PORTFOLIO COMMITTEE ON PUBLIC WORKS

Financial and Fiscal Commission

25 September 2014

For an Equitable Sharing of National Revenue

PRESENTATION OUTLINE

1. Role and Function of the Financial and Fiscal Commission
2. Recommendations of the Commission that relate to Public Works
3. Departmental Analysis

FINANCIAL AND FISCAL COMMISSION

1. Role and Function of the Financial and Fiscal Commission

Role and Function of the FFC

- The Financial and Fiscal Commission (FFC)
  - Is an independent, permanent, statutory institution established in terms of Section 220 of Constitution
  - Must function in terms of the FFC Act
- Mandate of Commission
  - To make recommendations, envisaged in Chapter 13 of the Constitution or in national legislation to Parliament, Provincial Legislatures, and any other organ of state determined by national legislation
- The Commission's focus is primarily on the equitable division of nationally collected revenue among the three spheres of government and any other financial and fiscal matters
  - Legislative provisions or executive decisions that affect either provincial or local government from a financial and/or fiscal perspective
  - Includes regulations associated with legislation that may amend or extend such legislation
  - Commission must be consulted in terms of the FFC Act
  - Current research strategy focuses on developmental impacts of IGFR

FINANCIAL AND FISCAL COMMISSION

How FFC Supports Policy

- Identify weakness within the IGFR system
- Propose evidence-based policy proposals
- Interact and participate with/in forums and institutions responsible for IGFR policy – TCF, Budget Council, Budget Forum
- Information dissemination – invitations from nine provincial legislatures and SALGA
- Interact with various committees within parliament

FINANCIAL AND FISCAL COMMISSION

PROCESSING OF RECOMMENDATIONS

- Recommendations of the Commission
  - Recommendations are made to Parliament so that the legislature can examine the financial and fiscal decisions of government against them and understand why they have been accepted or rejected
  - Section 4(4)(c) of the Money Bills Amendment Procedures and Related Matters Act (MBAPMA) requires Parliament to consider the recommendations of the Commission when deliberating on Money Bills
- Government is obligated through an Act of Parliament to explain how it has taken the FFC recommendations in arriving at the division of revenue for any particular year
  - The response is tabled in Annexure W1 of the DoR Bill and of the Budget Review

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How FFC can Support Parliament

DIRECT TRAINING AND INTERVENTION

Training of members of parliamentary committees and councillors on request (e.g. in Bushbuckridge)

Advice to municipalities (e.g. Tshwane merger)

Inputs in various fora (e.g. SALGA)

NON TRAINING SUPPORT AND INTERVENTION

Member of review committees (LES, Infrastructure Grants, Metro's Own Revenue)

Public hearings (local government fiscal framework, housing and welfare)

Inputs in benchmarking exercises

Recommendations through Annual Submission on DoR, MTBPS, FF and Appropriations

Value Add of the FFC

- FFC can provide advice, analysis and training to assist the work of the Committee
  - Specialised IGFR training to committee members and/or parliamentary researchers
  - Provision of recommendations that are founded on evidence based research
  - Technical support with respect to parliamentary fiscal oversight activities

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2. Recommendations that Relate to Public Works

FFC WORK RELATED TO DPW [CONT.]

Response to Division of Revenue Bill (DoRB) 2010	The Commission welcomed introduction of the *EPWP Incentive Grant for the Social Sector*. The Commission noted that there was a need to standardise the employment framework for the sector including conditions, wages and progression across provinces and municipalities. The Commission also raised concern regarding difficulties that were being experienced with the transfer of the EPWP Incentive Grant to Local and Provincial Governments. In the 2009/10 certain provinces (e.g. Western Cape) raised concern that they received transfers outside the ambit of the DoR and couldn't spend the money because it was not properly appropriated through various legislatures. At that point the general challenge with the grant was that provinces and municipalities found it difficult to integrate it through their infrastructure programmes. This problem persists because labour intensive infrastructure projects need to be planned, costed and scheduled properly. Not all projects yield the same labour intensity, so targets must be set by project type and category. Some projects will better lend themselves to labour intensive methods than others. This must be factored into the budget allocations and monitoring of the grant. *Current Commission analysis is that provinces continue to have challenges relating to labour intensive infrastructure, which affects the spending of the Incentive grant. In 2012/13 DPW appointed service providers to support provinces and municipalities in design of infrastructure projects and reporting methods.*

FFC Work Related to DPW [cont.]

Response to MTBPS 2011	In terms of the EPWP Incentive grant framework, provinces and municipalities must spend their budgets on EPWP projects and after that the grant will be paid by DPW quarterly as an incentive (after employment has been created). There has been general under-spending against budget since inception of the grant. Projected under-spending in financial year 2011 was 28.4%. In 2010, the actual under-spend was 38.4%. Despite poor spending performance, the annual growth of the budget was high. Expenditure reports on the grant performance at local government were inaccessible. DPW should explain how transfers are reconciled with actual expenditure. The grant should be streamlined to the Division of Revenue Act (DORA) requirements in terms of allocation and disbursements of funds. Punitive and incentive elements of the grant should be made transparent to all the stakeholders. *Current FFC analysis indicates that underspending persists. Between 2009/10 and 2012/13, provinces have been unable to spend more than 80% of their allocation*
Response to DoRB 2012	The Commission reiterated concerns raised in its Response to DoRB 2010 and Response to 2011 MTBPS regarding the challenges with the EPWP Incentive grant. The Commission maintained its view that the grant had not succeeded in achieving the intended goals within the specified time. There had also not been a formal assessment of the achievement of this grant both in terms of expenditure and service delivery outputs including how many direct and full times jobs had been created against the allocated funds. The Commission recommended that an independent review of the grant be undertaken, so that lessons can be drawn from past experience to avoid a replication of past mistakes. Government has since set up a team consisting of National Treasury, DPW, DCoG and SALGA that has been working on this. *This review is ongoing*

FFC Work Related to DPW [cont.]

Submission for the 2009/10 DoR	FFC found a need for reporting on EPWP outcomes to be more specific. In accordance with the requirements of the EPWP, job creation for target groups such as women, youth and people with disabilities should be included in the reporting requirements for all infrastructure conditional grants to provinces and municipalities GOVT. RESPONSE: The recommendation for reporting on targets is supported. Some of these indicators can possibly be reported on as part of the conditional grant frameworks prescribed in terms of the Division of Revenue Act
Submission for the 2007/08 DoR	The World Cup funding was crafted on the basis of requirements to meet FIFA standards of hosting cities, and that the major challenge faced by government was sustainability of built infrastructure. On the funding for the FIFA World Cup, FFC, examined the sustainability of built infrastructure, taking the escalation of construction costs into account. FFC's findings included that the escalation of construction costs be budgeted for, and that collaboration with the private sector should be encouraged. Also that a 2010 World Cup "Legacy Management Policy" should be introduced and prudent fiscal policy should be maintained leading to the World Cup GOVT. RESPONSE: Government is of the view that the costs relating to maintenance of constructed 2010 FIFA World Cup facilities should be provided by municipalities

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3. Departmental Analysis

CONTEXTUALISING THE DEPARTMENT OF PUBLIC WORKS

- Aim of Department of Public Works (DPW):
  - provide for and manage accommodation, housing, land and infrastructure needs of national departments
  - Lead and direct implementation of the national expanded public works programme (EPWP)
  - Promote growth, job creation and transformation in the construction and property industries
- Public works is a concurrent function between national and provincial spheres of government
- DPW contribution to National Development Plan (NDP) achieved through:
  - Implementation of job creation initiatives
  - Transition to low cost carbon economy
  - Development of an inclusive and integrated rural economy
  - Fight against corruption

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KEY CHALLENGES CONFRONTING DPW

- Due to consistent trend of poor audit outcomes and generally poor performance, DPW implemented a turnaround project in November 2012
- Areas that were identified for specific attention through the turnaround project include:
  - Lack of controls in supply chain management (SCM)
    - Identified as major risk area by Auditor-General – DPW capacity to process tenders eroded and has led to numerous instances of fraud/corruption. SCM has been major focus of the Special Investigating Unit (SIU). SCM is the key focus of turnaround project in DPW. A service provider appointed to assist with fundamental review of SCM
      - Irregular expenditure, R171 million in 2011/12; R874 million in 2012/13
  - Poor lease management
    - Numerous irregularities with respect to lease agreements – gives rise to legal risks. DPW reviewing all lease agreements

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KEY CHALLENGES CONFRONTING DPW [CONT.]

- Inadequate immovable asset register
  - Lack of compliant immovable asset register resulted in negative audit opinions. DPW now in process of rebuilding immovable asset register and building a model to revalue immovable assets
- Lack of built environment and property management skills
  - Lack of technical capacity to undertake direct construction/maintenance functions. Cooperating with DPSA and Higher Education and Training to address challenge

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STARTING POINT FOR BUDGET ANALYSIS

- By vote
  - Compare different votes with each other
- By vote programme
  - Compare different programmes within a vote
- By sub-programme
- Compare different sub-programmes within a programme
- By province
- Compare different provinces with each other
- Use Outputs, Targets and Indicators to measure performance
- Use policy documents as a benchmark

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USEFUL TOOLS

- Percentage Share of Total Budget
- Growth in the Budget
  - Percentage Change
    - Reflecting increases/decreases in percentage form
  - Annual Growth Rate
    - How does the allocation change year on year
  - Real Percentage Change
    - Takes inflation into consideration
  - Variances and explanations
    - Investigating the reasons/drivers of change
  - Spending by economic classification
    - Distinguishes between various categories of current (goods and services, transfers and subsidies) and capital expenditure (acquisition of fixed capital assets, purchase of land)

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BUDGET AND PROGRAMMES OF PUBLIC WORKS

Nominal (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Real Annual Average Growth 2011/12-2013/14	Real Annual Average Growth 2014/15-2016/17
Administration	837.1	856.2	1 158.2	1 175.3	1 133.3	1 191.5	11.5%	-4.1%
Immovable Asset Management	5 001.7	4 563.5	2 831.8	2 861.4	3 308.1	3 450.0	-28.7%	4.6%
Expanded Public Works Programme	1 163.0	1 704.1	1 948.0	1 951.3	2 006.8	2 395.2	22.7%	5.5%
Property and Construction Industry Policy Regulation	34.4	26.9	36.7	41.5	43.4	45.9	-2.1%	0.1%
Auxiliary and Associated Services	25.2	53.3	50.7	91.8	53.7	56.6	34.4%	-25.2%
Total	**7 061.4**	**7 203.9**	**6 025.3**	**6 121.3**	**6 545.3**	**7 139.2**	**-12.5%**	**2.8%**

- Five programmes on Department of Public Works (DPW) budget
- Allocation reduced significantly in 2013/14, due to phasing out of Devolution of Property Rates Fund Grant to provinces and non-completion of various projects. As result of underspending, Cabinet approved reductions were effected
  - Following poor spending performance and audit outcomes, DPW implementing a Turnaround Project
- DPW budget projected to recover to just over R7.1 billion by end of 2014 medium term expenditure framework (MTEF) period
  - 2014 MTEF growth driven by additional allocation of R159 million in 2016/17 for Expanded Public Works Programme (EPWP)

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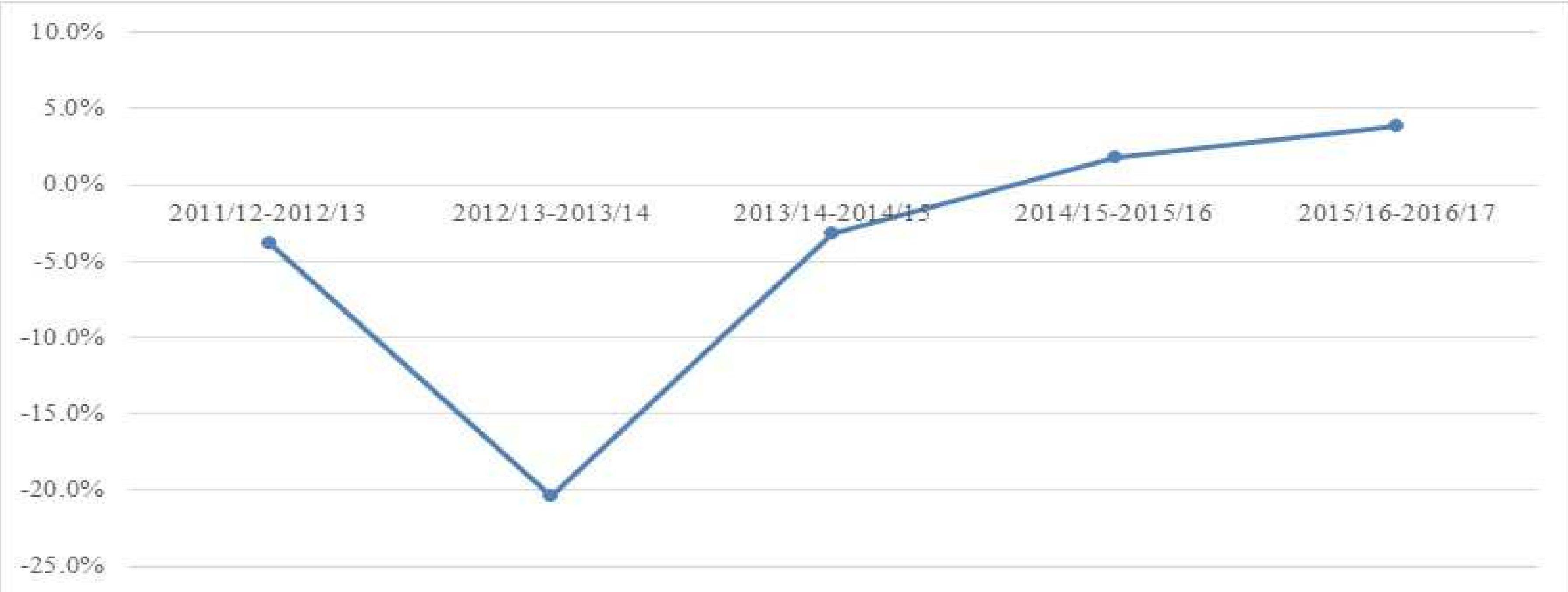
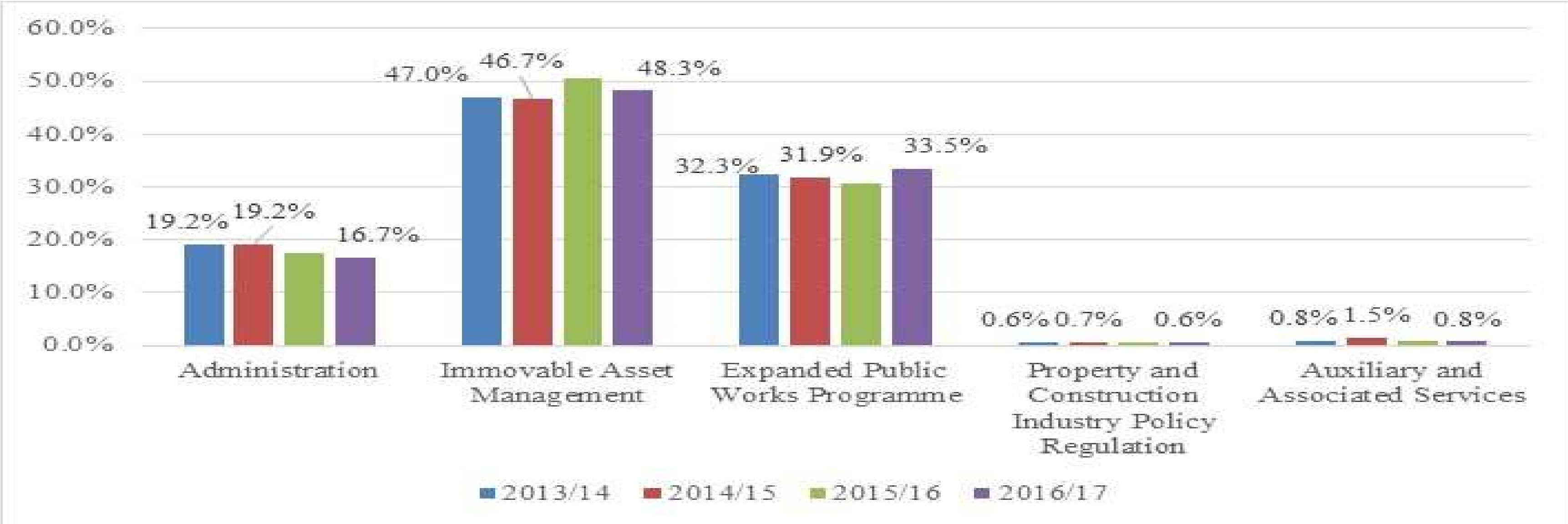
Real Year on Year Growth of Public Works Budget

- Significant decline in year on year growth in 2013/14
  - Though still declining in real terms in 2014/15, there is some improvement
- Over rest of 2014 MTEF period, positive growth projected
  - Focus will be on rehabilitating 34 state owned buildings, and ensuring that at least 100 buildings are made accessible to people with disabilities in each year of MTEF



BUDGET COMPOSITION ACROSS PROGRAMMES



- Immovable Asset Management Programme consumes largest share of DPW budget – by end of 2014 MTEF period this programme is projected to consume just under half of DPW budget
- Share allocated to Administration Programme consumers about one fifth of departmental budget – funding for Turnaround Project fall under Administration
  - Turnaround Project will support activities relating to the Special Investigating Unit, a technical support unit, a clean audit project, irregular expenditure management, internal audit support

