Trade and other payables	6	1,616,723	1,443,230
Provisions	7	203,721	397,167
Bank overdraft	12	-	2,022,562
Non current liabilities		114,773	25,156
Accrual for straight line lease	8	114,773	25,156
Total capital reserves and liabilities		2,686,492	3,154,566



6.6 Statement of Financial Performance for the Year Ended 31 March 2008

	Notes	2008 R	2007 R
Operating revenue	9	27,496,241	21,705,000
Government Grant		27,496,241	21,705,000
Other revenue		499,743	779,608
Interest received	10	50,301	106,995
Foreign donations received		354,675	390,853
Gain on sale of plant and equipment		94,317	11,500
Sundry income		450	270,260
Total revenue		27,995,984	22,484,608
Operating expenses			
Staff costs		(16,123,249)	(12,759,367)
Depreciation and amortisation		(1,078,658)	(1,035,023)
Professional services		(1,004,009)	(342,728)
Other operating expenses		(8,248,222)	(11,343,575)
Total operating expenses		(26,454,138)	(25,480,693)
Surplus/(deficit) before interest and finance charges	11	1,541,846	(2,996,085)
Interest paid		(57,020)	(43,913)
Net surplus/ (deficit) for the year		1,484,826	(3,039,998)



6.7 Statement of Changes in Net Assets for the Year Ended 31 March 2008

	Capital contribution	Accumulated surplus/(deficit)	Total
	R	R	R
At 1 April 2006	918,752	1,387,697	2,306,449
Deficit for the year 2007		(3,039,998)	(3,039,998)
Balance at 1 April 2007	918,752	(1,652,301)	(733,549)
Surplus for the year 2008		1,484,826	1,484,826
Balance at 31 March 2008	918,752	(167,475)	751,277



6.8 Cash Flow Statement for the Year Ended 31 March 2008

	Notes	2008 R	2007 R
Cash flow from operating activities			
Receipts		27,901,667	22,473,108
Grants		27,496,241	21,705,000
Interest Received		50,301	106,995
Donations		354,675	390,853
Other Receipts		450	270,260
Payments		25,511,190	23,898,116
Employee Costs		16,123,249	12,759,367
Suppliers		9,330,922	11,094,836
Interest paid		57,020	43,913
Net Cash flows from operating activities	12	2,390,476	(1,425,008)
Cash flows from investing activities			
Purchase of plant and equipment		(281,201)	(1,877,286)
Proceeds from sale of plant and equipment		119,651	11,500
Purchase of Intangible assets		(53,799)	(278,640)
Net Cash flows from investing activities		(215,349)	(2,144,426)
Cash flows from financing activities			
Repayment of interest bearing borrowings		-	(22,270)
Net cash flows from financing activities		-	(22,270)
Net increase/(decrease) in cash and cash equivalents		2,175,127	(3,591,704)
Cash and cash equivalents at beginning of year		(2,003,044)	1,588,660
Cash and cash equivalents at end of year		172,083	(2,003,044)

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6.9 Statement of Accounting Policies for the Year Ended 31 March 2008

ACCOUNTING POLICIES

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

1. Basis of preparation

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

Standard of GRAP

GRAP 1: Presentation of financial statements

GRAP 2: Cash flow statements

GRAP 3: Accounting policies. Changes in accounting estimates and errors

Currently the recognition and measurement principles in the above GRAP and GAAP Statements do not differ or result in material differences in items presented and disclosed in the financial statements. The implementation of GRAP 1, 2 & 3 has resulted in the following changes in the presentation of the financial statements:



1. Terminology differences

Standard of GRAP

Statement of financial performance
 Statement of financial position
 Statement of changes in net assets
 Net assets
 Surplus/ deficit for the period
 Accumulated surplus/deficit
 Contributions from owners
 Distributions to owners
 Reporting Dates

Replacement Statement of GAAP

Income statement
 Statement of financial position
 Statement of changes in equity
 Equity
 Profit/loss for the period
 Retained earnings
 Share capital
 Dividends
 Statement of financial position date

2. The cash flow statement can only be prepared in accordance with the direct method.

3. Specific information has been presented separately on the statements of financial position such as:

(a) receivables from non-exchange transactions, including taxes and transfers;

(c) trade and other payables from non-exchange transactions must be presented separately on the statement of financial position.

4. Amount and nature of any restriction on cash balances is required.

Paragraph 11 - 15 of GRAP 1 has not been implemented due to the fact that the local and international budget reporting standard is not effective for this financial year. Although the inclusion of the budget information would enhance the usefulness of the financial statement, non-disclosure will not affect the objective of the financial statements.





6.10 Notes to Annual Financial Statements

1.1 Revenue recognition

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

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

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

Donation income is recognised to the extent that it has been expended for specific purpose. The unexpended portion is rolled over into the following financial year as deferred income.

1.2 Property, plant and equipment

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

- Computer equipment
- Furniture and fittings
- Motor vehicle
- Office equipment
- Leasehold Improvements

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

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

1.3 Intangible Assets

Acquired computer software is classified as finite assets and capitalised on the basis of cost incurred to acquire and bring to use the specific software and is amortised on a straight-line basis over their estimated useful lives of three years less any



impairment cost. The amortisation method applied is reviewed and adjusted if appropriate. If there has been a change in the expected pattern of consumption, the amortisation method is changed to reflect the changed pattern. After initial recognition, an intangible asset is carried at its cost less any accumulated amortisation and any accumulated impairment loss.

1.4 Use of Estimates

The preparation of financial statements 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 judgement 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 recognised as an expense in the period in which termination takes place.

1.6 Provisions

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

1.7 Employee Benefits

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

Defined contribution plans

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



1.8 Foreign currencies

Transactions

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

1.9 Financial Instruments

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

Recognition

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

Measurement

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

Trade and other receivables

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

Cash and cash equivalents

Cash and cash equivalents are carried at cost.