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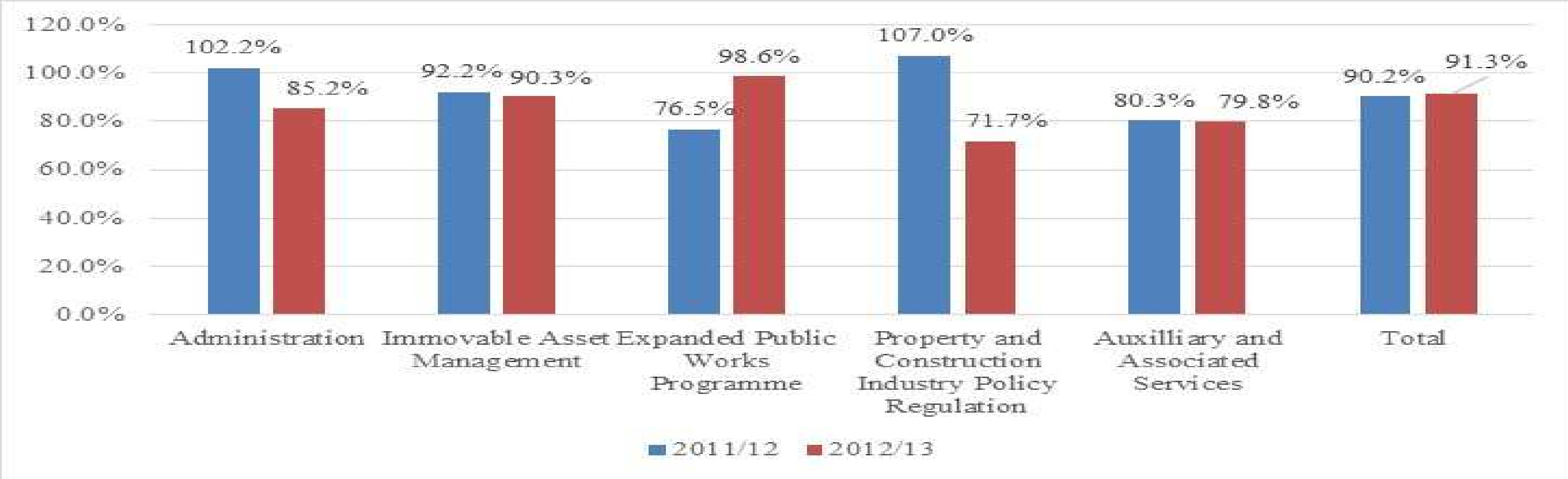
ECONOMIC CLASSIFICATION

Item (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Compensation of Employees	1 269.6	1 374.6	1 473.5	1 659.9	1 753.5	1 870.5
Goods and Services	1 032.9	977.0	1 379.6	1 302.1	1 202.9	1 269.0
Transfers and Subsidies	3 656.2	4 092.4	2 543.9	2 563.4	2 654.2	3 017.9
Payments for Capital Assets	1 099.1	756.8	628.4	595.9	934.8	981.7
Real Year on Year Growth (%)						
Compensation of Employees		2.1%	2.1%	7.3%	0.6%	1.6%
Goods and Services		-10.8%	34.5%	-10.1%	-12.0%	0.5%
Transfers and Subsidies		5.6%	-40.8%	-4.0%	-1.4%	8.3%
Payments for Capital Assets		-35.1%	-20.9%	-9.7%	49.4%	-0.003%

- Transfers and subsidies is the largest item
  - the decrease in 2013/14 due to phasing out of the Devolution of Property Rates Fund Grant to Provinces, hence reduction in transfers to provinces
- The increase in spending on Goods and Services in 2013/14 driven by spending on consultants – due to shortage of technical skills in property/project management and specialists as required for the DPW’s turnaround project
- Payments for capital assets very erratic
- Relative to strong annual average growth between 2011/12 and 2013/14, growth in Goods and Service set to decline over the 2014 MTEF period

SPENDING PERFORMANCE (FISCAL DISCIPLINE)



- DPW underspent in 2011/12 and 2012/13
- In 2011 underspending on EPWP and Auxilliary and Associated Services Programme
- In 2012, underspending is as a result of poor spending in Property and Construction Industry Policy Regulation Programme and again Auxilliary and Associated Services Programme
- Due to persistent underspending on capital, baseline reductions of R1.3 billion effected over 2014 MTEF period

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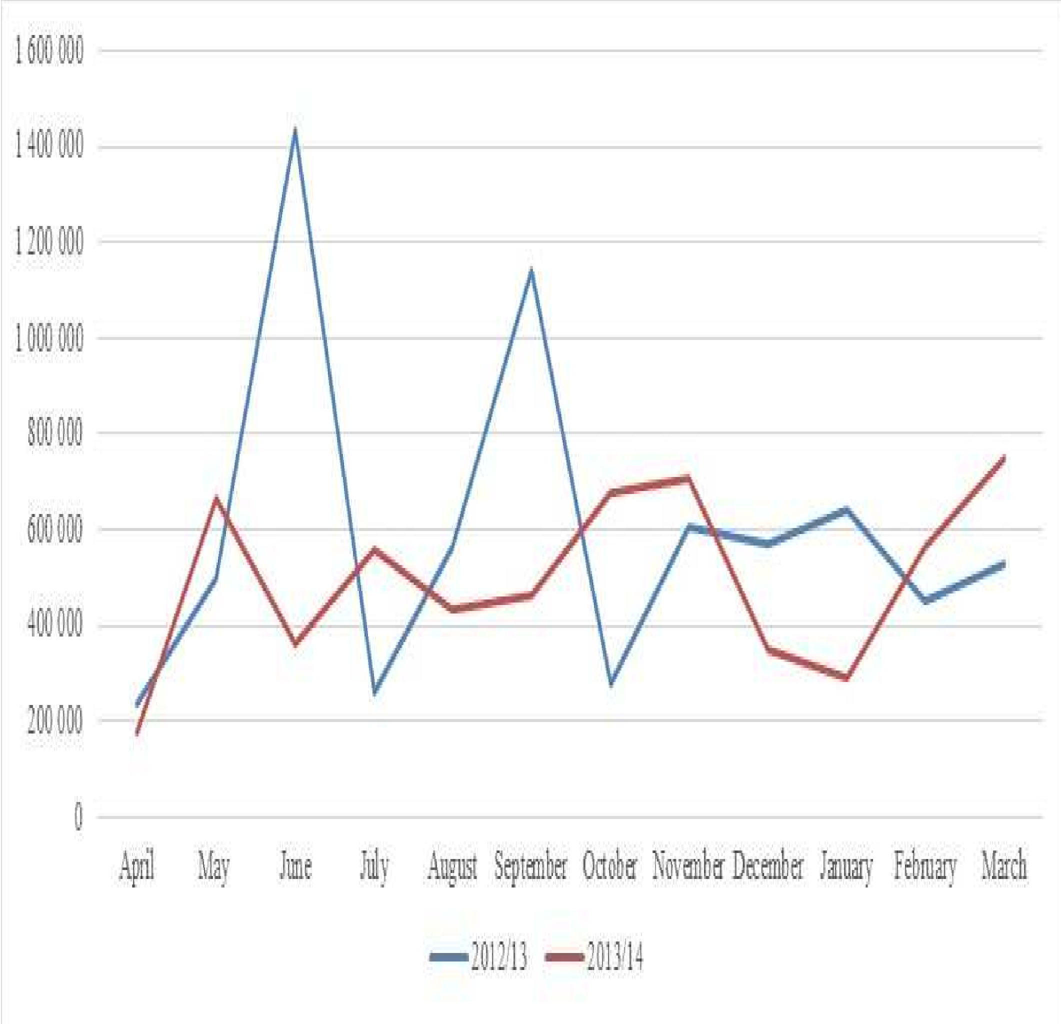
In-Year Expenditure

- 2012/13 in-year spending erratic
- Appears to be improving in 2013/14 – variances in monthly spending not as large as during 2012/13
- Concern with poor in-year spending is that it hints at unstable cash flow and disbursements



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Selected Sub-Programme Analysis: Immovable Asset Management Programme

Real Year on Year Growth	2011/12-2012/13	2012/13-2013/14	2013/14-2014/15	2014/15-2015/16	2015/16-2016/17
Infrastructure (Public Works)	-33.5%	-9.7%	-28.1%	57.5%	-0.1%
Strategic Asset Investment Analysis	-67.7%	149.1%	10.4%	0.2%	1.0%
Operation Management	1.6%	-0.3%	0.5%	-0.4%	2.7%
Prestige Management	-51.5%	44.0%	-27.0%	-1.0%	-28.5%
Special Projects	4.0%	47.6%	-24.7%	1.8%	0.4%
Construction Industry Development Board	-3.4%	2.0%	1.6%	0.4%	0.2%
Council for the Built Environment	-7.7%	28.8%	4.3%	1.4%	0.2%
Parliamentary Village Management Board	-0.6%	0.1%	1.1%	-0.4%	0.5%
Augmentation of the Property Management Trading Entity	-3.2%	0.5%	-6.0%	-0.1%	0.6%
Independent Development Trust	-68.1%	-6.3%	-4.7%	-4.8%	-100.0%
Total	**-14.0%**	**-37.8%**	**-8.6%**	**10.1%**	**-0.7%**

- Total programme growth declines over most of the period reviewed
  - Decline in 2012 and 2013 is due to phasing out of devolution of property rates fund grant to provinces, non-completion of projects and Cabinet approved reductions due to underspending
- Generally sub-programme trends are erratic, brings into question soundness of planning in DPW
- Lack of capacity a challenge in this programme – 10% vacancy rate

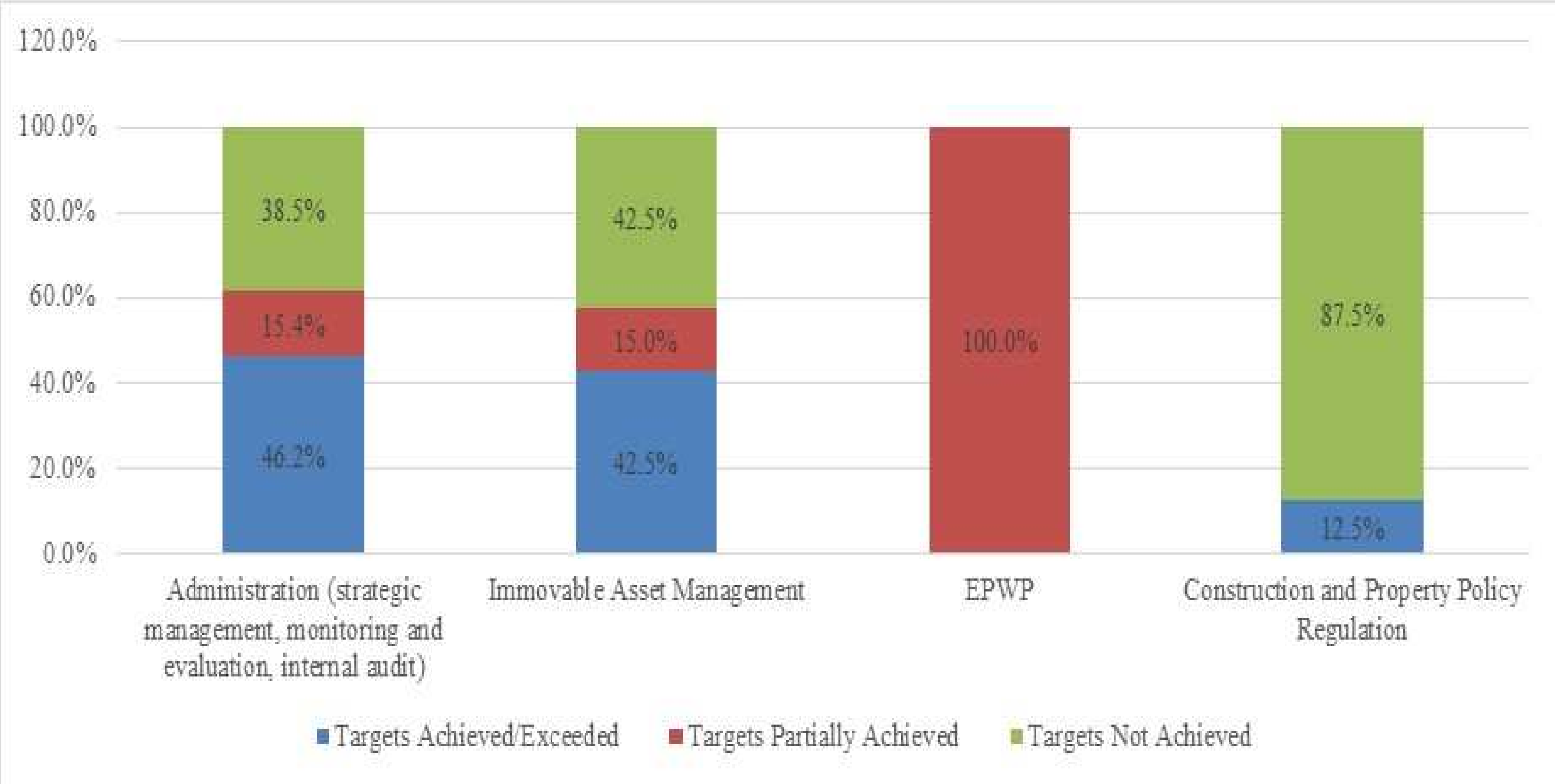
SELECTED SUB-PROGRAMME ANALYSIS: EXPANDED PUBLIC WORKS PROGRAMME

R million	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**
Expanded Public Works Programme	209.7	236.8	273.8	261.5	267.7	290.6
Performance Based Incentive Allocations	953.3	1 467.3	1 674.2	1 689.8	1 739.2	2 104.6
Total	**1 163.0**	**1 704.1**	**1 948.0**	**1 951.3**	**2 006.8**	**2 395.2**
Real Year on Year Growth		**2011/12-2012/13**	**2012/13-2013/14**	**2013/14-2014/15**	**2014/15-2015/16**	**2015/16-2016/17**
Expanded Public Works Programme		12.9%	15.6%	-4.5%	2.4%	8.6%
Performance Based Incentive Allocations		53.9%	14.1%	0.9%	2.9%	21.0%
Total		**46.5%**	**14.3%**	**0.2%**	**2.8%**	**19.4%**

- EPWP promotes use of government expenditure to create additional employment opportunities through the use of labour-intensive delivery methods
  - Increases in 2012/2013 due to appointment of service providers to support provinces and municipalities in design of infrastructure projects and reporting methods
- Performance Based Incentive Allocations is the largest sub-programme
  - Focus: disburses funds to provinces/municipalities and NGOs to ensure creation of work opportunities in infrastructure, environment, social sectors
  - Increases between 2012 and 2013 are due to additional funding allocated. However to give effect to Cabinet-approved reductions, growth in this sub programme slows in 2014 and 2015
- Overall between 2009/10 and 2012/13, just over 3 million jobs created (68% of target of 4.5 million jobs)

DEPARTMENTAL PERFORMANCE

- Department not adequately meeting targets set.
  - Number of targets partially met and totally unmet exceptionally high



Departmental Performance [cont.]

Programme	Explanation for Unmet Targets
Administration	Delays due to lack of capacity/high vacancy rate, unrealistic targets given financial resources, lengthy procurement processes that delay appointment of service providers
Immovable Asset Management	Appropriate supply chain management process not followed, unrealistic target setting, inadequate data collection to verify extent to which target was met
EPWP	Delays in project implementation, lack of technical capacity to implement projects, poor performance on part of municipalities/provinces to carry out projects
Construction and Property Policy Regulation	• Legislative framework for Built Environment Professionals: delays in internal consultation • Establish Agrement SA as public entity: delay in the approval of business case • Provide immovable asset lifecycle management guidelines to national and provincial custodians of immovable assets: delay in internal consultation prevented finalisation

ASPECTS HIGHLIGHTED BY THE AUDITOR-GENERAL

- DPW audit outcomes:
  - 2009/10: qualified with findings
  - 2010/11:disclaimer
  - 2011/12: disclaimer
  - 2012/13: qualified with findings
- Key issues highlighted by Auditor-General that need to be addressed:
  - Inadequate internal controls in areas of leadership, financial management, performance management and governance
  - Areas that were identified for specific attention through the turnaround project include: lack of controls in supply chain management, poor lease management, inadequate immovable asset register, lack of built environment and property management skills

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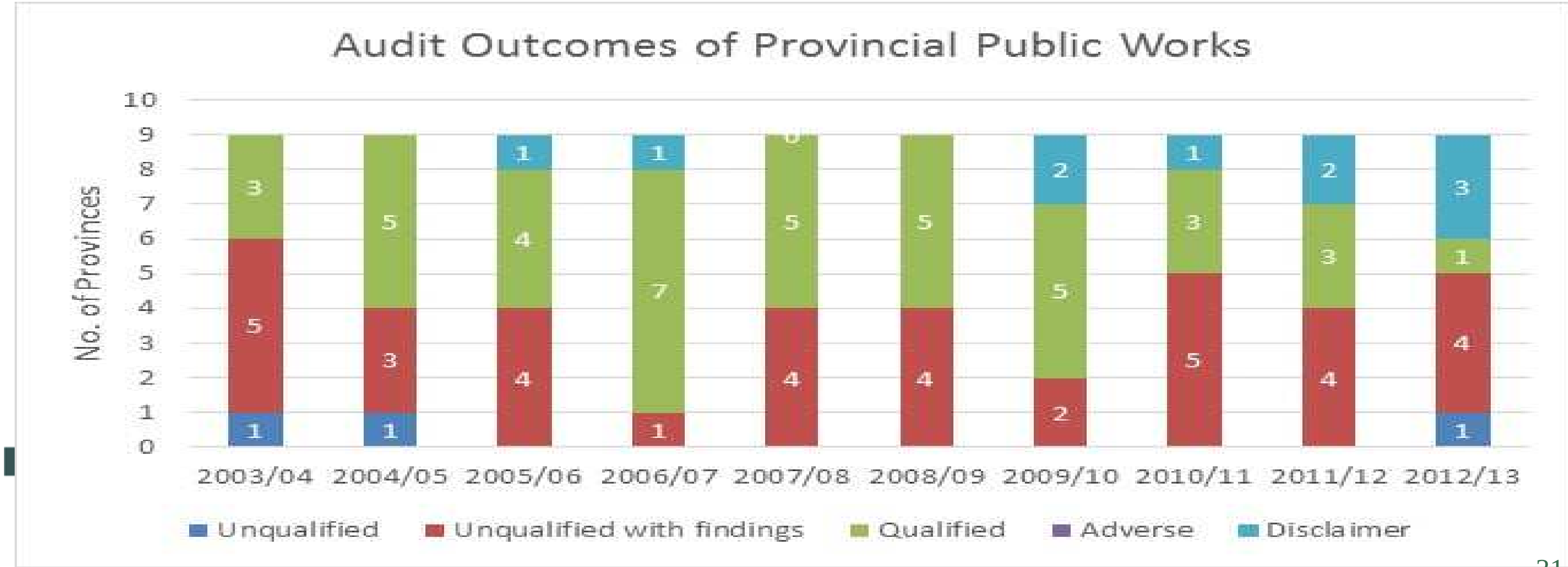
PUBLIC WORKS IN THE PROVINCES

PROVINCIAL AUDIT OUTCOMES

- Audit outcomes for provincial departments of public works have not considerably improved in since 2003/04
  - Four out of the nine provinces received a qualified opinion or disclaimer in 2012/13
  - Over a period of 10 years (i.e. 2003/4 – 2012/13), only 3 provincial departments of public works received an unqualified audit opinion



PROVINCIAL AUDIT OUTCOMES [CONT.]

- The Auditor-General raised a number of matters that prevented provincial departments from achieving clean audits such as:
  - Instability in leadership and lack of human resources
  - Internal controls are ineffective
  - Action plans to implement improvement in audit outcomes are not timeously implemented
  - Inaccurate and incomplete fixed asset registers
  - Incomplete disclosures on unauthorized, irregular and fruitless, irregular and wasteful expenditure
  - Commitments by the national sector department to intervene and/or provide support were not honoured
- The Commission's view is that DPW should play a more active role, through the various intergovernmental forums, in providing the necessary support to provincial departments of public works

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Spending Performance by Provinces on EPWP Conditional Grants

- The National Department of Public Works is the transferring agent for two EPWP conditional grants to provinces
- As the transferring agent, the responsibilities of the DPW are prescribed in the conditional grant framework contained in the Division of Revenue Act. These include (among others):
  - Determine eligibility of grant, monitor and provide support to provinces, audit provincial performance and report to national treasury on provincial progress

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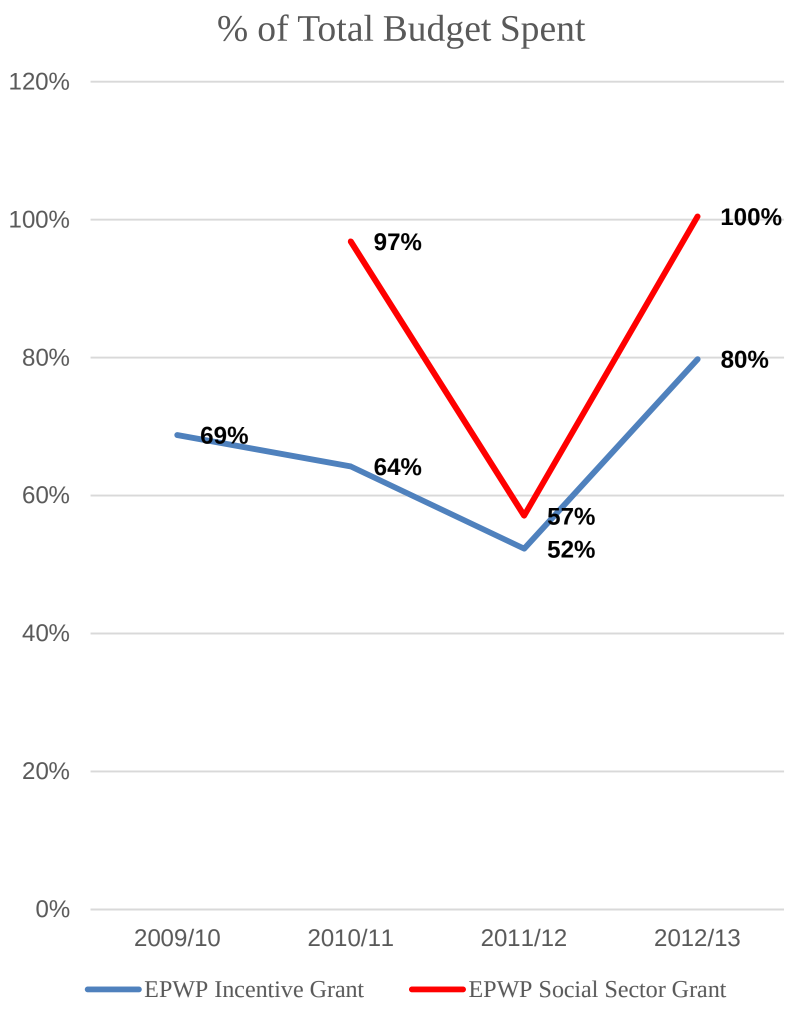
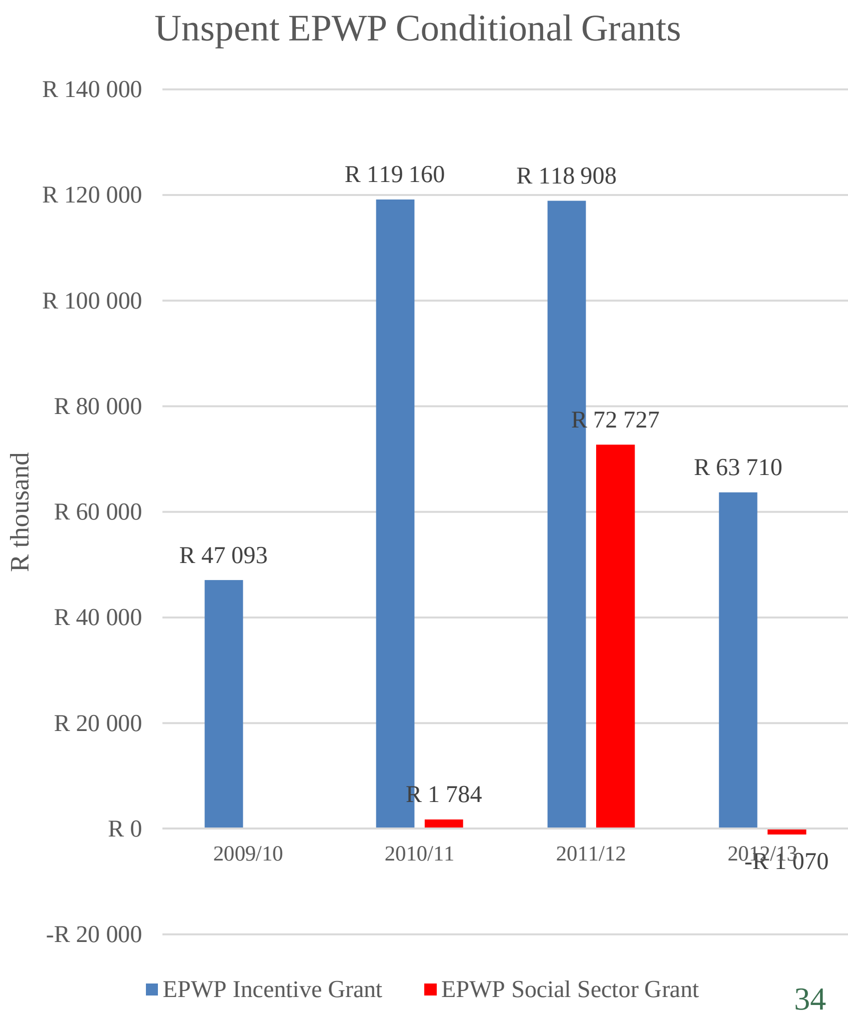
EPWP Conditional Grants to Provinces





Summary of Performance on EPWP Grants to Provinces

- Over a four year period (2009/10 – 2012/13), provinces have been unable to spend more than 80% of its allocation to the EPWP Incentive Grant in any given year
- Except in 2011/12 where spending on both EPWP grants were below 60% of total, the EPWP Social Sector grant in general, performed better than the Incentive grant
  - Provinces have challenges relating to infrastructure, which affects the spending performance on the Incentive grant
- In many instances, provinces fail to comply with grant conditions stipulated in DORA, resulting in funds being withheld, thereby leaving funds unspent at the end of the year

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CONCLUDING REMARKS

- Key issues emanating from analysis of DPW
  - Underspending of budget
  - Not meeting set targets
- For the sector to turnaround, the DPW should play a leadership role by providing the necessary support to the provinces and establishing minimum norms and standards to facilitate improvement in service delivery in the provinces
- Department to put in place proper systems to guide expenditure management, setting of appropriate key performance indicators and a plan to attract/retain skilled staff
  - Outcome of the Turnaround Project is key in facilitating progress – some improvements noted but far to go in putting DPW on stable footing

FINANCIAL AND FISCAL COMMISSION

FFC's Website: www.ffc.co.za

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FFC Work Related to DPW [cont.]

Response to MTBPS 2011	In terms of the EPWP Incentive grant framework, provinces and municipalities must spend their budgets on EPWP projects and after that the grant will be paid by DPW quarterly as an incentive (after employment has been created). There has been general under-spending against budget since inception of the grant. Projected under-spending in financial year 2011 was 28.4%. In 2010, the actual under-spend was 38.4%. Despite poor spending performance, the annual growth of the budget was high. Expenditure reports on the grant performance at local government were inaccessible. DPW should explain how transfers are reconciled with actual expenditure. The grant should be streamlined to the Division of Revenue Act (DORA) requirements in terms of allocation and disbursements of funds. Punitive and incentive elements of the grant should be made transparent to all the stakeholders. *Current FFC analysis indicates that underspending persists. Between 2009/10 and 2012/13, provinces have been unable to spend more than 80% of their allocation*
Response to DoRB 2012	The Commission reiterated concerns raised in its Response to DoRB 2010 and Response to 2011 MTBPS regarding the challenges with the EPWP Incentive grant. The Commission maintained its view that the grant had not succeeded in achieving the intended goals within the specified time. There had also not been a formal assessment of the achievement of this grant both in terms of expenditure and service delivery outputs including how many direct and full times jobs had been created against the allocated funds. The Commission recommended that an independent review of the grant be undertaken, so that lessons can be drawn from past experience to avoid a replication of past mistakes. Government has since set up a team consisting of National Treasury, DPW, DCoG and SALGA that has been working on this. *This review is ongoing*

FFC Work Related to DPW [cont.]

Submission for the 2009/10 DoR	FFC found a need for reporting on EPWP outcomes to be more specific. In accordance with the requirements of the EPWP, job creation for target groups such as women, youth and people with disabilities should be included in the reporting requirements for all infrastructure conditional grants to provinces and municipalities GOVT. RESPONSE: The recommendation for reporting on targets is supported. Some of these indicators can possibly be reported on as part of the conditional grant frameworks prescribed in terms of the Division of Revenue Act
Submission for the 2007/08 DoR	The World Cup funding was crafted on the basis of requirements to meet FIFA standards of hosting cities, and that the major challenge faced by government was sustainability of built infrastructure. On the funding for the FIFA World Cup, FFC, examined the sustainability of built infrastructure, taking the escalation of construction costs into account. FFC's findings included that the escalation of construction costs be budgeted for, and that collaboration with the private sector should be encouraged. Also that a 2010 World Cup "Legacy Management Policy" should be introduced and prudent fiscal policy should be maintained leading to the World Cup GOVT. RESPONSE: Government is of the view that the costs relating to maintenance of constructed 2010 FIFA World Cup facilities should be provided by municipalities

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3. Departmental Analysis

CONTEXTUALISING THE DEPARTMENT OF PUBLIC WORKS

- Aim of Department of Public Works (DPW):
  - provide for and manage accommodation, housing, land and infrastructure needs of national departments
  - Lead and direct implementation of the national expanded public works programme (EPWP)
  - Promote growth, job creation and transformation in the construction and property industries
- Public works is a concurrent function between national and provincial spheres of government
- DPW contribution to National Development Plan (NDP) achieved through:
  - Implementation of job creation initiatives
  - Transition to low cost carbon economy
  - Development of an inclusive and integrated rural economy
  - Fight against corruption

FINANCIAL AND FISCAL COMMISSION

Key Challenges Confronting DPW

- Due to consistent trend of poor audit outcomes and generally poor performance, DPW implemented a turnaround project in November 2012
- Areas that were identified for specific attention through the turnaround project include:
  - Lack of controls in supply chain management (SCM)
    - Identified as major risk area by Auditor-General – DPW capacity to process tenders eroded and has led to numerous instances of fraud/corruption. SCM has been major focus of the Special Investigating Unit (SIU). SCM is the key focus of turnaround project in DPW. A service provider appointed to assist with fundamental review of SCM
      - Irregular expenditure, R171 million in 2011/12; R874 million in 2012/13
  - Poor lease management
    - Numerous irregularities with respect to lease agreements – gives rise to legal risks. DPW reviewing all lease agreements

FINANCIAL AND FISCAL COMMISSION

KEY CHALLENGES CONFRONTING DPW [CONT.]

- Inadequate immovable asset register
  - Lack of compliant immovable asset register resulted in negative audit opinions. DPW now in process of rebuilding immovable asset register and building a model to revalue immovable assets
- Lack of built environment and property management skills
  - Lack of technical capacity to undertake direct construction/maintenance functions. Cooperating with DPSA and Higher Education and Training to address challenge

FINANCIAL AND FISCAL COMMISSION

STARTING POINT FOR BUDGET ANALYSIS

- By vote
  - Compare different votes with each other
- By vote programme
  - Compare different programmes within a vote
- By sub-programme
- Compare different sub-programmes within a programme
- By province
- Compare different provinces with each other
- Use Outputs, Targets and Indicators to measure performance
- Use policy documents as a benchmark

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USEFUL TOOLS

- Percentage Share of Total Budget
- Growth in the Budget
  - Percentage Change
    - Reflecting increases/decreases in percentage form
  - Annual Growth Rate
    - How does the allocation change year on year
  - Real Percentage Change
    - Takes inflation into consideration
  - Variances and explanations
    - Investigating the reasons/drivers of change
  - Spending by economic classification
    - Distinguishes between various categories of current (goods and services, transfers and subsidies) and capital expenditure (acquisition of fixed capital assets, purchase of land)

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BUDGET AND PROGRAMMES OF PUBLIC WORKS

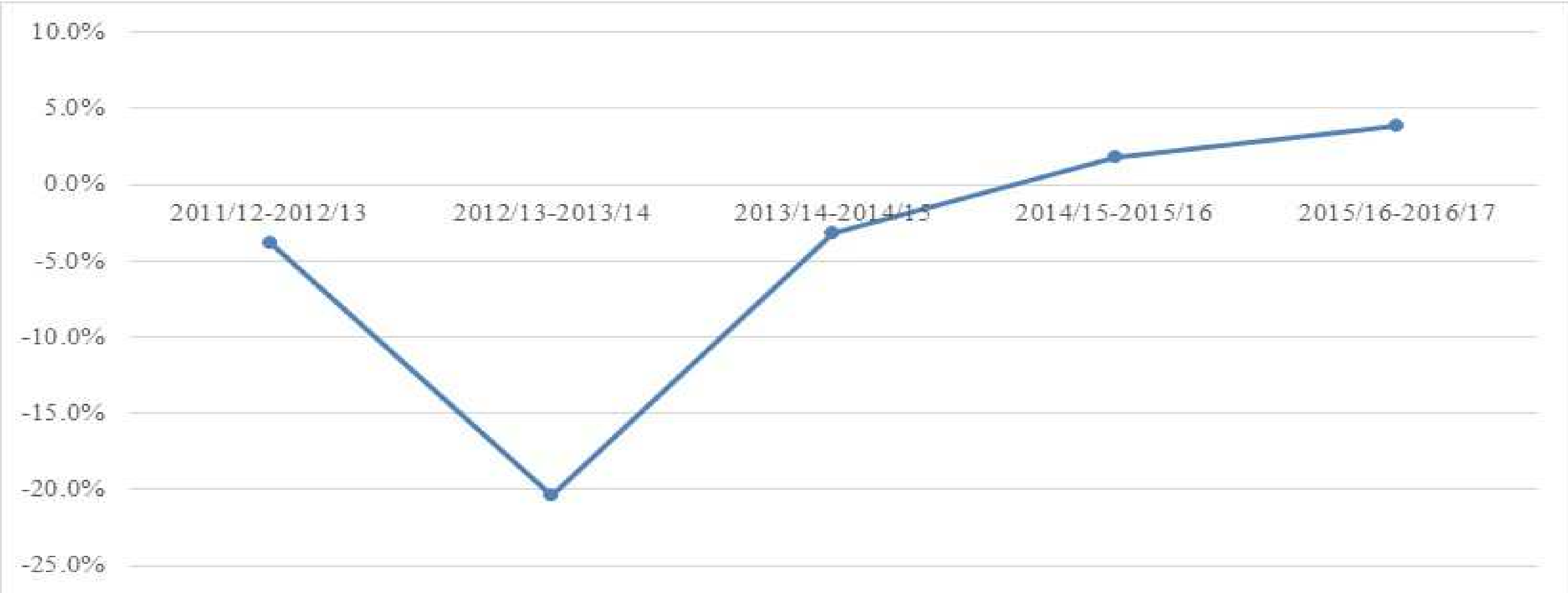
Nominal (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Real Annual Average Growth 2011/12-2013/14	Real Annual Average Growth 2014/15-2016/17
Administration	837.1	856.2	1 158.2	1 175.3	1 133.3	1 191.5	11.5%	-4.1%
Immovable Asset Management	5 001.7	4 563.5	2 831.8	2 861.4	3 308.1	3 450.0	-28.7%	4.6%
Expanded Public Works Programme	1 163.0	1 704.1	1 948.0	1 951.3	2 006.8	2 395.2	22.7%	5.5%
Property and Construction Industry Policy Regulation	34.4	26.9	36.7	41.5	43.4	45.9	-2.1%	0.1%
Auxiliary and Associated Services	25.2	53.3	50.7	91.8	53.7	56.6	34.4%	-25.2%
Total	**7 061.4**	**7 203.9**	**6 025.3**	**6 121.3**	**6 545.3**	**7 139.2**	**-12.5%**	**2.8%**

- Five programmes on Department of Public Works (DPW) budget
- Allocation reduced significantly in 2013/14, due to phasing out of Devolution of Property Rates Fund Grant to provinces and non-completion of various projects. As result of underspending, Cabinet approved reductions were effected
  - Following poor spending performance and audit outcomes, DPW implementing a Turnaround Project
- DPW budget projected to recover to just over R7.1 billion by end of 2014 medium term expenditure framework (MTEF) period
  - 2014 MTEF growth driven by additional allocation of R159 million in 2016/17 for Expanded Public Works Programme (EPWP)