Financial liabilities

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

1.10 Cash and cash equivalents

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



2. Property, plant and equipment

	Paintings	Computer Equipment	Motor Vehicles	Furniture & Fittings	Leasehold Improvement	Total
2008	R	R	R	R	R	R
Opening Balance						
Cost	38,806	2,680,932	255,491	2,709,761	351,443	6,036,433
Accumulated depreciation	-	(1,903,442)	(220,662)	(1,002,900)	(58,568)	(3,185,571)
Net Book Value	38,806	777,490	34,829	1,706,861	292,875	2,850,862
Movement for the year:						
Additions	-	195,529	-	85,672	-	281,201
Disposals	-	(118,028)	(189,997)	-	-	(308,025)
Depreciation on disposed asset	-	118,028	164,664	-	-	282,692
Depreciation	-	(382,845)	(2,946)	(346,004)	(117,148)	(848,943)
	-	(187,316)	(28,279)	(260,332)	(117,148)	(593,075)
Closing Balance						
Cost	38,806	2,758,434	65,494	2,795,433	351,433	6,009,610
Accumulated depreciation	-	(2,168,259)	(58,944)	(1,348,904)	(175,716)	(3,751,822)
Net Book Value	38,806	590,175	6,550	1,446,529	175,727	2,257,787



	Paintings	Computer Equipment	Motor Vehicles	Furniture & Fittings	Leasehold Improvement	Total
	R	R	R	R	R	R
2007						
Opening Balance						
Cost	38,806	2,402,772	255,491	1,470,180	-	4,167,249
Accumulated depreciation	-	(1,491,610)	(182,663)	(665,699)	-	(2,339,971)
Net Book Value	38,806	911,162	72,828	804,481	-	1,827,279
Movement for the year:						
Additions	-	286,261	-	1,239,581	351,444	1,877,286
Disposals	-	(8,101)	-	(395)	-	(8,496)
Depreciation on disposed asset	-	8,101	-	395	-	8,496
Depreciation	-	(419,933)	(37,999)	(337,201)	(58,568)	(853,701)
	-	(133,672)	(37,999)	902,380	292,876	1,023,585
Closing Balance						
Cost	38,806	2,680,932	255,491	2,709,761	351,443	6,036,433
Accumulated depreciation	-	(1,903,442)	(220,662)	(1,002,900)	(58,568)	(3,185,571)
Net Book Value	38,806	777,490	34,829	1,706,861	292,875	2,850,862

During the year the Commission changed the estimated useful values in relation to furniture and fittings, motor vehicle and computer equipments to reflect a higher expected useful values than the Commission had historically estimated. The change in the estimated values is a change in accounting estimate that was applied at 31 March 2008. This change had resulted in the depreciation expense being reduced by R171 890.



3. Intangible assets

	2008	2007
	R	R
Computer software		
Opening Balance		
Cost	747,041	468,575
Accumulated amortisation	(465,693)	(284,371)
Net Book Value	<u>281,348</u>	<u>184,204</u>
Movement for the year:		
Additions	53,799	278,640
Disposals	(28,863)	(174)
Armotisation on disposed assets	28,863	
Amortisation	(229,714)	(181,322)
	<u>(175,915)</u>	<u>97,144</u>
Closing Balance		
Cost	771,977	747,041
Accumulated amortisation	(666,544)	(465,693)
Net Book Value	<u>105,433</u>	<u>281,348</u>

4. Trade and other receivables

Rental Deposit	52,154	2,838
Other receivables	99,037	-
	<u>151,191</u>	<u>2,838</u>

5. Capital contribution

Value of assets acquired from National Treasury	<u>918,752</u>	<u>918,752</u>
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	2008	2007
	R	R

6. Accounts payable

Trade creditors	679,982	976,672
Accruals	936,741	466,558
	1,616,723	1,443,230

7. Provisions

	Opening Balance	Utilised during the year	Additions	Closing Balance
Reconciliation of the provisions - 2008				
Leave pay benefits	397,167	(71,020)	(122,427)	203,721
Reconciliation of the provisions - 2007				
Leave pay benefits	300,123	(49,508)	146,552	397,167

8. Accruals

Accrual in respect of straight line lease	114,773	25,156
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9. Revenue

Revenue comprises grants received from National Treasury	27,496,241	21,705,000
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10. Interest received

This is interest on available funds held in current accounts with financial institutions.	50,301	106,995
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	2008	2007
	R	R
11. Surplus		
<i>Net surplus for the year has been arrived at after Debiting:</i>		
Auditors remuneration	367,839	534,695
Current year fee	367,839	120,683
Prior year fee	-	414,012
Professional services	1,004,009	342,728
Commissioners' expenses	82,839	79,530
Operating leases:		
Office premises/equipment	1,179,971	103,071
Depreciation and amortisation	1,078,658	1,035,023
Staff costs	14,670,330	11,126,303
Included in staff costs are:		
Defined contribution plan expense	1,452,919	1,633,064
See note 17		
<i>And after crediting:</i>		
Interest received:		
Current account	49,475	106,763
Staff loans	826	232
	50,301	106,995
Number of employees at year end	35	39





12. Notes to the Cash flow statement

	2008	2007
	R	R
(a) Cash and cash equivalents		
Cash and cash equivalents included in the cash flow statement comprise the following		
Cash on hand	3,921	12,764
Bank balance	168,162	6,755
Bank overdraft	-	(2,022,563)
	172,083	(2,003,044)
(b) Property, plant and equipment		
During the period, the economic entity acquired property, plant and equipment with an aggregate cost of R335 000 which was acquired by means of operational grant by National Treasury. Cash payment of R 281 201 and R53 799 were used to purchase plant and equipment and software respectively.		
(c) Reconciliation of net cash flows from operating activities to surplus/(deficit)		
Surplus/(Deficit)	1,484,826	(3,039,998)
Non-cash Movements	905,650	1,614,990
Depreciation	848,943	853,701
Amortisation	229,714	181,322
Increase in accounts payable	263,110	346,918
(Decrease)/Increase in provisions relating to employee costs	(193,447)	97,044
Gain on sale of plant and equipment	(94,317)	(11,500)
Loss on sale of asset	-	8,670
(Increase)/Decrease in accounts receivable	(148,353)	138,835
Net cash flows from operating activities	2,390,476	(1,425,008)



13. Related parties transactions

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

	2008	2007
	R	R
Grants Received		
National Treasury	27,496,241	21,705,000

Service provided by related parties

South African Broadcasting Corporation	-	1,035
South African Revenue Services	3,146,268	2,840,209
Telkom	274,602	216,591
	3,420,870	3,057,835

14. Financial Risk Management

Credit risk

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

Interest rate risk

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

Fair Values

At 31 March 2008 the carrying amounts of cash and cash equivalents, accounts payable and accounts receivable approximated their fair value due to the short term maturities of these assets and liabilities.



15. Foreign donations

Foreign donations comprised amounts received during 2007/2008 from Australian High Commission.

16. Surplus

Surplus funds represent funds committed for FFC Commission research programs overlapping into the next financial year.

17. Retirement benefits information

During the year, the FFC contributed to Momentum Provident Fund for all its employees. This constituted a defined contribution fund governed by the Pension Fund Act (Act 24 1956, as amended). In terms of the rules of the fund, the Commission is committed to contribute 12.5% of pensionable emoluments towards the retirement fund and 3.5% of pensionable emoluments towards an accident compensation fund. An Amount of R 1,452 919 (2007: R1, 633 064) 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.

18. Operating lease commitments

The future minimum lease payments under non-cancelable operating leases are as follows:

	2008	2007
	R	R
Not later than 1 year	797,027	735,176
Later than 1 year but not later than 5 years	2,941,497	3,407,647
	<u>3,738,524</u>	<u>4,142,823</u>

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

19. Prior Year Adjustment

During the 2006/7 financial year the FFC entered into a non cancellable operating lease in respect of office premises, as result of the adopted accounting policy to account such lease expenses on a straight line basis, an accrual was raised at the end of the 2006/7 financial year. Such accrual was incorrectly presented on the statement of financial position as current liability instead on non current liability. As this error was made in the previous financial year's statement of financial position, figures are restated as follows:



CAPITAL, RESERVES AND LIABILITIES

Balance Sheet Extract

	Actual 2006/7	Correction	Corrected Actual 2006/7
Current liabilities			
Trade and other payables	1,468,386	-25,156	1,443,230
Non current liabilities	-		25,156
Accrual for straight line lease	-	25,156	25,156

The net effect of a correction of error is nil and does not affect the total liability the Commission has been reportedly exposed to.

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20. Remuneration for Commission Members

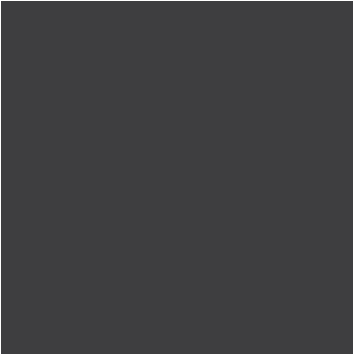
	Salary	Pension contributions	Other contributions	Total
	R	R	R	R
Year ended 31 March 2008				
Executive Commissioners				
B Setai - Chairperson	772,328	96,541	42,390	911,260
J Josie (Term expired Dec 2007)	463,513	57,939	17,109	538,560
B Khumalo (w.e.f. 1 Mar 2008)	43,388	5,424	3,927	52,738
	1,279,229	159,904	63,426	1,502,558
Non Executive Commissioners				
T Ajam	23,623	-	-	23,623
M Kuscus	17,650	-	-	17,650
A Melck	6,673	-	-	6,673
Mosley Lefatola	9,834	-	-	9,834
	57,780	-	-	57,780
TOTAL	1,337,009	159,904	63,426	1,560,339
	R	R	R	R
Year ended 31 March 2007				
Executive Commissioners				
B Setai - Chairperson	744,685	92,971	37,556	744,685
J Josie	516,247	64,530	20,599	516,247
	1,260,932	157,501	58,155	1,260,932
Non Executive Commissioners				
T Ajam	29,190	-	-	29,190
M Kuscus	10,905	-	-	10,905
Mosley Lefatola	4,362	-	-	4,362
	44,457	-	-	44,457
TOTAL	1,305,389	157,501	58,155	1,305,389



6.11 Statement of Application of Foreign Donations Received for the Year Ended 31 March 2008

			2008 R	2007 R	2008 R	2008 R
Source of Funds	Intended Use	Amount	Amount Received	Amount Received	Spent	Unspent
Australian High Commission/ AusAid	Development of CMBS Model	354,675	354,675	390,853	354,675	0
			354,675	390,853	354,675	0
	Utilised In Consultants' Costs					
	Jeff Petchy and Gary McDonald		(354,675)	390,853	390,853	0
			0	0		0

D





Part E

Chapter 7 - Human Resources Management

Contents

1. Overview of HR Activities
2. Expenditure
3. Employment and Vacancies
4. Job Evaluation
5. Employment Changes
6. Employment Equity
7. Performance Rewards
8. Foreign Workers
9. Leave Utilisation
10. HIV/Aids and Health Promotion Programme
11. Labour Relations
12. Skills Development
13. Injury on Duty
14. Utilisation of Consultants



1. Overview of HR Activities for the Reporting Period

Financial constraints for the 2007/08 reporting period impacted on key aspects of the Commission's approach to Human Resource management.

A major impact in this regard was evidenced in the area of attracting and retaining the skills required for delivery on the Commission's mandate.

Staff turnover for the 2007/08 reporting period was eleven (11) employees – five (5) from the support services and six (6) from the Research and Recommendations Programme. These termination statistics include the expiry of term of office of the full-time Deputy Chairperson and the subsequent appointment to this position of a member of the Secretariat.