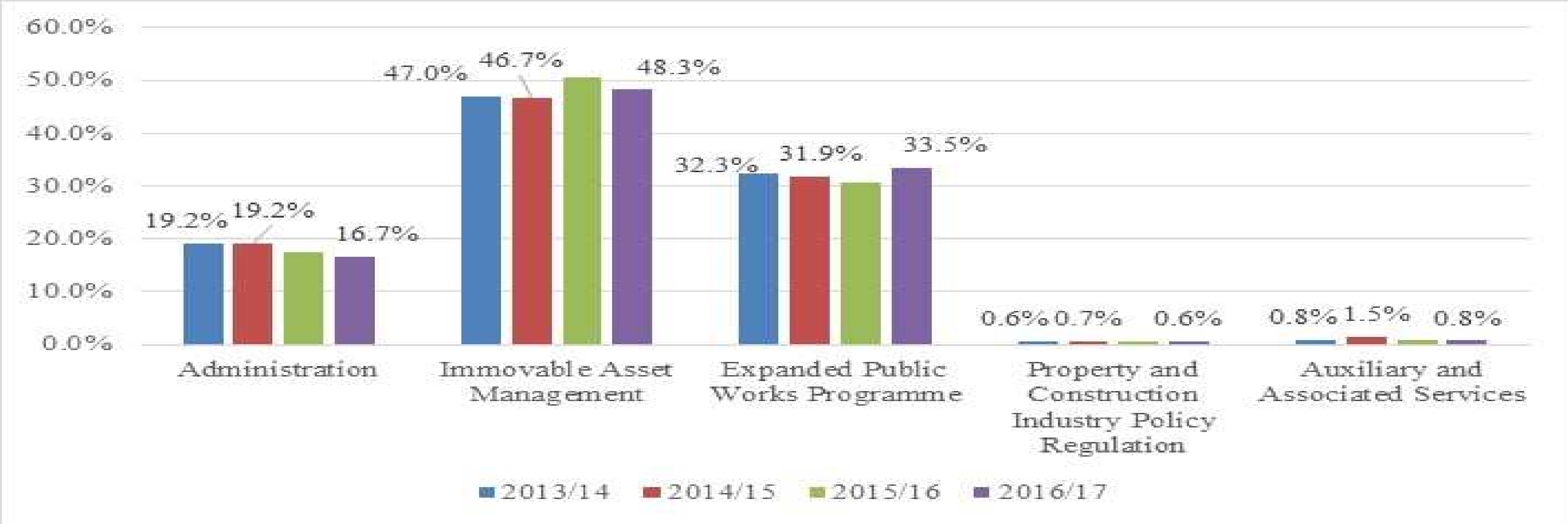
FINANCIAL AND FISCAL COMMISSION

REAL YEAR ON YEAR GROWTH OF PUBLIC WORKS BUDGET

- Significant decline in year on year growth in 2013/14
  - Though still declining in real terms in 2014/15, there is some improvement
- Over rest of 2014 MTEF period, positive growth projected
  - Focus will be on rehabilitating 34 state owned buildings, and ensuring that at least 100 buildings are made accessible to people with disabilities in each year of MTEF



Budget Composition across Programmes



- Immovable Asset Management Programme consumes largest share of DPW budget – by end of 2014 MTEF period this programme is projected to consume just under half of DPW budget
- Share allocated to Administration Programme consumers about one fifth of departmental budget – funding for Turnaround Project fall under Administration
  - Turnaround Project will support activities relating to the Special Investigating Unit, a technical support unit, a clean audit project, irregular expenditure management, internal audit support

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ECONOMIC CLASSIFICATION

Item (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Compensation of Employees	1 269.6	1 374.6	1 473.5	1 659.9	1 753.5	1 870.5
Goods and Services	1 032.9	977.0	1 379.6	1 302.1	1 202.9	1 269.0
Transfers and Subsidies	3 656.2	4 092.4	2 543.9	2 563.4	2 654.2	3 017.9
Payments for Capital Assets	1 099.1	756.8	628.4	595.9	934.8	981.7
Real Year on Year Growth (%)						
Compensation of Employees		2.1%	2.1%	7.3%	0.6%	1.6%
Goods and Services		-10.8%	34.5%	-10.1%	-12.0%	0.5%
Transfers and Subsidies		5.6%	-40.8%	-4.0%	-1.4%	8.3%
Payments for Capital Assets		-35.1%	-20.9%	-9.7%	49.4%	-0.003%

- Transfers and subsidies is the largest item
  - the decrease in 2013/14 due to phasing out of the Devolution of Property Rates Fund Grant to Provinces, hence reduction in transfers to provinces
- The increase in spending on Goods and Services in 2013/14 driven by spending on consultants – due to shortage of technical skills in property/project management and specialists as required for the DPW's turnaround project
- Payments for capital assets very erratic
- Relative to strong annual average growth between 2011/12 and 2013/14, growth in Goods and Service set to decline over the 2014 MTEF period

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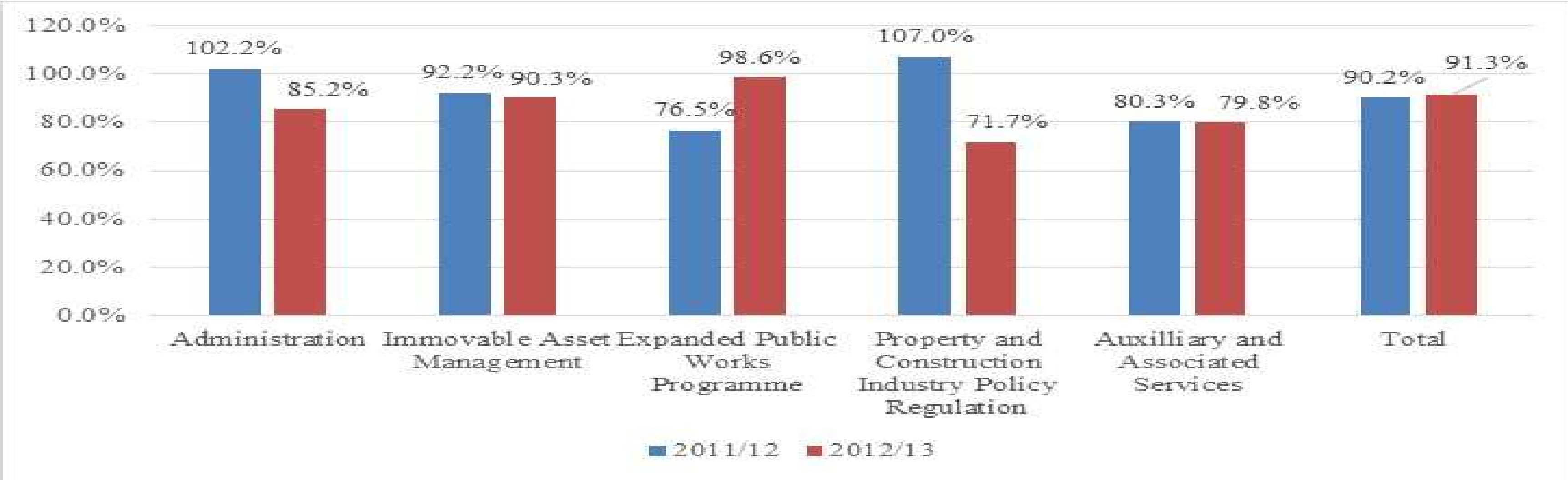
SPENDING PERFORMANCE (FISCAL DISCIPLINE)

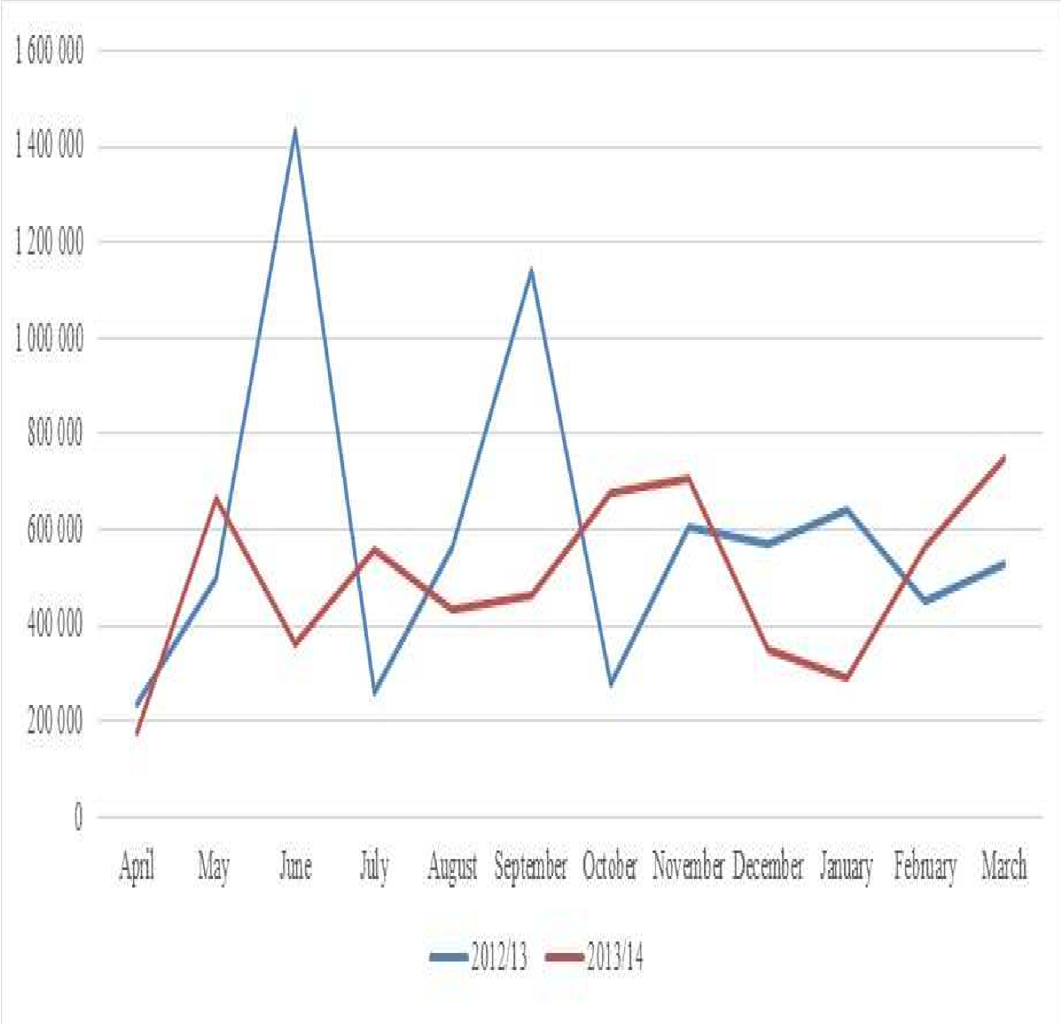


- DPW underspent in 2011/12 and 2012/13
- In 2011 underspending on EPWP and Auxilliary and Associated Services Programme
- In 2012, underspending is as a result of poor spending in Property and Construction Industry Policy Regulation Programme and again Auxilliary and Associated Services Programme
- Due to persistent underspending on capital, baseline reductions of R1.3 billion effected over 2014 MTEF period

FINANCIAL AND FISCAL COMMISSION

IN-YEAR EXPENDITURE

- 2012/13 in-year spending erratic
- Appears to be improving in 2013/14 – variances in monthly spending not as large as during 2012/13
- Concern with poor in-year spending is that it hints at unstable cash flow and disbursements



FINANCIAL AND FISCAL COMMISSION

Selected Sub-Programme Analysis: Immovable Asset Management Programme

Real Year on Year Growth	2011/12-2012/13	2012/13-2013/14	2013/14-2014/15	2014/15-2015/16	2015/16-2016/17
Infrastructure (Public Works)	-33.5%	-9.7%	-28.1%	57.5%	-0.1%
Strategic Asset Investment Analysis	-67.7%	149.1%	10.4%	0.2%	1.0%
Operation Management	1.6%	-0.3%	0.5%	-0.4%	2.7%
Prestige Management	-51.5%	44.0%	-27.0%	-1.0%	-28.5%
Special Projects	4.0%	47.6%	-24.7%	1.8%	0.4%
Construction Industry Development Board	-3.4%	2.0%	1.6%	0.4%	0.2%
Council for the Built Environment	-7.7%	28.8%	4.3%	1.4%	0.2%
Parliamentary Village Management Board	-0.6%	0.1%	1.1%	-0.4%	0.5%
Augmentation of the Property Management Trading Entity	-3.2%	0.5%	-6.0%	-0.1%	0.6%
Independent Development Trust	-68.1%	-6.3%	-4.7%	-4.8%	-100.0%
Total	**-14.0%**	**-37.8%**	**-8.6%**	**10.1%**	**-0.7%**

- Total programme growth declines over most of the period reviewed
  - Decline in 2012 and 2013 is due to phasing out of devolution of property rates fund grant to provinces, non-completion of projects and Cabinet approved reductions due to underspending
- Generally sub-programme trends are erratic, brings into question soundness of planning in DPW
- Lack of capacity a challenge in this programme – 10% vacancy rate

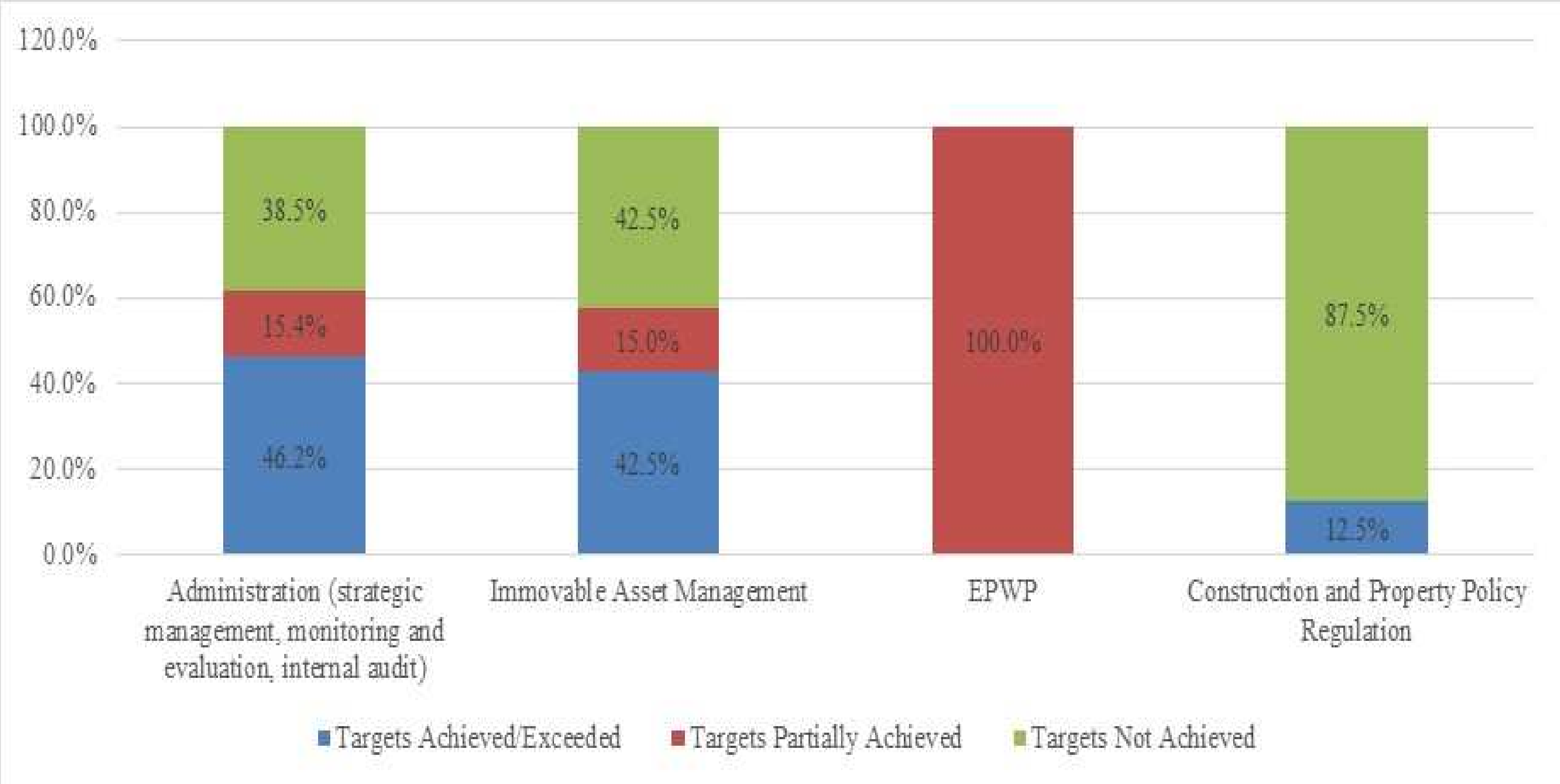
SELECTED SUB-PROGRAMME ANALYSIS: EXPANDED PUBLIC WORKS PROGRAMME

R million	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**
Expanded Public Works Programme	209.7	236.8	273.8	261.5	267.7	290.6
Performance Based Incentive Allocations	953.3	1 467.3	1 674.2	1 689.8	1 739.2	2 104.6
Total	**1 163.0**	**1 704.1**	**1 948.0**	**1 951.3**	**2 006.8**	**2 395.2**
Real Year on Year Growth		**2011/12-2012/13**	**2012/13-2013/14**	**2013/14-2014/15**	**2014/15-2015/16**	**2015/16-2016/17**
Expanded Public Works Programme		12.9%	15.6%	-4.5%	2.4%	8.6%
Performance Based Incentive Allocations		53.9%	14.1%	0.9%	2.9%	21.0%
Total		**46.5%**	**14.3%**	**0.2%**	**2.8%**	**19.4%**

- EPWP promotes use of government expenditure to create additional employment opportunities through the use of labour-intensive delivery methods
  - Increases in 2012/2013 due to appointment of service providers to support provinces and municipalities in design of infrastructure projects and reporting methods
- Performance Based Incentive Allocations is the largest sub-programme
  - Focus: disburses funds to provinces/municipalities and NGOs to ensure creation of work opportunities in infrastructure, environment, social sectors
  - Increases between 2012 and 2013 are due to additional funding allocated. However to give effect to Cabinet-approved reductions, growth in this sub programme slows in 2014 and 2015
- Overall between 2009/10 and 2012/13, just over 3 million jobs created (68% of target of 4.5 million jobs)

DEPARTMENTAL PERFORMANCE

- Department not adequately meeting targets set.
  - Number of targets partially met and totally unmet exceptionally high



Departmental Performance [cont.]