Vacated positions were not filled and a job restructuring exercise were undertaken to ensure that a minimum of key task and project deliverables were maintained. Employee job profiles and performance contracts were reviewed and updated in response to these turnover challenges.

On the positive side, the period was used to develop remuneration, reward and retention strategies and policies. These strategies and policies focused on among others skills development, education; internship and sabbatical programmes and are designed to ensure that the financial and non-financial aspects of the Commission's remuneration packages remain competitive in relation to comparable institutions. They have been submitted to the Commission for approval.

The Commission's Employment Equity Plan has identified the appointment of female staff at the Professional (09 – 12) and Senior Management Services (13 – 16) Levels as a key equity target. The Plan targets a male/female employee ration of sixty to forty percent (60%/40%) for both these occupational categories. During the reporting period this target was exceeded for the Professional Occupational Category and currently stands at thirty-three (33%) male and sixty-seven percent (67%) female.

In the Senior Management Occupational Category the ration is currently eighty-six percent (86%) male and fourteen percent (14%) female. The Commission will have to implement a targeted selection strategy for the Senior Management Services category for future appointments to meet the gender ratio. This can only be done once the financial situation of the Commission has improved and recruitment activities have resumed.



The September 2007 Employment Equity Director-General Review of the Department of Labour identified two key focus areas for future FFC equity planning namely, the appointment of women at the Senior Management Occupational Level as well as the appointment of disabled persons. Overall the Commission was rated as **“Making Reasonable Progress”** in respect of employment equity activities and representivity.

The next Commission Employment Equity report is due on the first working day of October 2008. An Employment Equity Committee has been constituted and it will be consulted in the equity planning and progress reporting process.

The Commission has also established a Workplace Forum to assist in the identification and resolution of organisational culture and climate related issues gleaned from past surveys, the bi-annual performance management process, analysis of exit interviews as well as concerns raised by employees at staff meetings.



2. Expenditure

Table 2.1 Personnel costs by salary bands, 2007/08

Salary Bands	Personnel Expenditure	% of Total Personnel Cost	Average Personnel Cost Per Employee
Salary levels 1 - 2	74 887.02	0.52	74 887.02
Salary levels 3 - 5	626 652.93	4.32	156 663.23
Salary levels 6 - 8	582 014.10	4.00	145 503.53
Salary levels 9 - 12	7 930 706.31	54.62	317 228.25
Salary levels 13 - 16	5 305 735.71	36.54	589 526.19
Total	14 519 996.07	100.00	337 674.33

Table 2.2 Salaries, Overtime and Medical Assistance by salary bands, 2007/08

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	43 554.68	58.16	-	-	25 888.00	34.57
Salary levels 3 - 5	397 216.27	63.39	-	-	168 170.00	26.84
Salary levels 6 - 8	430 797.69	74.02	-	-	76 205.00	13.09
Salary levels 9 - 12	6 436 839.09	81.16	-	-	530 602.00	6.69
Salary levels 13 - 16	4 488 163.36	84.59	-	-	287 532.64	5.42
Total	11 796 570.99	81.24	-	-	1 088 397.64	7.50

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

3. Employment and Vacancies

Table 3.1 Employment and Vacancies by Salary Bands, 31 March 2008

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	5	4	20.00	0
Salary levels 6 - 8	9	2	77.78	0
Salary levels 9 - 12	40	18	55.00	0
Senior Management 13 - 16	9	8	11.11	0
Programme Total	64	33	48.44	0



4. Job Evaluation

No Job Evaluation was conducted at the Financial and Fiscal Commission for the reporting period 2007/08.

Table 4.1 Employees: Salary Level Exceeds the Grade Determined by Job Evaluation, 01 April 2007 to 31 March 2008

Occupation	Number of Employees	Job Evaluation Level	Remuneration Level	Reason for Deviation
Facilities Manager	1	11	12	Post previously benchmarked against Private Sector rates
Accounts Officer	1	09	10	Post previously benchmarked against Private Sector rates
Driver	1	05	06	Post previously benchmarked against Private Sector rates
Receptionist	1	04	07	Post previously benchmarked against Private Sector rates
General Office Assistant	2	03	05	Post previously benchmarked against Private Sector rates
Cleaner	1	01	02	Post previously benchmarked against Private Sector rates

Table 4.2 Profile of Employees: Salary Level Exceeds the Grade Determined by Job Evaluation – 01 April 2007 to 31 March 2008

Beneficiaries	African	Indian	Coloured	White	Total
Female	4	-	2	-	6
Male	1	-	-	-	1
Total	5	-	2	-	7



5. Employment Changes

Table 5.1 Annual turnover rates by salary bands for the period 01 April 2007 to 31 March 2008

Salary Bands	Number of employees per Level as at 01 April 2007	Appointments and Transfers In	Terminations and Transfers Out	Turnover rate
Salary levels 1 - 2	1	-	-	-
Salary levels 3 - 5	4	-	-	-
Salary levels 6 - 8	3	1	2	-1
Salary levels 9 - 12	22	4	8	-4
Senior Management 13 - 16	9	1	2	-1
Total	39	6	12	-6

Table 5.2 Reasons why staff is leaving the FFC

Termination Type	Number	% of total turnover
Death	0	0
Resignation	10	84
Expiry of Contract	1	8
Dismissal - organisational changes	0	0
Dismissal - misconduct	1	8
Dismissal - inefficiency	0	0
Discharge due to ill-health	0	0
Retirement	0	0
Other	0	0
Total	12	100

Table 5.3 Promotions by Salary Band

Salary Band	Employees 01 April 2007	Promotions to another salary level	Salary Band promotions as a % of employees by salary level
Salary levels 1 - 2	1	-	-
Salary levels 3 - 5	4	-	-
Salary levels 6 - 8	3	-	-
Salary levels 9 - 12	22	1	4.55
Senior Management 13 - 16	9	-	-
Total	39	1	2.56



6. Employment Equity

Table 6.1 Total number of employees (FFC secretariat staff) in each of the following Occupational Categories as at 31 March 2008

Occupational Categories	Male				Female				TOTAL
	African		Indian	White	African		Indian	White	
Legislators, senior officials and managers	2	-	-	1	-	-	-	1	4
Professionals	3	2	1	-	6	2	-	3	17
Technicians and associate professionals	-	-	-	-	-	-	-	-	-
Clerks	1	-	-	-	3	2	-	-	6
Service and sales workers	-	-	-	-	-	-	-	-	-
Skilled agricultural and fishery workers	-	-	-	-	-	-	-	-	-
Craft and related trades workers	-	-	-	-	-	-	-	-	-
Plant and machine operators and assemblers	-	-	-	-	-	-	-	-	-
Elementary occupations	-	-	-	-	1	-	-	-	1
TOTAL PERMANENT	6	2	1	1	10	4	-	4	28
Non-permanent employees	1	1	-	-	1	-	-	-	3
TOTAL	7	3	1	1	11	4	-	4	31
Persons with Disabilities	-	-	-	-	-	-	-	-	0

Note – Non-permanent employees include interns and fixed-term contracts

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Table 6.2 Total number of employees (FFC secretariat staff) in each of the following Occupational Levels as at 31 March 2008

Occupational Bands	Male				Female				TOTAL
	African		Indian	White	African	Coloured	Indian		
Top Management	-	-	-	-	-	-	-	-	-
Senior Management	2	-	-	1	-	-	-	1	4
Professionally qualified and experienced specialists and mid-management	3	2	-	-	1	1	-	2	9
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	-	-	1	-	5	1	-	1	8
Semi-skilled and discretionary decision making	1	-	-	-	3	2	-	-	6
Unskilled and defined decision making	-	-	-	-	1	-	-	-	1
TOTAL PERMANENT	6	2	1	1	10	4	-	4	28
Non-permanent employees	1	1	-	-	1	-	-	-	3
TOTAL	7	3	1	1	11	4	-	4	31
Persons with disabilities	-	-	-	-	-	-	-	-	0



Table 6.3

Recruitment for the Period 01 April 2007 to 31 March 2008

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

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Table 6.4

Promotions for the Period 01 April 2007 to 31 March 2008

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



Table 6.5

Terminations for the Period 01 April 2007 to 31 March 2008

Occupational Bands	Male				Female				TOTAL
	African	Coloured	Indian	White	African	Coloured	Indian	White	
Top Management	-	-	1	-	-	-	-	-	1
Senior Management	1	-	-	-	-	-	-	-	1
Professionally qualified and experienced specialists and mid-management	4	-	-	-	-	-	-	1	5
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	2	-	-	-	1	-	-	-	3
Semi-skilled and discretionary decision making	1	-	-	-	1	-	-	-	2
Unskilled and defined decision making	-	-	-	-	-	-	-	-	-
TOTAL PERMANENT	8	-	1	-	2	-	-	1	12
Non-permanent employees	-	-	-	-	-	-	-	-	-
TOTAL	8	-	1	-	2	-	-	1	12

Table 6.6

Disciplinary Action for the period 01 April 2007 to 31 March 2008

	Male				Female				TOTAL
	African	Coloured	Indian	White	African	Coloured	Indian	White	
Disciplinary Action	1	0	0	0	0	1	0	0	2

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Table 6.7

Skills Development for the period 01 April 2007 to 31 March 2008

Occupational Categories	Male				Female				TOTAL
	African	Coloured	Indian	White	African	Coloured	Indian	White	
Legislators, senior officials and managers	1	1	-	1	-	-	-	-	3
Professionals	1	-	-	-	1	-	-	3	5
Technicians and associate professionals	-	-	-	-	-	-	-	-	-
Clerks	-	-	-	-	1	-	-	-	1
Service and sales workers	-	-	-	-	-	-	-	-	-
Skilled agricultural and fishery workers	-	-	-	-	-	-	-	-	-
Craft and related trades workers	-	-	-	-	-	-	-	-	-
Plant and machine operators and assemblers	-	-	-	-	-	-	-	-	-
Elementary occupations	-	-	-	-	-	-	-	-	-
TOTAL PERMANENT	2	1	-	1	2	-	-	3	9
Non-permanent employees	-	-	-	-	-	-	-	-	-
TOTAL	2	1	-	1	2	-	-	3	9
Persons with disabilities	-	-	-	-	-	-	-	-	0



7. Performance Rewards

Table 7.1 Performance Rewards, by race, gender and disability, 01 April 2007 to 31 March 2008

Race and Gender	Number of beneficiaries	Total Number of employees in group	% of total within group	Cost (R'000)	Average cost per employee
African					
Male	8	9	88.89	280 094	35 012
Female	11	11	100.00	227 947	20 722
Indian					
Male	1	1	100.00	21 491	21 491
Female	-	-	-	-	-
Coloured					
Male	2	3	66.67	63 797	31 899
Female	4	4	100.00	67 198	16 799
White					
Male	1	1	100.00	45 552	45 552
Female	4	4	100.00	132 307	33 077
TOTAL	31	33	93.94	838 386	27 045
Employees with disability	-	-	-	-	-

Table 7.2 Performance Reward by salary band for personnel below senior management service, 01 April 2007 to 31 March 2008

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	100.00	6 335	6 335	8.46
Salary levels 3 - 5	4	4	100.00	46 768	11 692	7.46
Salary levels 6 - 8	2	2	100.00	27 801	13 900	4.78
Salary levels 9 - 12	18	18	100.00	502 494	27 916	6.34
Total	25	25	100.00	583 398	23 336	6.33

Table 7.3 Performance related rewards by salary band, for Senior Management Service

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	6	8	75.00	254 988	42 498	4.81
Total	6	8	75.00	254 988	42 498	4.81