Programme	Explanation for Unmet Targets
Administration	Delays due to lack of capacity/high vacancy rate, unrealistic targets given financial resources, lengthy procurement processes that delay appointment of service providers
Immovable Asset Management	Appropriate supply chain management process not followed, unrealistic target setting, inadequate data collection to verify extent to which target was met
EPWP	Delays in project implementation, lack of technical capacity to implement projects, poor performance on part of municipalities/provinces to carry out projects
Construction and Property Policy Regulation	• Legislative framework for Built Environment Professionals: delays in internal consultation • Establish Agrement SA as public entity: delay in the approval of business case • Provide immovable asset lifecycle management guidelines to national and provincial custodians of immovable assets: delay in internal consultation prevented finalisation

Aspects Highlighted by the Auditor-General

- DPW audit outcomes:
  - 2009/10: qualified with findings
  - 2010/11:disclaimer
  - 2011/12: disclaimer
  - 2012/13: qualified with findings
- Key issues highlighted by Auditor-General that need to be addressed:
  - Inadequate internal controls in areas of leadership, financial management, performance management and governance
  - Areas that were identified for specific attention through the turnaround project include: lack of controls in supply chain management, poor lease management, inadequate immovable asset register, lack of built environment and property management skills

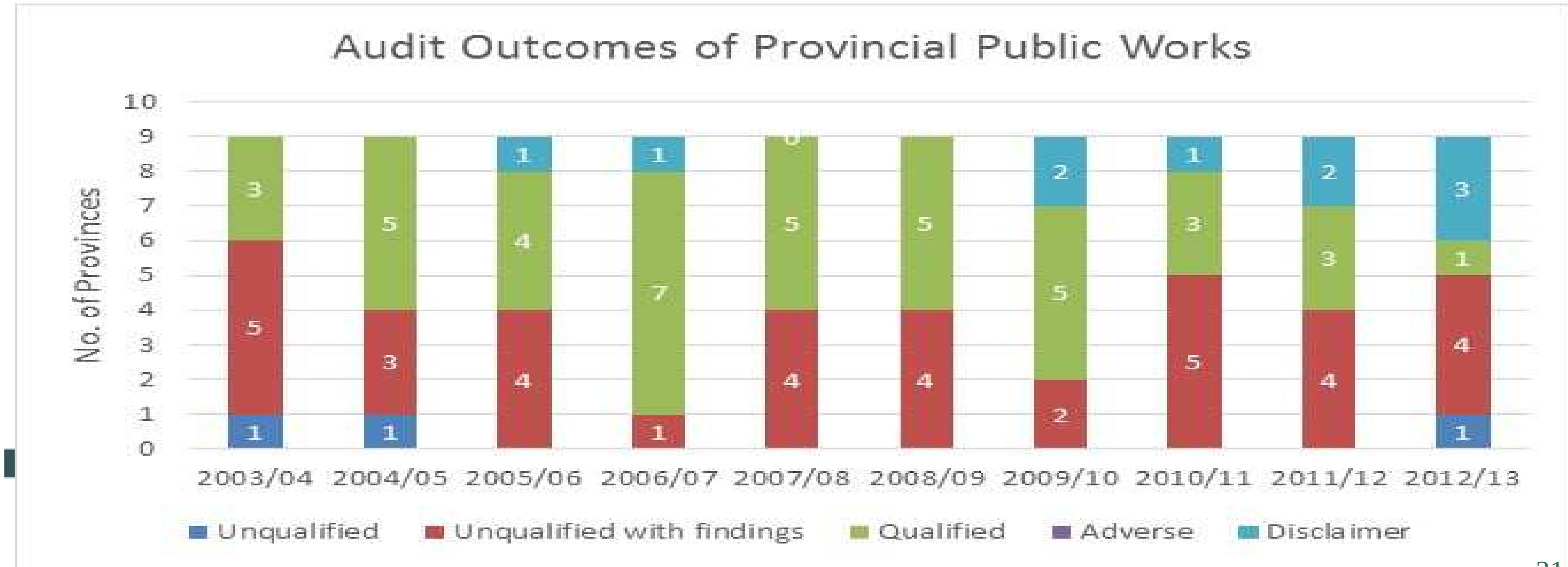
FINANCIAL AND FISCAL COMMISSION

FINANCIAL AND FISCAL COMMISSION

PUBLIC WORKS IN THE PROVINCES

PROVINCIAL AUDIT OUTCOMES

- Audit outcomes for provincial departments of public works have not considerably improved in since 2003/04
  - Four out of the nine provinces received a qualified opinion or disclaimer in 2012/13
  - Over a period of 10 years (i.e. 2003/4 – 2012/13), only 3 provincial departments of public works received an unqualified audit opinion



PROVINCIAL AUDIT OUTCOMES [CONT.]

- The Auditor-General raised a number of matters that prevented provincial departments from achieving clean audits such as:
  - Instability in leadership and lack of human resources
  - Internal controls are ineffective
  - Action plans to implement improvement in audit outcomes are not timeously implemented
  - Inaccurate and incomplete fixed asset registers
  - Incomplete disclosures on unauthorized, irregular and fruitless, irregular and wasteful expenditure
  - Commitments by the national sector department to intervene and/or provide support were not honoured
- The Commission's view is that DPW should play a more active role, through the various intergovernmental forums, in providing the necessary support to provincial departments of public works

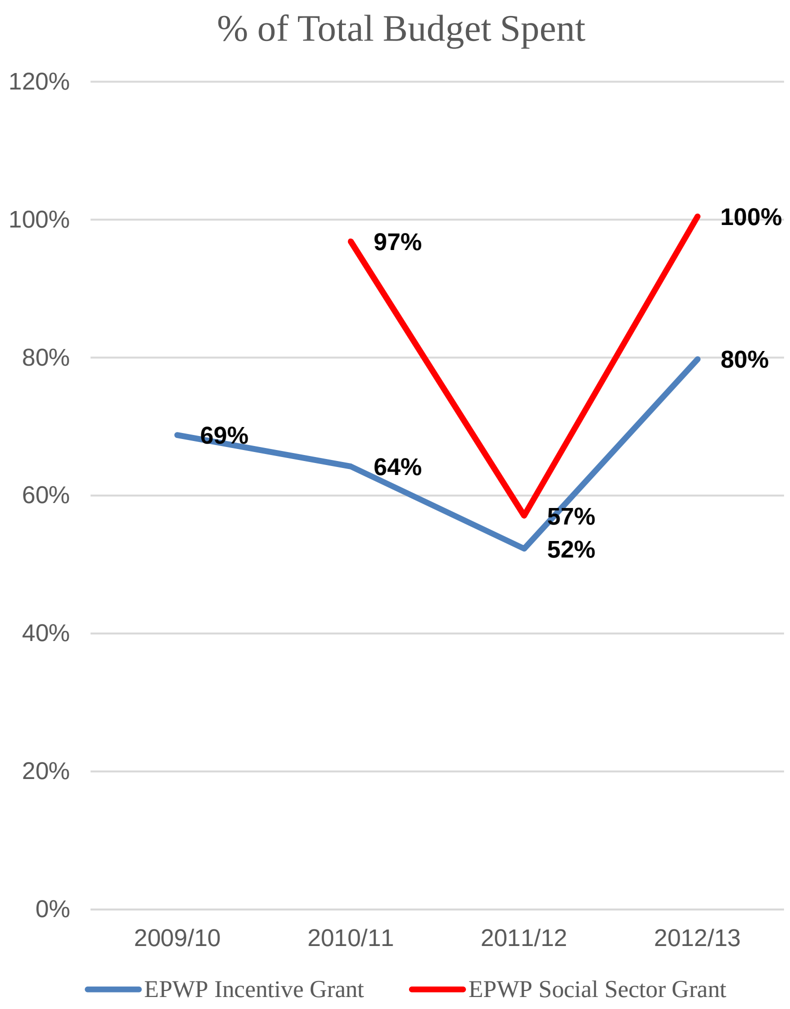
FINANCIAL AND FISCAL COMMISSION

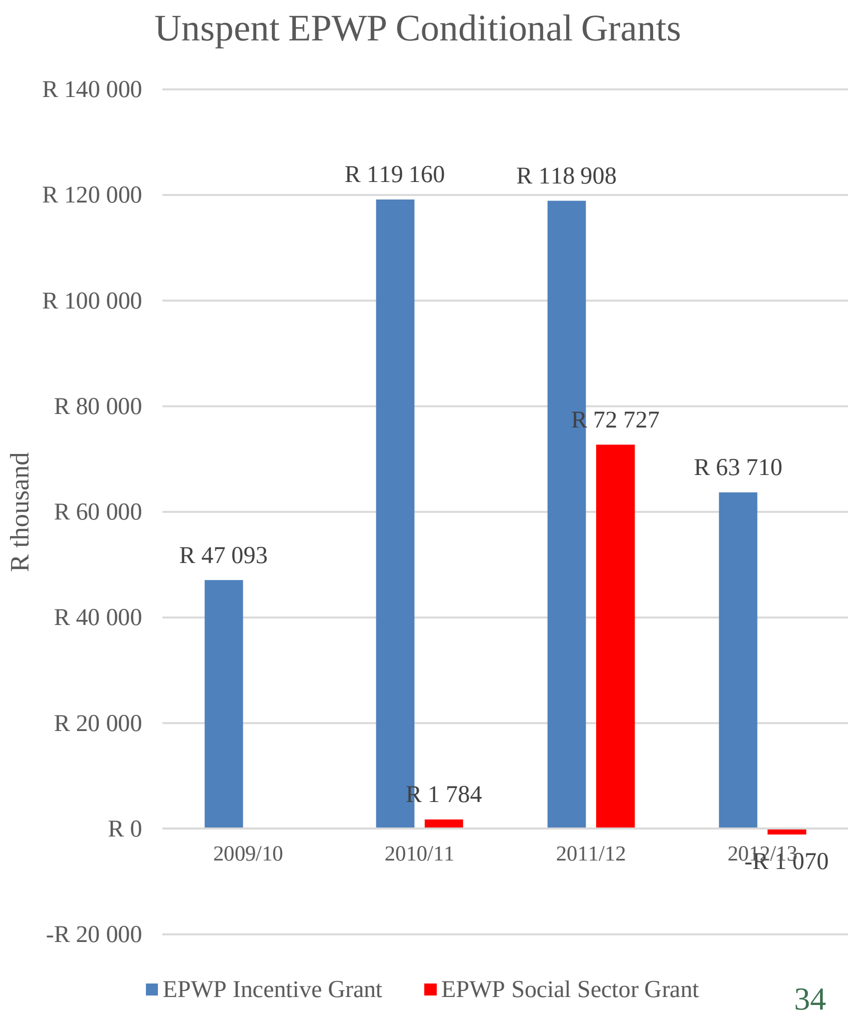
Spending Performance by Provinces on EPWP Conditional Grants

- The National Department of Public Works is the transferring agent for two EPWP conditional grants to provinces
- As the transferring agent, the responsibilities of the DPW are prescribed in the conditional grant framework contained in the Division of Revenue Act. These include (among others):
  - Determine eligibility of grant, monitor and provide support to provinces, audit provincial performance and report to national treasury on provincial progress

FINANCIAL AND FISCAL COMMISSION

EPWP CONDITIONAL GRANTS TO PROVINCES





Summary of Performance on EPWP Grants to Provinces

- Over a four year period (2009/10 – 2012/13), provinces have been unable to spend more than 80% of its allocation to the EPWP Incentive Grant in any given year
- Except in 2011/12 where spending on both EPWP grants were below 60% of total, the EPWP Social Sector grant in general, performed better than the Incentive grant
  - Provinces have challenges relating to infrastructure, which affects the spending performance on the Incentive grant
- In many instances, provinces fail to comply with grant conditions stipulated in DORA, resulting in funds being withheld, thereby leaving funds unspent at the end of the year

FINANCIAL AND FISCAL COMMISSION

CONCLUDING REMARKS

- Key issues emanating from analysis of DPW
  - Underspending of budget
  - Not meeting set targets
- For the sector to turnaround, the DPW should play a leadership role by providing the necessary support to the provinces and establishing minimum norms and standards to facilitate improvement in service delivery in the provinces
- Department to put in place proper systems to guide expenditure management, setting of appropriate key performance indicators and a plan to attract/retain skilled staff
  - Outcome of the Turnaround Project is key in facilitating progress – some improvements noted but far to go in putting DPW on stable footing

FINANCIAL AND FISCAL COMMISSION

FFC's Website: www.ffc.co.za

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Financial and Fiscal Commission
Intergovernmental Fiscal Relations Conference
11 - 13 August 2014
International Convention Centre, Cape Town, South Africa

2015/16 Submission | Housing Financing | Child Welfare Services | 2012/2013 Annual report

2015/16 SUBMISSION FOR THE DIVISION OF REVENUE

SUBMISSION FOR THE DIVISION OF REVENUE 2015/16

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

NEW!!!

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

UPCOMING EVENTS

PORTFOLIO COMMITTEE ON PUBLIC WORKS

Financial and Fiscal Commission

25 September 2014

For an Equitable Sharing of National Revenue

PRESENTATION OUTLINE

1. Role and Function of the Financial and Fiscal Commission
2. Recommendations of the Commission that relate to Public Works
3. Departmental Analysis

FINANCIAL AND FISCAL COMMISSION

FINANCIAL AND FISCAL COMMISSION

1. ROLE AND FUNCTION OF THE FINANCIAL AND FISCAL COMMISSION

ROLE AND FUNCTION OF THE FFC

- The Financial and Fiscal Commission (FFC)
  - Is an independent, permanent, statutory institution established in terms of Section 220 of Constitution
  - Must function in terms of the FFC Act
- Mandate of Commission
  - To make recommendations, envisaged in Chapter 13 of the Constitution or in national legislation to Parliament, Provincial Legislatures, and any other organ of state determined by national legislation
- The Commission's focus is primarily on the equitable division of nationally collected revenue among the three spheres of government and any other financial and fiscal matters
  - Legislative provisions or executive decisions that affect either provincial or local government from a financial and/or fiscal perspective
  - Includes regulations associated with legislation that may amend or extend such legislation
  - Commission must be consulted in terms of the FFC Act
  - Current research strategy focuses on developmental impacts of IGFR

FINANCIAL AND FISCAL COMMISSION

How FFC Supports Policy

- Identify weakness within the IGFR system
- Propose evidence-based policy proposals
- Interact and participate with/in forums and institutions responsible for IGFR policy – TCF, Budget Council, Budget Forum
- Information dissemination – invitations from nine provincial legislatures and SALGA
- Interact with various committees within parliament

FINANCIAL AND FISCAL COMMISSION

PROCESSING OF RECOMMENDATIONS

- Recommendations of the Commission
  - Recommendations are made to Parliament so that the legislature can examine the financial and fiscal decisions of government against them and understand why they have been accepted or rejected
  - Section 4(4)(c) of the Money Bills Amendment Procedures and Related Matters Act (MBAPMA) requires Parliament to consider the recommendations of the Commission when deliberating on Money Bills
- Government is obligated through an Act of Parliament to explain how it has taken the FFC recommendations in arriving at the division of revenue for any particular year
  - The response is tabled in Annexure W1 of the DoR Bill and of the Budget Review

FINANCIAL AND FISCAL COMMISSION

How FFC can Support Parliament

DIRECT TRAINING AND INTERVENTION

- Training of members of parliamentary committees and councillors on request (e.g. in Bushbuckridge)
- Advice to municipalities (e.g. Tshwane merger)
- Inputs in various fora (e.g. SALGA)

NON TRAINING SUPPORT AND INTERVENTION

- Member of review committees (LES, Infrastructure Grants, Metro’s Own Revenue)
- Public hearings (local government fiscal framework, housing and welfare)
- Inputs in benchmarking exercises
- Recommendations through Annual Submission on DoR, MTBPS, FF and Appropriations

VALUE ADD OF THE FFC

- FFC can provide advice, analysis and training to assist the work of the Committee
  - Specialised IGFR training to committee members and/or parliamentary researchers
  - Provision of recommendations that are founded on evidence based research
  - Technical support with respect to parliamentary fiscal oversight activities

FINANCIAL AND FISCAL COMMISSION

2. Recommendations that Relate to Public Works

FFC WORK RELATED TO DPW [CONT.]

Response to Division of Revenue Bill (DoRB) 2010	The Commission welcomed introduction of the *EPWP Incentive Grant for the Social Sector*. The Commission noted that there was a need to standardise the employment framework for the sector including conditions, wages and progression across provinces and municipalities. The Commission also raised concern regarding difficulties that were being experienced with the transfer of the EPWP Incentive Grant to Local and Provincial Governments. In the 2009/10 certain provinces (e.g. Western Cape) raised concern that they received transfers outside the ambit of the DoR and couldn't spend the money because it was not properly appropriated through various legislatures. At that point the general challenge with the grant was that provinces and municipalities found it difficult to integrate it through their infrastructure programmes. This problem persists because labour intensive infrastructure projects need to be planned, costed and scheduled properly. Not all projects yield the same labour intensity, so targets must be set by project type and category. Some projects will better lend themselves to labour intensive methods than others. This must be factored into the budget allocations and monitoring of the grant. *Current Commission analysis is that provinces continue to have challenges relating to labour intensive infrastructure, which affects the spending of the Incentive grant. In 2012/13 DPW appointed service providers to support provinces and municipalities in design of infrastructure projects and reporting methods.*

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Response to DoRB 2012	The Commission reiterated concerns raised in its Response to DoRB 2010 and Response to 2011 MTBPS regarding the challenges with the EPWP Incentive grant. The Commission maintained its view that the grant had not succeeded in achieving the intended goals within the specified time. There had also not been a formal assessment of the achievement of this grant both in terms of expenditure and service delivery outputs including how many direct and full times jobs had been created against the allocated funds. The Commission recommended that an independent review of the grant be undertaken, so that lessons can be drawn from past experience to avoid a replication of past mistakes. Government has since set up a team consisting of National Treasury, DPW, DCoG and SALGA that has been working on this. *This review is ongoing*

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3. Departmental Analysis

CONTEXTUALISING THE DEPARTMENT OF PUBLIC WORKS

- Aim of Department of Public Works (DPW):
  - provide for and manage accommodation, housing, land and infrastructure needs of national departments
  - Lead and direct implementation of the national expanded public works programme (EPWP)
  - Promote growth, job creation and transformation in the construction and property industries
- Public works is a concurrent function between national and provincial spheres of government
- DPW contribution to National Development Plan (NDP) achieved through:
  - Implementation of job creation initiatives
  - Transition to low cost carbon economy
  - Development of an inclusive and integrated rural economy
  - Fight against corruption

FINANCIAL AND FISCAL COMMISSION

KEY CHALLENGES CONFRONTING DPW

- Due to consistent trend of poor audit outcomes and generally poor performance, DPW implemented a turnaround project in November 2012
- Areas that were identified for specific attention through the turnaround project include:
  - Lack of controls in supply chain management (SCM)
    - Identified as major risk area by Auditor-General – DPW capacity to process tenders eroded and has led to numerous instances of fraud/corruption. SCM has been major focus of the Special Investigating Unit (SIU). SCM is the key focus of turnaround project in DPW. A service provider appointed to assist with fundamental review of SCM
      - Irregular expenditure, R171 million in 2011/12; R874 million in 2012/13
  - Poor lease management
    - Numerous irregularities with respect to lease agreements – gives rise to legal risks. DPW reviewing all lease agreements

FINANCIAL AND FISCAL COMMISSION

KEY CHALLENGES CONFRONTING DPW [CONT.]