8. Foreign Workers

Table 8.1 Foreign workers by salary band, 01 April 2007 to 31 March 2008

Salary Levels	01 April 2007		31 March 2008		Change	
	Number	% of total	Number	% of total	Number	% of total
Salary levels 1 - 2	0	0	0	0	0	0
Salary levels 3 - 5	0	0	0	0	0	0
Salary levels 6 - 8	0	0	0	0	0	0
Salary levels 9 - 12	3	75	2	67	1	100
Senior Management 13 - 16	1	25	1	33	0	0
Total	4	100	3	100	1	100

Table 8.2 Foreign workers by major occupation, 01 April 2007 to 31 March 2008

Major Occupation	01 April 2007		31 March 2007		Change	
	Number	% of total	Number	% of total	Number	% of total
Senior Management	1	25	1	33.3	0	0
Research Specialists	2	50	2	66.7	0	0
Senior Researcher	1	25	0	0	1	100
Total	4	100	3	100	1	100

9. Leave Utilisation

Table 9.1 Sick Leave 01 April 2007 to 31 March 2008

Salary Band	Total days	% certification	No. of employees using sick leave	% of total employees using sick leave	Average per employee	Estimated cost	Total days with medical certification
Salary levels 1 - 2	2	-	1	100.0	2.0	142	-
Salary levels 3 - 5	12	91.7	4	100.0	3.0	3 896	11
Salary levels 6 - 8	16	81.3	3	75.0	5.3	10 821	13
Salary levels 9 - 12	119.5	90.0	19	73.1	6.3	132 896	107.5
Salary levels 13 - 16	57.5	74.8	6	60.0	9.6	96 596	43
Total	207	84.3	33	73.3	6.27	244 352	174.5



Table 9.2 Disability Leave (temporary and permanent), 01 January 2007 to 31 December 2007

There was no disability leave for the reporting period.

Table 9.3 Annual Leave, 01 April 2007 to 31 March 2008

Salary Bands	Total days taken	Number of employees in grade	Average per employee
Salary levels 1 - 2	23	1	23
Salary levels 3 - 5	104	4	26
Salary levels 6 - 8	35.5	4	9
Salary levels 9 - 12	412	25	17
Salary levels 13 - 16	209	9	23
Total	783.50	43	18

Table 9.4 Leave payouts for the period 01 April 2007 to 31 March 2008

Reason	Total Amount (R'000)	Number of employees	Average payment per employee
Leave payout for 2006/07 due to non-utilisation	-	-	-
Current leave payout on termination of service	69 548	9	7 728
Total	69 548	9	7 728

10. HIV/Aids and Health Promotion Programmes

The Financial and Fiscal Commission has an HIV / Aids Policy which was introduced in 2002. This policy was reviewed during the reporting period as part of the HR Policies and Procedures review and updating process. The HIV/Aids Policy makes a clear statement regarding the issue of discrimination and protection of employees who are HIV-positive or perceived to be HIV-positive. With regards to risk of occupational exposure, no specific units or categories of employee have been identified to be at high risk of contracting HIV and related diseases.

The organisation has installed a first aid station on site and has an official 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. A further official will be trained for the 2008/09 reporting period. The 2008/09 HR Strategy includes the implementation of staff HIV / Aids Awareness and Health Promotion Programs. The HR Strategy also includes implementation of an Employee Assistance Program to address broader issues related to employee well-being and health.



11. Labour Relations

Table 11.1 Collective Agreements, 01 April 2007 to 31 March 2008

Total Collective Agreements	None
------------------------------------	------

Table 11.2 Misconduct and Disciplinary Hearings Finalised, 01 April 2007 to 31 March 2008

Outcomes of disciplinary hearings	Number	% of total
Correctional Counselling		
Verbal Warning	3	60
Written Warning	1	20
Final Written Warning		
Suspended without Pay		
Fine		
Demotion		
Dismissal	1	20
Case withdrawn		
Total	5	100

Table 11.3 Grievances lodged for the period 01 April 2007 to 31 March 2008

Number of grievances lodged	None
------------------------------------	------

Table 11.4 Disputes lodged with councils for the period 01 April 2007 to 31 March 2008

Number of disputes lodged	None
----------------------------------	------

Table 11.5 Strike actions for the period 01 April 2007 to 31 March 2008

Strike actions for the period	None
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Table 11.6 Precautionary suspensions for the period 01 April 2007 to 31 March 2008

Precautionary suspensions for the period	None
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12. Skills Development

Training provided 01 April 2007 to 31 March 2008

Occupational Categories	Gender	No. of Employees as at 01 April 2006	Learnerships	Skills Programmes and other Short Courses	Other Forms of Training	Total
Legislators, senior officials and managers	Female	1	-	-	-	-
	Male	8	-	4	1	5
Professionals	Female	11	-	2	2	4
	Male	11	-	-	1	1
Clerks	Female	5	-	1	-	1
	Male	2	-	-	-	-
Elementary occupations	Female	1	-	-	-	-
	Male	-	-	-	-	-
Total		39	-	7	4	11

13. Injury on Duty

Injury on duty, 01 April 2007 to 31 March 2008

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



14. Utilisation of Consultants

14.1 Report on Consultant Appointments using Appropriated Funds: April 2007 March 2008

Name/Project	Commission Research Total Value	Professional Services Total Value	Historically Disadvantaged Individual (HDI) Status
21st Century		177,931.20	Yes
Hoosen Wadiwala Inc		19,380.00	Yes
MPL Capital		1,204,980.00	Yes
D M Kisch Inc		33,030.36	No
André Michaux		182,948.68	No
Ismael Fofana	243,600.00		Yes
University of Johannesburg	120,960.00		Yes
Professor AO Akinboade	34,000.00		Yes
Professor Servaas van den Berg	105,000.00		No
Professor Pierre Hugo		13,500.00	No
Benguela Health	96,485.04		No
Professor Ayogu	117,000.00		Yes
Professor Alex van Heerden	31,360		No



14.2 Report on Service Provider/External Supplier Appointments: April 2007 March 2008

Name/Project	Total Value	Historically Disadvantaged Individual (HDI) Status
Adcorp Talent Resourcing	120,418.54	No
Afrec	64,000.79	Yes
African Information Institute	11,398.86	Yes
Ambijo Oé ce Supplies	11,058.00	Yes
American Express Travel	1,686,338.61	Yes
Aquazania Water	9,818.86	No
ASYST Intelligence	28,252.32	No
Auditor General	367,839.45	Yes
Avis Car Hire	206,050.10	No
Azcom Systems	9,696.76	No
Banathi Catering	36,865.24	Yes
Broll Property	278,797.40	No
Butterworth Publishers	20,322.15	No
Bytes Communications	165,384.93	No
Computer Consulting Services	3,847.50	No
Chair Options	1,708.86	Yes
Chipkins	11,932.86	No
Click IT	185,725.84	No
Compensation Commissioner	77,444.64	No
DataDeal	146,808.37	No
Development Bank of SA	2,852.00	Yes
Dex Security	3,511.67	No
DHL	6,391.79	No



Name/Project	Total Value	Historically Disadvantaged Individual (HDI) Status
Digital Voice Processing	24,649.08	No
Discovery Health	836,344.00	Yes
Diverso	8,056.55	No
Don Gresswell	37,072.87	No
Dot Oé ce	18,759.52	Yes
Ebony Travel	146,236.96	Yes
Edleweiss Laundry	391.40	No
Fix Fax Automation	8,926.14	No
Flick Pest Control	4,468.80	No
Flower Spot	2,770.00	No
Forrester	15,175.00	No
Gauteng Printing	4,087.09	Yes
Gopals	16,758.00	Yes
Gordan Institute of Business Studies	32,350.00	Yes
Hybrid Security	45,688.95	Yes
Image Marketing	9,540.00	No
Independent Newspapers	3,619.87	Yes
International Quality & Productivity Centre	12,798.72	No
Internet Solutions	266,365.38	Yes
IS Fax	36,587.80	Yes
Isisango Conference Centre	5,920.02	No
Jade Lee Electrical	5,725.74	Yes
Kelly	209,637.13	Yes
LaChaimier Guest House	10,780.00	No







Part F

Chapters 8 - 9

Chapter 8

Glossary

Chapter 9

Abbreviations & Acronyms



Glossary

Chapter 8

Backward linkage:

The connection between an industry and its suppliers.

Bitumen:

A by-product of crude oil which is used in the construction of waterproof surface layers.

Computable general equilibrium:

A class of economic model that use economy wide data to estimate the reaction of the economy to changes in policy, technology or other external factors.

End user efficiency:

The savings, usually energy related, achieved at the end of the energy supply chain.

Externality:

A spill over from economic activity, it occurs when a decision result in usually unintended benefits or costs to the third party.

Equivalent variation:

Equivalent variation in the context of this report, is the change in income that would be required without electricity tariff reform to make people as well-off economically as they would be with the electricity tariff reform.

Fiscal autonomy:

The degree to which sub-national governments have complete independence and discretion (with minimum or no central government control) in setting of priorities, determining expenditure and setting the tax rates.

Fiscal dumping:

The transfer of funds by the transferring department at a rate faster than the receiving agency, e.g. a municipality, is able to spend them. It commonly leads to a build-up of unspent money and requests for massive rollovers by receiving municipalities.

Forward linkages:

The distribution chain connecting a producer or supplier with its customers.

Multiplier:

The cumulative sum of the endogenous effects following an exogenous intervention. It is inversely related to the exogenous portion of economic activity.

Opportunity cost:

The cost of an economic activity foregone by the choice of another activity; OR, the cost (sacrifice) incurred by choosing one option over an alternative one that may be equally desired.

RSC levy:

A levy paid by business to metropolitan and district municipalities based on gross remuneration, including fringe benefits as well as gross income generated from sales of products and services.

Quintile:

A proportion of a set of data that has been ranked and divided into five equal groups (or bands), where each group contains an equal number of data items.

Social Accounting Matrix (SAM):

Flows of all economic transactions that take place within an economy (regional or national).

Surcharge:

Charge, fee or amount added on top of another charge, fee or amount.

VAT:

Value-added tax: tax on the final value of certain goods and services.

VAT zero rating:

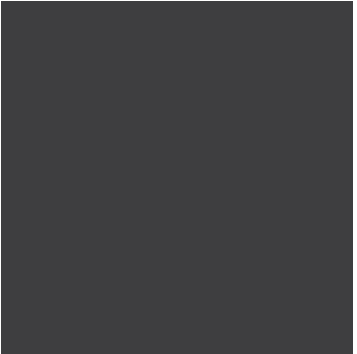
Tax relief on payment of certain products or services.