- Inadequate immovable asset register
  - Lack of compliant immovable asset register resulted in negative audit opinions. DPW now in process of rebuilding immovable asset register and building a model to revalue immovable assets
- Lack of built environment and property management skills
  - Lack of technical capacity to undertake direct construction/maintenance functions. Cooperating with DPSA and Higher Education and Training to address challenge

FINANCIAL AND FISCAL COMMISSION

STARTING POINT FOR BUDGET ANALYSIS

- By vote
  - Compare different votes with each other
- By vote programme
  - Compare different programmes within a vote
- By sub-programme
- Compare different sub-programmes within a programme
- By province
- Compare different provinces with each other
- Use Outputs, Targets and Indicators to measure performance
- Use policy documents as a benchmark

FINANCIAL AND FISCAL COMMISSION

USEFUL TOOLS

- Percentage Share of Total Budget
- Growth in the Budget
  - Percentage Change
    - Reflecting increases/decreases in percentage form
  - Annual Growth Rate
    - How does the allocation change year on year
  - Real Percentage Change
    - Takes inflation into consideration
  - Variances and explanations
    - Investigating the reasons/drivers of change
  - Spending by economic classification
    - Distinguishes between various categories of current (goods and services, transfers and subsidies) and capital expenditure (acquisition of fixed capital assets, purchase of land)

FINANCIAL AND FISCAL COMMISSION

Budget and Programmes of Public Works

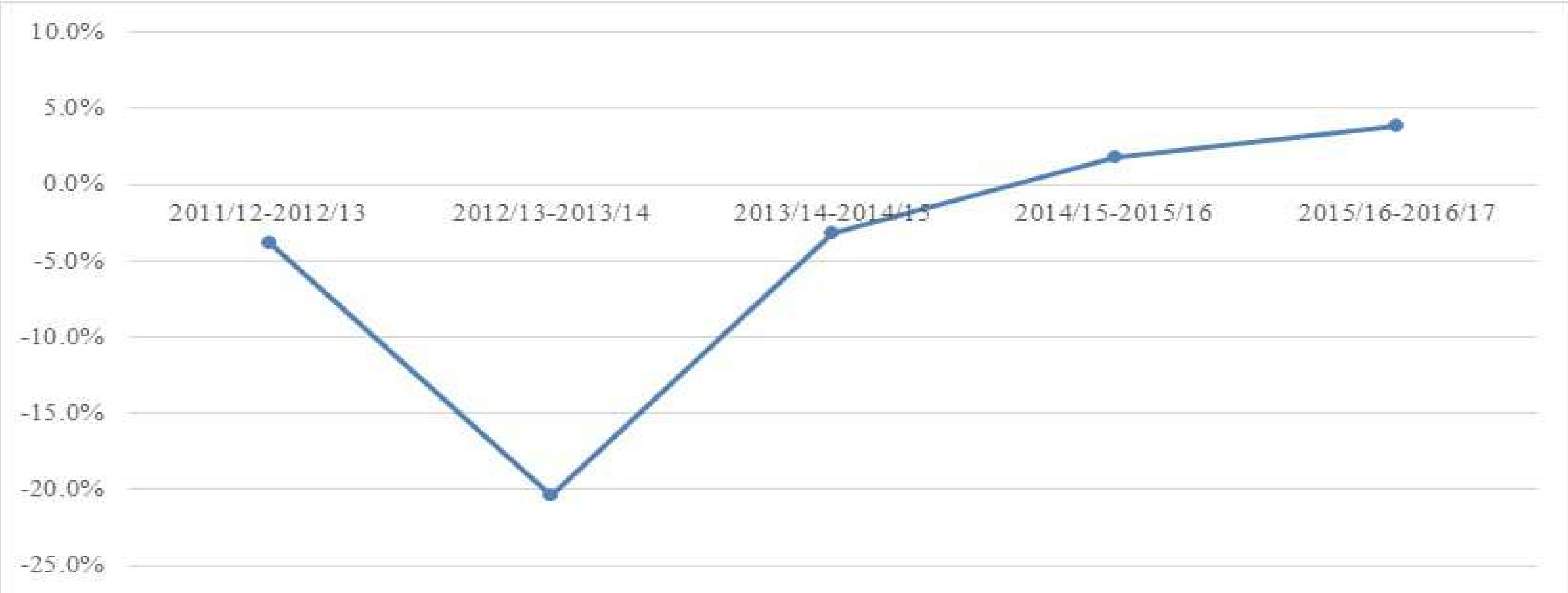
Nominal (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Real Annual Average Growth 2011/12-2013/14	Real Annual Average Growth 2014/15-2016/17
Administration	837.1	856.2	1 158.2	1 175.3	1 133.3	1 191.5	11.5%	-4.1%
Immovable Asset Management	5 001.7	4 563.5	2 831.8	2 861.4	3 308.1	3 450.0	-28.7%	4.6%
Expanded Public Works Programme	1 163.0	1 704.1	1 948.0	1 951.3	2 006.8	2 395.2	22.7%	5.5%
Property and Construction Industry Policy Regulation	34.4	26.9	36.7	41.5	43.4	45.9	-2.1%	0.1%
Auxiliary and Associated Services	25.2	53.3	50.7	91.8	53.7	56.6	34.4%	-25.2%
Total	**7 061.4**	**7 203.9**	**6 025.3**	**6 121.3**	**6 545.3**	**7 139.2**	**-12.5%**	**2.8%**

- Five programmes on Department of Public Works (DPW) budget
- Allocation reduced significantly in 2013/14, due to phasing out of Devolution of Property Rates Fund Grant to provinces and non-completion of various projects. As result of underspending, Cabinet approved reductions were effected
  - Following poor spending performance and audit outcomes, DPW implementing a Turnaround Project
- DPW budget projected to recover to just over R7.1 billion by end of 2014 medium term expenditure framework (MTEF) period
  - 2014 MTEF growth driven by additional allocation of R159 million in 2016/17 for Expanded Public Works Programme (EPWP)

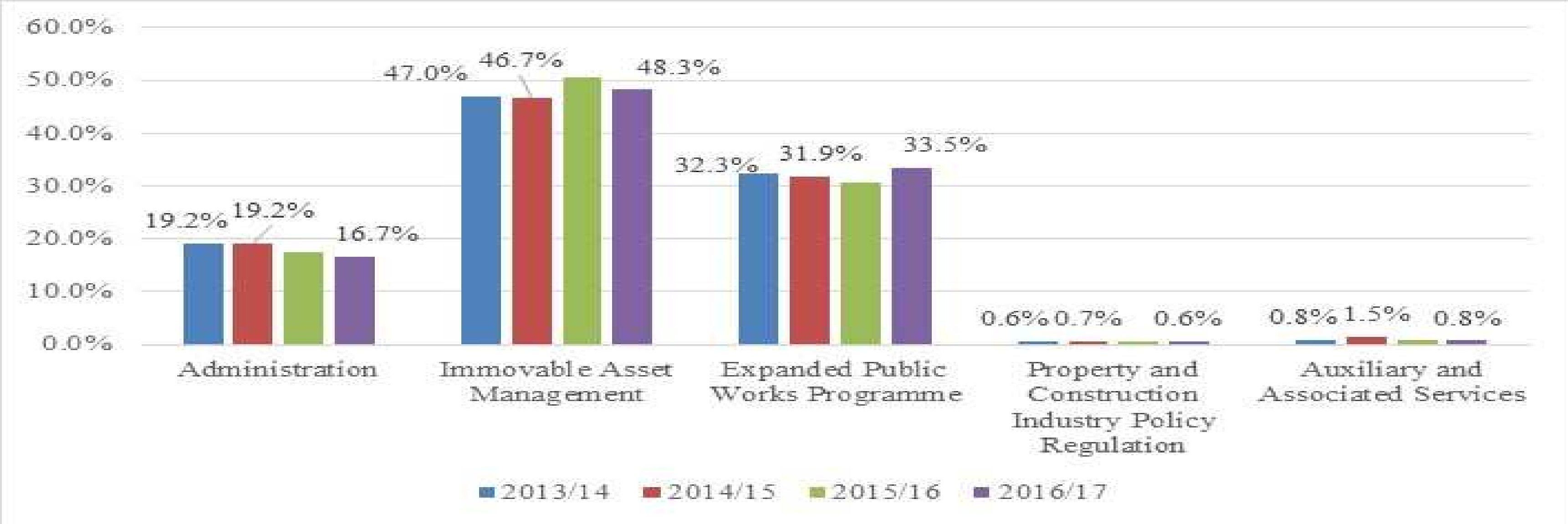
FINANCIAL AND FISCAL COMMISSION

REAL YEAR ON YEAR GROWTH OF PUBLIC WORKS BUDGET

- Significant decline in year on year growth in 2013/14
  - Though still declining in real terms in 2014/15, there is some improvement
- Over rest of 2014 MTEF period, positive growth projected
  - Focus will be on rehabilitating 34 state owned buildings, and ensuring that at least 100 buildings are made accessible to people with disabilities in each year of MTEF



BUDGET COMPOSITION ACROSS PROGRAMMES



- Immovable Asset Management Programme consumes largest share of DPW budget – by end of 2014 MTEF period this programme is projected to consume just under half of DPW budget
- Share allocated to Administration Programme consumers about one fifth of departmental budget – funding for Turnaround Project fall under Administration
  - Turnaround Project will support activities relating to the Special Investigating Unit, a technical support unit, a clean audit project, irregular expenditure management, internal audit support

FINANCIAL AND FISCAL COMMISSION

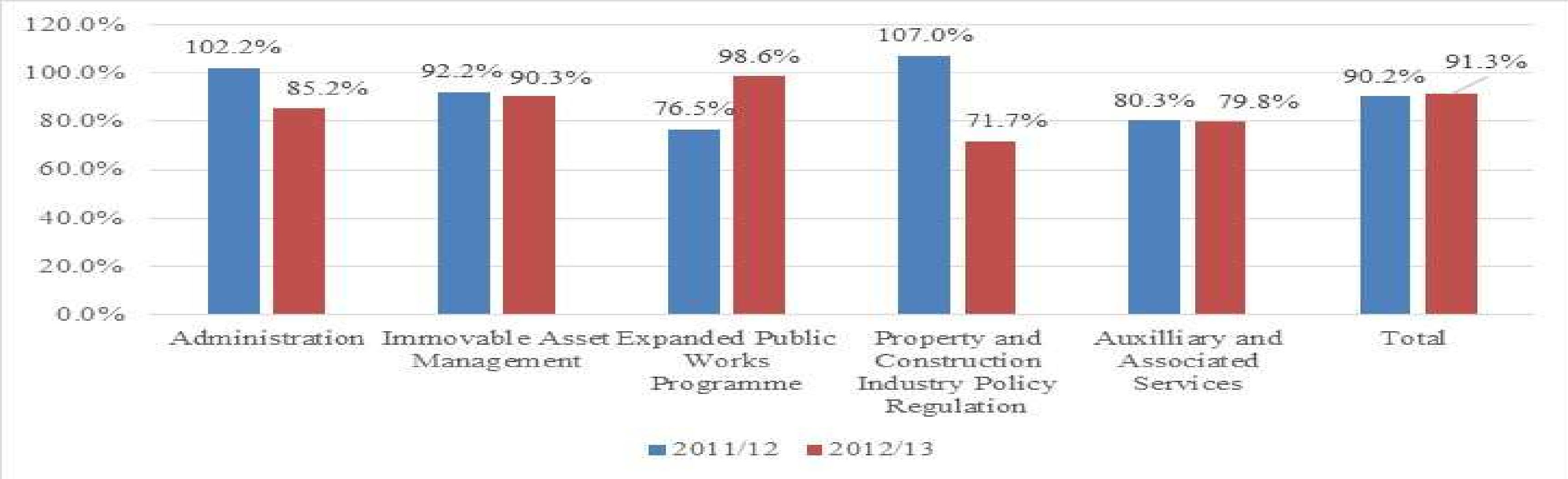
ECONOMIC CLASSIFICATION

Item (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Compensation of Employees	1 269.6	1 374.6	1 473.5	1 659.9	1 753.5	1 870.5
Goods and Services	1 032.9	977.0	1 379.6	1 302.1	1 202.9	1 269.0
Transfers and Subsidies	3 656.2	4 092.4	2 543.9	2 563.4	2 654.2	3 017.9
Payments for Capital Assets	1 099.1	756.8	628.4	595.9	934.8	981.7
Real Year on Year Growth (%)						
Compensation of Employees		2.1%	2.1%	7.3%	0.6%	1.6%
Goods and Services		-10.8%	34.5%	-10.1%	-12.0%	0.5%
Transfers and Subsidies		5.6%	-40.8%	-4.0%	-1.4%	8.3%
Payments for Capital Assets		-35.1%	-20.9%	-9.7%	49.4%	-0.003%

- Transfers and subsidies is the largest item
  - the decrease in 2013/14 due to phasing out of the Devolution of Property Rates Fund Grant to Provinces, hence reduction in transfers to provinces
- The increase in spending on Goods and Services in 2013/14 driven by spending on consultants – due to shortage of technical skills in property/project management and specialists as required for the DPW's turnaround project
- Payments for capital assets very erratic
- Relative to strong annual average growth between 2011/12 and 2013/14, growth in Goods and Service set to decline over the 2014 MTEF period

FINANCIAL AND FISCAL COMMISSION

SPENDING PERFORMANCE (FISCAL DISCIPLINE)



- DPW underspent in 2011/12 and 2012/13
- In 2011 underspending on EPWP and Auxilliary and Associated Services Programme
- In 2012, underspending is as a result of poor spending in Property and Construction Industry Policy Regulation Programme and again Auxilliary and Associated Services Programme
- Due to persistent underspending on capital, baseline reductions of R1.3 billion effected over 2014 MTEF period

FINANCIAL AND FISCAL COMMISSION

IN-YEAR EXPENDITURE

- 2012/13 in-year spending erratic
- Appears to be improving in 2013/14 – variances in monthly spending not as large as during 2012/13
- Concern with poor in-year spending is that it hints at unstable cash flow and disbursements

FINANCIAL AND FISCAL COMMISSION

SELECTED SUB-PROGRAMME ANALYSIS: IMMOVABLE ASSET MANAGEMENT PROGRAMME

Real Year on Year Growth	2011/12-2012/13	2012/13-2013/14	2013/14-2014/15	2014/15-2015/16	2015/16-2016/17
Infrastructure (Public Works)	-33.5%	-9.7%	-28.1%	57.5%	-0.1%
Strategic Asset Investment Analysis	-67.7%	149.1%	10.4%	0.2%	1.0%
Operation Management	1.6%	-0.3%	0.5%	-0.4%	2.7%
Prestige Management	-51.5%	44.0%	-27.0%	-1.0%	-28.5%
Special Projects	4.0%	47.6%	-24.7%	1.8%	0.4%
Construction Industry Development Board	-3.4%	2.0%	1.6%	0.4%	0.2%
Council for the Built Environment	-7.7%	28.8%	4.3%	1.4%	0.2%
Parliamentary Village Management Board	-0.6%	0.1%	1.1%	-0.4%	0.5%
Augmentation of the Property Management Trading Entity	-3.2%	0.5%	-6.0%	-0.1%	0.6%
Independent Development Trust	-68.1%	-6.3%	-4.7%	-4.8%	-100.0%
Total	**-14.0%**	**-37.8%**	**-8.6%**	**10.1%**	**-0.7%**

- Total programme growth declines over most of the period reviewed
  - Decline in 2012 and 2013 is due to phasing out of devolution of property rates fund grant to provinces, non-completion of projects and Cabinet approved reductions due to underspending
- Generally sub-programme trends are erratic, brings into question soundness of planning in DPW
- Lack of capacity a challenge in this programme – 10% vacancy rate

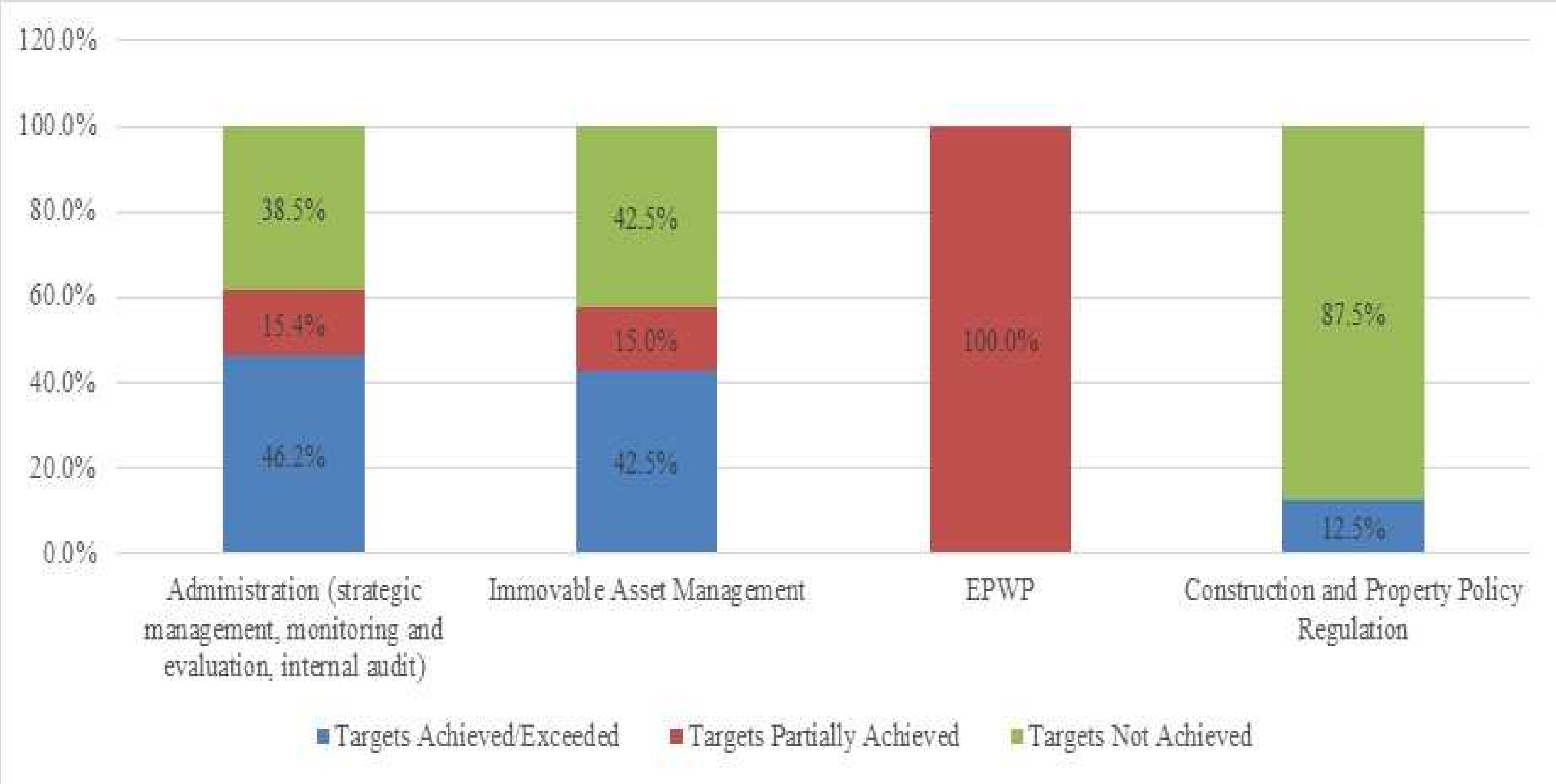
SELECTED SUB-PROGRAMME ANALYSIS: EXPANDED PUBLIC WORKS PROGRAMME

R million	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**
Expanded Public Works Programme	209.7	236.8	273.8	261.5	267.7	290.6
Performance Based Incentive Allocations	953.3	1 467.3	1 674.2	1 689.8	1 739.2	2 104.6
Total	**1 163.0**	**1 704.1**	**1 948.0**	**1 951.3**	**2 006.8**	**2 395.2**
Real Year on Year Growth		**2011/12-2012/13**	**2012/13-2013/14**	**2013/14-2014/15**	**2014/15-2015/16**	**2015/16-2016/17**
Expanded Public Works Programme		12.9%	15.6%	-4.5%	2.4%	8.6%
Performance Based Incentive Allocations		53.9%	14.1%	0.9%	2.9%	21.0%
Total		**46.5%**	**14.3%**	**0.2%**	**2.8%**	**19.4%**

- EPWP promotes use of government expenditure to create additional employment opportunities through the use of labour-intensive delivery methods
  - Increases in 2012/2013 due to appointment of service providers to support provinces and municipalities in design of infrastructure projects and reporting methods
- Performance Based Incentive Allocations is the largest sub-programme
  - Focus: disburses funds to provinces/municipalities and NGOs to ensure creation of work opportunities in infrastructure, environment, social sectors
  - Increases between 2012 and 2013 are due to additional funding allocated. However to give effect to Cabinet-approved reductions, growth in this sub programme slows in 2014 and 2015
- Overall between 2009/10 and 2012/13, just over 3 million jobs created (68% of target of 4.5 million jobs)

DEPARTMENTAL PERFORMANCE

- Department not adequately meeting targets set.
  - Number of targets partially met and totally unmet exceptionally high



DEPARTMENTAL PERFORMANCE [CONT.]

Programme	Explanation for Unmet Targets
Administration	Delays due to lack of capacity/high vacancy rate, unrealistic targets given financial resources, lengthy procurement processes that delay appointment of service providers
Immovable Asset Management	Appropriate supply chain management process not followed, unrealistic target setting, inadequate data collection to verify extent to which target was met
EPWP	Delays in project implementation, lack of technical capacity to implement projects, poor performance on part of municipalities/provinces to carry out projects
Construction and Property Policy Regulation	• Legislative framework for Built Environment Professionals: delays in internal consultation • Establish Agrement SA as public entity: delay in the approval of business case • Provide immovable asset lifecycle management guidelines to national and provincial custodians of immovable assets: delay in internal consultation prevented finalisation

ASPECTS HIGHLIGHTED BY THE AUDITOR-GENERAL

- DPW audit outcomes:
  - 2009/10: qualified with findings
  - 2010/11:disclaimer
  - 2011/12: disclaimer
  - 2012/13: qualified with findings
- Key issues highlighted by Auditor-General that need to be addressed:
  - Inadequate internal controls in areas of leadership, financial management, performance management and governance
  - Areas that were identified for specific attention through the turnaround project include: lack of controls in supply chain management, poor lease management, inadequate immovable asset register, lack of built environment and property management skills

FINANCIAL AND FISCAL COMMISSION

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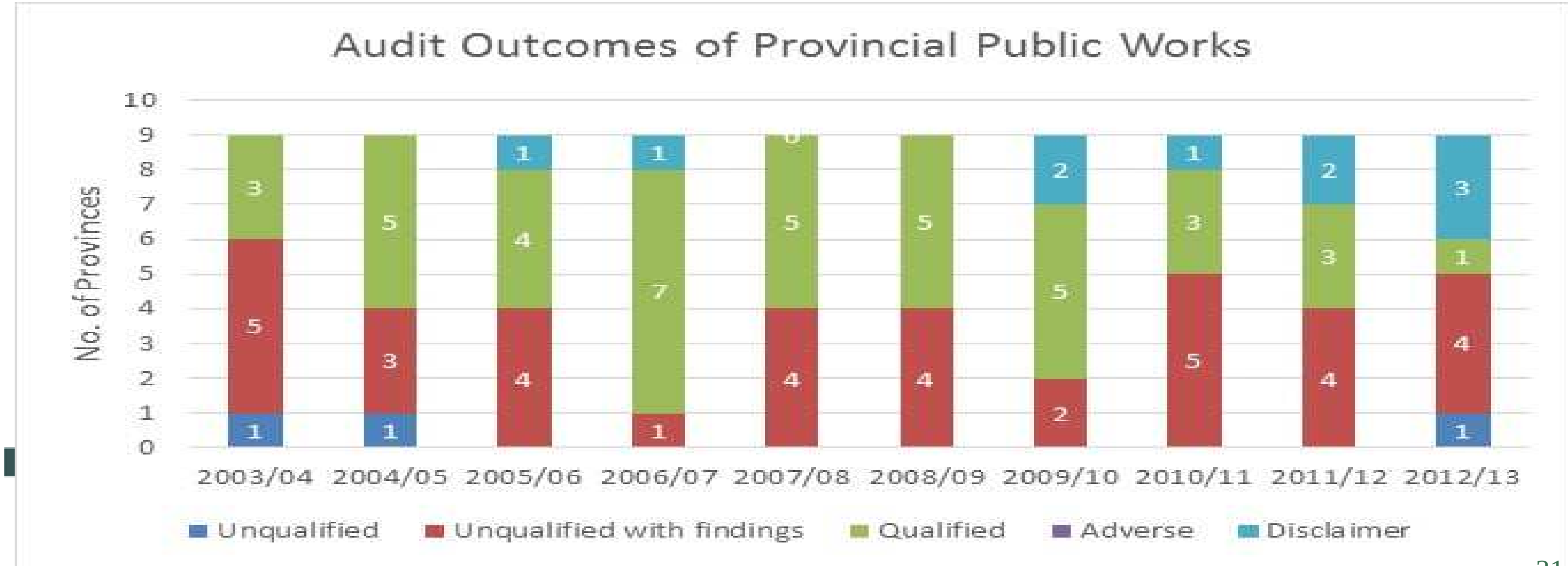
PUBLIC WORKS IN THE PROVINCES

PROVINCIAL AUDIT OUTCOMES

- Audit outcomes for provincial departments of public works have not considerably improved in since 2003/04
  - Four out of the nine provinces received a qualified opinion or disclaimer in 2012/13
  - Over a period of 10 years (i.e. 2003/4 – 2012/13), only 3 provincial departments of public works received an unqualified audit opinion



PROVINCIAL AUDIT OUTCOMES [CONT.]

- The Auditor-General raised a number of matters that prevented provincial departments from achieving clean audits such as:
  - Instability in leadership and lack of human resources
  - Internal controls are ineffective
  - Action plans to implement improvement in audit outcomes are not timeously implemented
  - Inaccurate and incomplete fixed asset registers
  - Incomplete disclosures on unauthorized, irregular and fruitless, irregular and wasteful expenditure
  - Commitments by the national sector department to intervene and/or provide support were not honoured
- The Commission's view is that DPW should play a more active role, through the various intergovernmental forums, in providing the necessary support to provincial departments of public works

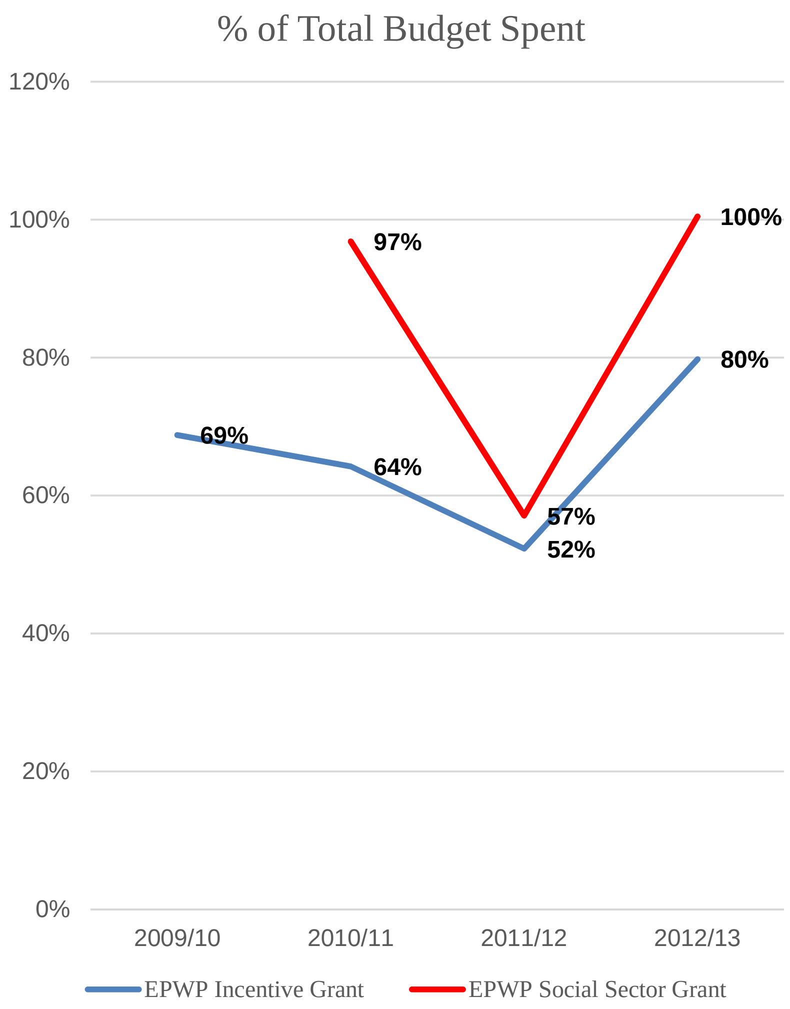
FINANCIAL AND FISCAL COMMISSION

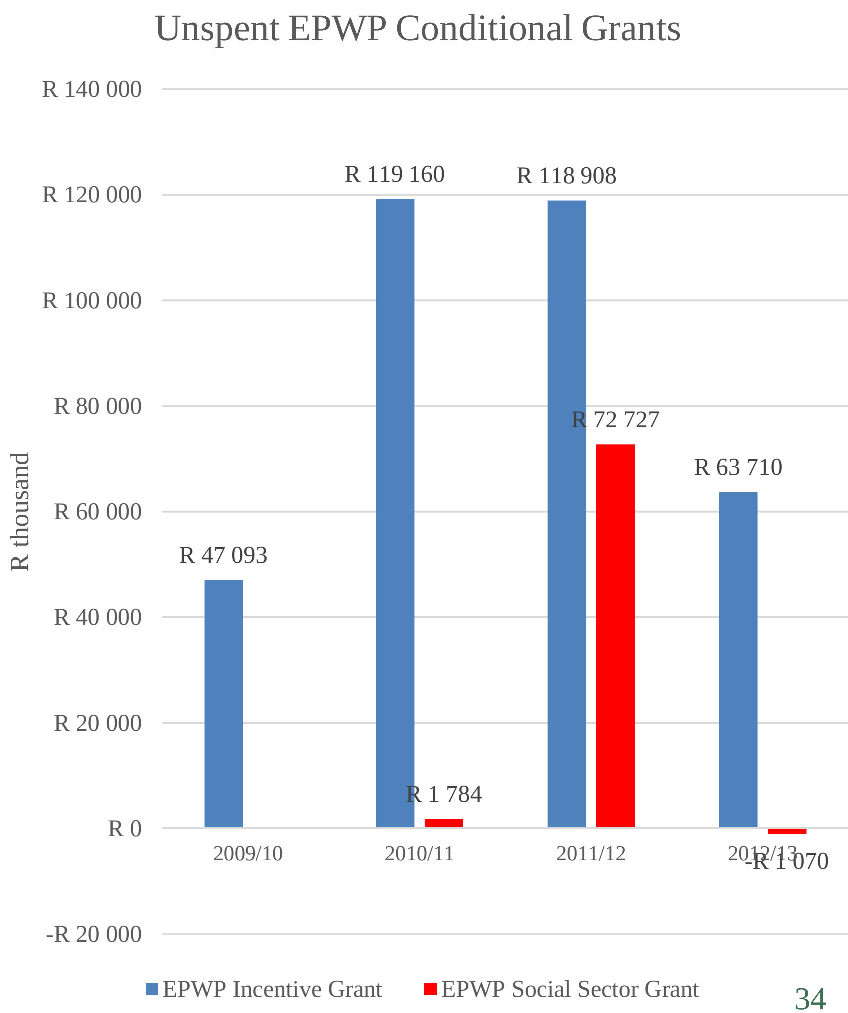
Spending Performance by Provinces on EPWP Conditional Grants

- The National Department of Public Works is the transferring agent for two EPWP conditional grants to provinces
- As the transferring agent, the responsibilities of the DPW are prescribed in the conditional grant framework contained in the Division of Revenue Act. These include (among others):
  - Determine eligibility of grant, monitor and provide support to provinces, audit provincial performance and report to national treasury on provincial progress

FINANCIAL AND FISCAL COMMISSION

EPWP CONDITIONAL GRANTS TO PROVINCES





SUMMARY OF PERFORMANCE ON EPWP GRANTS TO PROVINCES

- Over a four year period (2009/10 – 2012/13), provinces have been unable to spend more than 80% of its allocation to the EPWP Incentive Grant in any given year
- Except in 2011/12 where spending on both EPWP grants were below 60% of total, the EPWP Social Sector grant in general, performed better than the Incentive grant
  - Provinces have challenges relating to infrastructure, which affects the spending performance on the Incentive grant
- In many instances, provinces fail to comply with grant conditions stipulated in DORA, resulting in funds being withheld, thereby leaving funds unspent at the end of the year

FINANCIAL AND FISCAL COMMISSION

CONCLUDING REMARKS

- Key issues emanating from analysis of DPW
  - Underspending of budget
  - Not meeting set targets
- For the sector to turnaround, the DPW should play a leadership role by providing the necessary support to the provinces and establishing minimum norms and standards to facilitate improvement in service delivery in the provinces
- Department to put in place proper systems to guide expenditure management, setting of appropriate key performance indicators and a plan to attract/retain skilled staff
  - Outcome of the Turnaround Project is key in facilitating progress – some improvements noted but far to go in putting DPW on stable footing

FINANCIAL AND FISCAL COMMISSION

FFC's Website: www.ffc.co.za

FINANCIAL AND FISCAL COMMISSION

PORTFOLIO COMMITTEE ON PUBLIC WORKS

Financial and Fiscal Commission

25 September 2014

For an Equitable Sharing of National Revenue

PRESENTATION OUTLINE

1. Role and Function of the Financial and Fiscal Commission
2. Recommendations of the Commission that relate to Public Works
3. Departmental Analysis

FINANCIAL AND FISCAL COMMISSION

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1. Role and Function of the Financial and Fiscal Commission

ROLE AND FUNCTION OF THE FFC

- The Financial and Fiscal Commission (FFC)
  - Is an independent, permanent, statutory institution established in terms of Section 220 of Constitution
  - Must function in terms of the FFC Act
- Mandate of Commission
  - To make recommendations, envisaged in Chapter 13 of the Constitution or in national legislation to Parliament, Provincial Legislatures, and any other organ of state determined by national legislation
- The Commission's focus is primarily on the equitable division of nationally collected revenue among the three spheres of government and any other financial and fiscal matters
  - Legislative provisions or executive decisions that affect either provincial or local government from a financial and/or fiscal perspective
  - Includes regulations associated with legislation that may amend or extend such legislation
  - Commission must be consulted in terms of the FFC Act
  - Current research strategy focuses on developmental impacts of IGFR

FINANCIAL AND FISCAL COMMISSION

How FFC Supports Policy

- Identify weakness within the IGFR system
- Propose evidence-based policy proposals
- Interact and participate with/in forums and institutions responsible for IGFR policy – TCF, Budget Council, Budget Forum
- Information dissemination – invitations from nine provincial legislatures and SALGA
- Interact with various committees within parliament

FINANCIAL AND FISCAL COMMISSION

PROCESSING OF RECOMMENDATIONS

- Recommendations of the Commission
  - Recommendations are made to Parliament so that the legislature can examine the financial and fiscal decisions of government against them and understand why they have been accepted or rejected
  - Section 4(4)(c) of the Money Bills Amendment Procedures and Related Matters Act (MBAPMA) requires Parliament to consider the recommendations of the Commission when deliberating on Money Bills
- Government is obligated through an Act of Parliament to explain how it has taken the FFC recommendations in arriving at the division of revenue for any particular year
  - The response is tabled in Annexure W1 of the DoR Bill and of the Budget Review

FINANCIAL AND FISCAL COMMISSION

How FFC can Support Parliament

DIRECT TRAINING AND INTERVENTION

- Training of members of parliamentary committees and councillors on request (e.g. in Bushbuckridge)
- Advice to municipalities (e.g. Tshwane merger)
- Inputs in various fora (e.g. SALGA)

NON TRAINING SUPPORT AND INTERVENTION

- Member of review committees (LES, Infrastructure Grants, Metro’s Own Revenue)
- Public hearings (local government fiscal framework, housing and welfare)
- Inputs in benchmarking exercises
- Recommendations through Annual Submission on DoR, MTBPS, FF and Appropriations

VALUE ADD OF THE FFC

- FFC can provide advice, analysis and training to assist the work of the Committee
  - Specialised IGFR training to committee members and/or parliamentary researchers
  - Provision of recommendations that are founded on evidence based research
  - Technical support with respect to parliamentary fiscal oversight activities

FINANCIAL AND FISCAL COMMISSION

FINANCIAL AND FISCAL COMMISSION

2. Recommendations that Relate to Public Works

FFC WORK RELATED TO DPW [CONT.]