Abbreviations & Acronyms

Chapter 9

ASGISA	Accelerated and Shared Growth Initiative for South Africa	MimMec	Ministers and Members of Executive Councils
CD	Cobb-Douglas	MPU	Mpumalanga
CES	Constant Elasticity of Substitution	MTEF	Medium Term Expenditure Framework
CGE	Computable General Equilibrium Model	MTBPS	Medium Term Budget Policy Statement
DME	Department of Minerals and Energy	NC	Northern Cape
DoRB	Division of Revenue Bill	NCB	National Coordinating Body
DOE	Department of Education	nDoE	National Department of Education
DoT	Department of Transport	nDoH	National Department of Housing
DPLG	Department of Provincial and Local Government	nDoT	National Department of Transport
DPW	Department of Public Works	nDPW	National Department of Public Works
EPWP	Expanded Public Works Programme	NERSA	National Energy Regulator of South Africa
FIFA	Fédération Internationale de Football Association	NLTA	National Land Transition Act
FFC	Financial and Fiscal Commission	NLTSF	National Land Transport Strategic Framework
FS	Free State	NQ	National Quintile
GDP	Gross Domestic Product	NW	North West
GT	Gauteng	PBER	Provincial Budgets and Expenditure Review
IDP	Integrated Development Plan	pDoH	Provincial Department of Housing
IES	Incomes and Expenditure Survey	pDoT	Provincial Department of Transport
IHHSD	Integrated Housing and Human Settlement Development Grant	PED	Provincial Education Department
IGP	Infrastructure Grant for Provinces	PHC	Primary Health Care
INEP	Integrated National Electrification Programme	PHP	People's Housing Process
I-O	Input-Output	PTIF	Public Transport Infrastructure Grant
IPP	Independent Power Producer	RED	Regional Electricity Distributor
kWh	Kilowatt-hours	RIFSA	Road Infrastructure Strategic Framework for South Africa
KZN	KwaZulu-Natal	RTT	Resource Targeting Table
LES	Local Government Equitable Share	SAM	Social Accounting Matrix
LM	Limpopo	SANRAL	South African National Road Agency Ltd
LES	Linear Expenditure System	SASA	South African Schools Act
MIG	Municipal Infrastructure Grant	SCOF	Select Committee on Finance
		StatsSA	Statistics South Africa
		TWh	Terrawatt hours
		WC	Western Cape





Part G

Chapters 10 - 11

Chapter 10

Publications and Output of the Commission's Research
and Recommendations Programme

1. Commission Reports
2. Book Chapters
3. Journal Articles
4. Peer Reviewed External Working Papers
5. Financial and Fiscal Commission Technical Reports
6. Workshops/Conference Papers
7. Training, Technical Assistance and Exchanges

Chapter 11

Contact Details



Publications & Output of the Commission's Research & Recommendations Programme

Chapter 10

1. Commission Reports

- Financial and Fiscal Commission Submission for the Division of Revenue 2009/10, a 73 page report submitted in terms of Section 214 (2) and Section 229 (5) of the Constitution, and Section 9 of the Intergovernmental Fiscal relations Act 1999.
- Financial and Fiscal Commission Response to the Division of Revenue Bill 2008/09, a 12 page submission on the 2008 Division of Revenue Bill made in terms Section 214 (1) of the Constitution of the Republic (1996) and Section 35 of the Intergovernmental Fiscal Relations (IGFR) Act (1998).
- Petchey, J., MacDonald, G., Josie, J., Mabugu, R., and Kallis, D., (2007), A Grant Scheme for the Progressive Realisation of Constitutionally Mandated Basic Services: A Simulation Model, Financial and Fiscal Commission, Midrand, South Africa (92 pages).
- Comments of the Local Government Laws Amendment Bill of 2008 submitted to the Department of Provincial and Local Government
- Comments on the Public Finance Management Bill of 2008 submitted to National Treasury.
- Comments on the Municipal Fiscal Powers and Function Bill of 2007 submitted to the Portfolio Committee of Finance.

2. Book Chapters

- Khumalo, B., and Mokate, R., (2007). "Republic of South Africa", Chapter 8 in Shah, A., (ed) A Global Dialogue on Federalism, Volume 4: The Practice of Fiscal Federalism: Comparative Studies, McGill-Queen's University Press, Montreal, Quebec, Canada

3. Journal Articles

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- Amusa, H., and Mathane, P., (2007), "South Africa's Intergovernmental Fiscal Relations: An Evolving System", South African Journal of Economics, Vol. 75(2), pp 265 – 292. Published by Blackwell Publishers.
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4. Peer reviewed external working papers

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- Mabugu, R. and Mohamed, A., (2008) "The Economic Impacts of Government Financing of the 2010 FIFA World Cup". Stellenbosch Economic Working Papers: 08/08.
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- Mabugu, R., and Chitiga M. (2007). Textiles protection and poverty in South Africa. Poverty and Economic Policy Working Paper MPIA-2007-01, University of Laval, Canada.



5. Financial and Fiscal Commission Technical Reports

- Mabugu, R., and Chitiga, M., (2008b). 2010 FIFA World Cup, Transport and the Division of Revenue, Research Report Prepared for the Financial and Fiscal Commission, South Africa.
- Mbunge, V., (2008). Assessment of the Provincial Budget and Expenditure Review (2003/04 – 2009/10): Transport, Roads and Public Works Departments, Research Report Prepared for the Financial and Fiscal Commission, South Africa.
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- Maseko, F., (2008). Restructuring of the Electricity Distribution Industry, Research Report Prepared for the Financial and Fiscal Commission, South Africa.
- Maseko, F., (2008). Strategy to Enhance Local Government Revenue Sources, Research Report Prepared for the Financial and Fiscal Commission, South Africa.

6. Workshops/Conference Papers

- Mabugu, R., (2008). "Energy taxes and intergovernmental fiscal relations in South Africa: A macro-meso-micro model analysis" South Africa Tax Symposium, National Treasury, Pretoria, South Africa 17-18 March 2008
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- Mabugu, R., (2007). "South Africa: Trade liberalization and poverty in a dynamic microsimulation CGE Model", Tenth Anniversary Conference "Assessing the Foundations of Global Economic Analysis", Purdue University, West Lafayette, USA, June 7-9 2007.

7. Training, Technical Assistance and Exchanges

The RRP staff and associated FFC members provided technical assistance to numerous Government officials and agencies as well as hosted international visitors working in the area of intergovernmental fiscal relations. Most notable of these in the reporting period included:

- Organised an international workshop launch of CMBS model in 2007. Members involved with the training were Jaya Josie, Ramos Mabugu and Denver Kallis.
- Together with National Treasury, the Financial and Fiscal Commission hosted a delegation from Rwanda and provided training in 2007 as part of the recommendations made in the previous year to implement fiscal decentralisation in Rwanda.
- The commission hosted delegations from Democratic Republic of Congo, Nigeria, Uganda, Sudan, World Bank (Deon Filmer, Ritva Reinikka and Benno Ndulu) during the period under review.



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