Response to Division of Revenue Bill (DoRB) 2010	The Commission welcomed introduction of the *EPWP Incentive Grant for the Social Sector*. The Commission noted that there was a need to standardise the employment framework for the sector including conditions, wages and progression across provinces and municipalities. The Commission also raised concern regarding difficulties that were being experienced with the transfer of the EPWP Incentive Grant to Local and Provincial Governments. In the 2009/10 certain provinces (e.g. Western Cape) raised concern that they received transfers outside the ambit of the DoR and couldn't spend the money because it was not properly appropriated through various legislatures. At that point the general challenge with the grant was that provinces and municipalities found it difficult to integrate it through their infrastructure programmes. This problem persists because labour intensive infrastructure projects need to be planned, costed and scheduled properly. Not all projects yield the same labour intensity, so targets must be set by project type and category. Some projects will better lend themselves to labour intensive methods than others. This must be factored into the budget allocations and monitoring of the grant. *Current Commission analysis is that provinces continue to have challenges relating to labour intensive infrastructure, which affects the spending of the Incentive grant. In 2012/13 DPW appointed service providers to support provinces and municipalities in design of infrastructure projects and reporting methods.*

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FINANCIAL
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FINANCIAL AND FISCAL COMMISSION

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FINANCIAL AND FISCAL COMMISSION

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    - Lack of compliant immovable asset register resulted in negative audit opinions. DPW now in process of rebuilding immovable asset register and building a model to revalue immovable assets
– Lack of built environment and property management skills
    - Lack of technical capacity to undertake direct construction/maintenance functions. Cooperating with DPSA and Higher Education and Training to address challenge

FINANCIAL AND FISCAL COMMISSION

STARTING POINT FOR BUDGET ANALYSIS

- By vote
  - Compare different votes with each other
- By vote programme
  - Compare different programmes within a vote
- By sub-programme
- Compare different sub-programmes within a programme
- By province
- Compare different provinces with each other
- Use Outputs, Targets and Indicators to measure performance
- Use policy documents as a benchmark

FINANCIAL AND FISCAL COMMISSION

USEFUL TOOLS

- Percentage Share of Total Budget
- Growth in the Budget
  - Percentage Change
    - Reflecting increases/decreases in percentage form
  - Annual Growth Rate
    - How does the allocation change year on year
  - Real Percentage Change
    - Takes inflation into consideration
  - Variances and explanations
    - Investigating the reasons/drivers of change
  - Spending by economic classification
    - Distinguishes between various categories of current (goods and services, transfers and subsidies) and capital expenditure (acquisition of fixed capital assets, purchase of land)

Budget and Programmes of Public Works

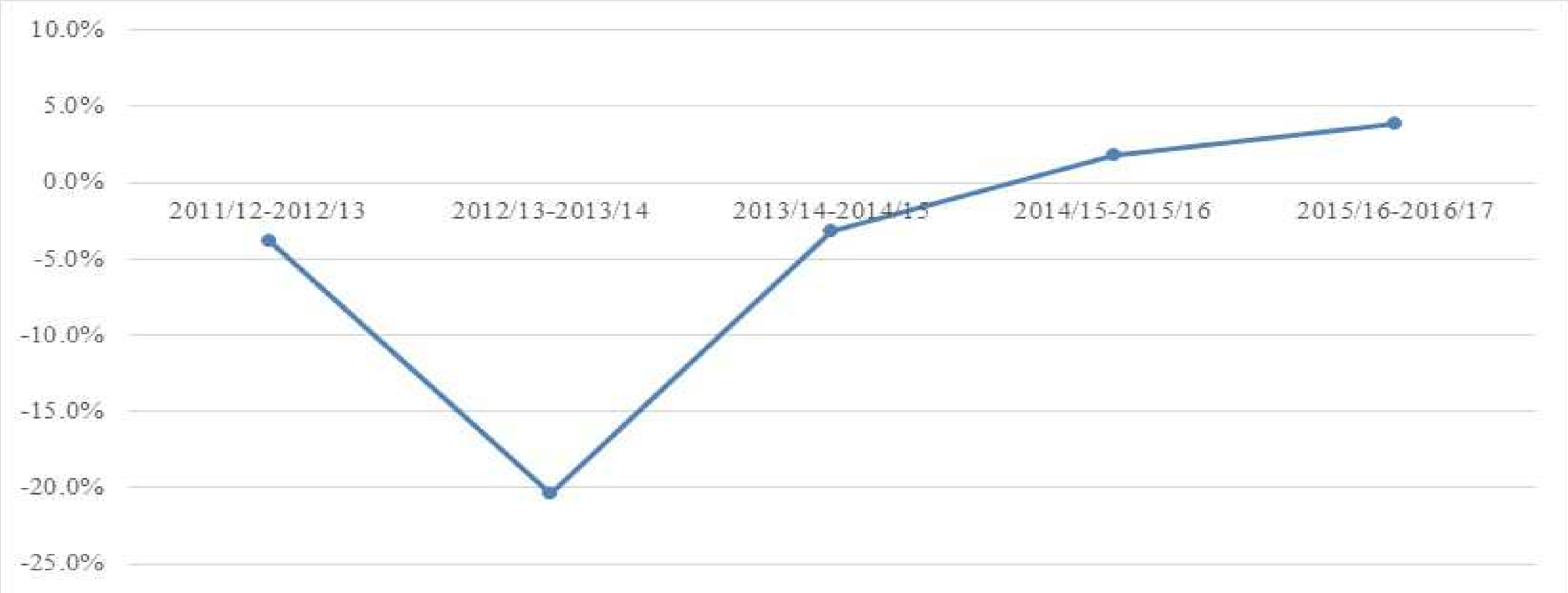
Nominal (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Real Annual Average Growth 2011/12-2013/14	Real Annual Average Growth 2014/15-2016/17
Administration	837.1	856.2	1 158.2	1 175.3	1 133.3	1 191.5	11.5%	-4.1%
Immovable Asset Management	5 001.7	4 563.5	2 831.8	2 861.4	3 308.1	3 450.0	-28.7%	4.6%
Expanded Public Works Programme	1 163.0	1 704.1	1 948.0	1 951.3	2 006.8	2 395.2	22.7%	5.5%
Property and Construction Industry Policy Regulation	34.4	26.9	36.7	41.5	43.4	45.9	-2.1%	0.1%
Auxiliary and Associated Services	25.2	53.3	50.7	91.8	53.7	56.6	34.4%	-25.2%
Total	**7 061.4**	**7 203.9**	**6 025.3**	**6 121.3**	**6 545.3**	**7 139.2**	**-12.5%**	**2.8%**

- Five programmes on Department of Public Works (DPW) budget
- Allocation reduced significantly in 2013/14, due to phasing out of Devolution of Property Rates Fund Grant to provinces and non-completion of various projects. As result of underspending, Cabinet approved reductions were effected
  - Following poor spending performance and audit outcomes, DPW implementing a Turnaround Project
- DPW budget projected to recover to just over R7.1 billion by end of 2014 medium term expenditure framework (MTEF) period
  - 2014 MTEF growth driven by additional allocation of R159 million in 2016/17 for Expanded Public Works Programme (EPWP)

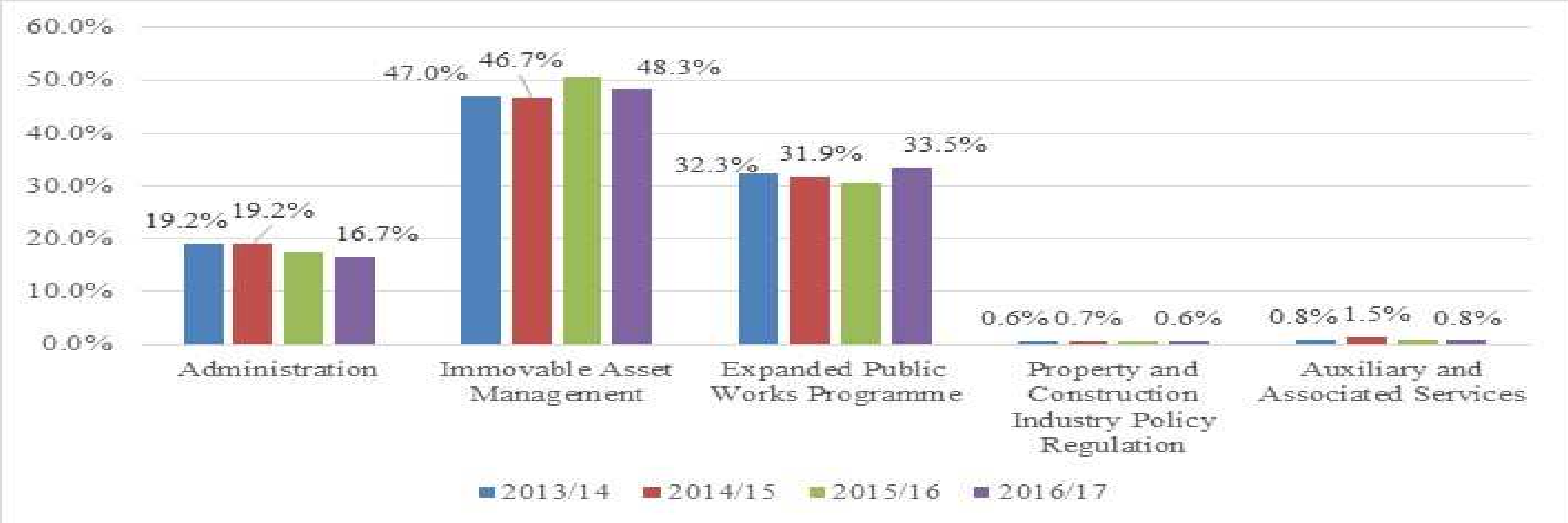
FINANCIAL AND FISCAL COMMISSION

Real Year on Year Growth of Public Works Budget

- Significant decline in year on year growth in 2013/14
  - Though still declining in real terms in 2014/15, there is some improvement
- Over rest of 2014 MTEF period, positive growth projected
  - Focus will be on rehabilitating 34 state owned buildings, and ensuring that at least 100 buildings are made accessible to people with disabilities in each year of MTEF



BUDGET COMPOSITION ACROSS PROGRAMMES



- Immovable Asset Management Programme consumes largest share of DPW budget – by end of 2014 MTEF period this programme is projected to consume just under half of DPW budget
- Share allocated to Administration Programme consumers about one fifth of departmental budget – funding for Turnaround Project fall under Administration
  - Turnaround Project will support activities relating to the Special Investigating Unit, a technical support unit, a clean audit project, irregular expenditure management, internal audit support

FINANCIAL AND FISCAL COMMISSION

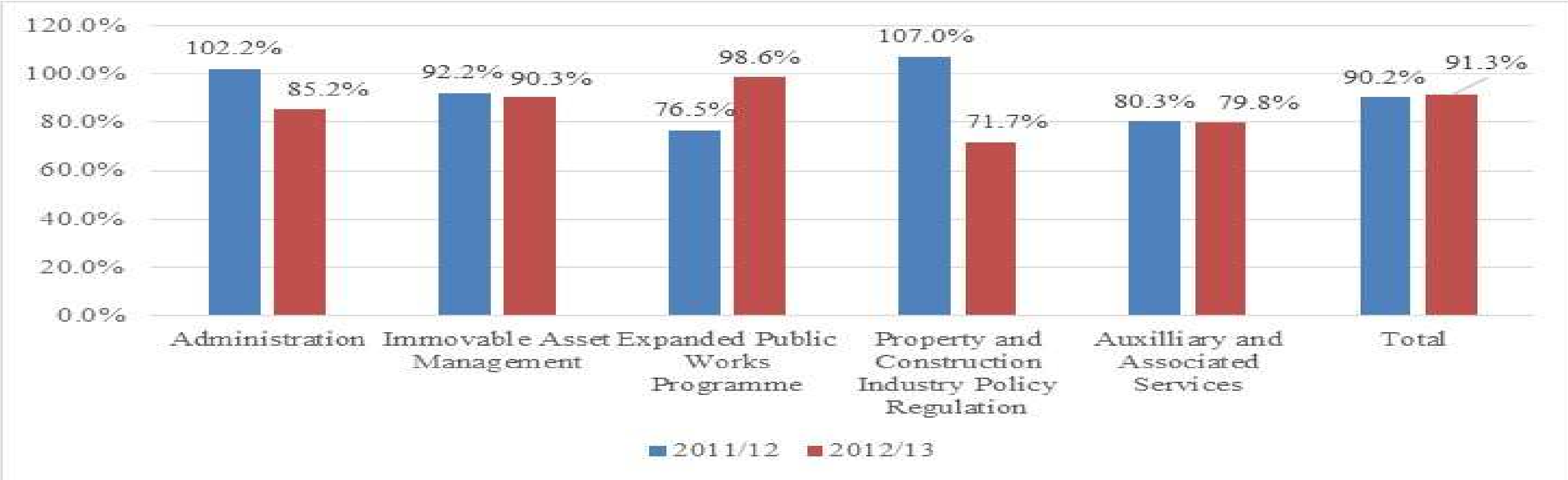
ECONOMIC CLASSIFICATION

Item (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Compensation of Employees	1 269.6	1 374.6	1 473.5	1 659.9	1 753.5	1 870.5
Goods and Services	1 032.9	977.0	1 379.6	1 302.1	1 202.9	1 269.0
Transfers and Subsidies	3 656.2	4 092.4	2 543.9	2 563.4	2 654.2	3 017.9
Payments for Capital Assets	1 099.1	756.8	628.4	595.9	934.8	981.7
Real Year on Year Growth (%)						
Compensation of Employees		2.1%	2.1%	7.3%	0.6%	1.6%
Goods and Services		-10.8%	34.5%	-10.1%	-12.0%	0.5%
Transfers and Subsidies		5.6%	-40.8%	-4.0%	-1.4%	8.3%
Payments for Capital Assets		-35.1%	-20.9%	-9.7%	49.4%	-0.003%

- Transfers and subsidies is the largest item
  - the decrease in 2013/14 due to phasing out of the Devolution of Property Rates Fund Grant to Provinces, hence reduction in transfers to provinces
- The increase in spending on Goods and Services in 2013/14 driven by spending on consultants – due to shortage of technical skills in property/project management and specialists as required for the DPW's turnaround project
- Payments for capital assets very erratic
- Relative to strong annual average growth between 2011/12 and 2013/14, growth in Goods and Service set to decline over the 2014 MTEF period

FINANCIAL AND FISCAL COMMISSION

SPENDING PERFORMANCE (FISCAL DISCIPLINE)

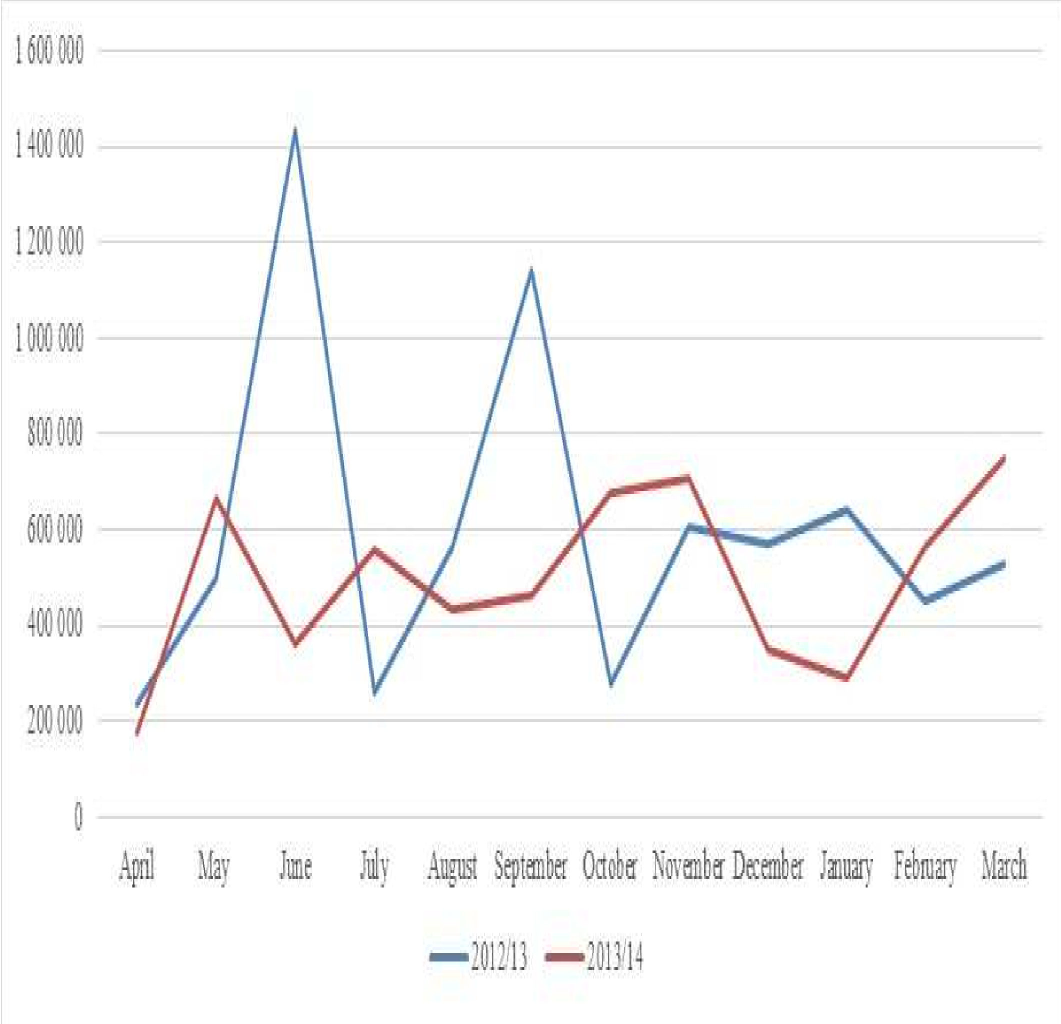


- DPW underspent in 2011/12 and 2012/13
- In 2011 underspending on EPWP and Auxilliary and Associated Services Programme
- In 2012, underspending is as a result of poor spending in Property and Construction Industry Policy Regulation Programme and again Auxilliary and Associated Services Programme
- Due to persistent underspending on capital, baseline reductions of R1.3 billion effected over 2014 MTEF period

FINANCIAL AND FISCAL COMMISSION

IN-YEAR EXPENDITURE

- 2012/13 in-year spending erratic
- Appears to be improving in 2013/14 – variances in monthly spending not as large as during 2012/13
- Concern with poor in-year spending is that it hints at unstable cash flow and disbursements



FINANCIAL AND FISCAL COMMISSION

Selected Sub-Programme Analysis: Immovable Asset Management Programme

Real Year on Year Growth	2011/12-2012/13	2012/13-2013/14	2013/14-2014/15	2014/15-2015/16	2015/16-2016/17
Infrastructure (Public Works)	-33.5%	-9.7%	-28.1%	57.5%	-0.1%
Strategic Asset Investment Analysis	-67.7%	149.1%	10.4%	0.2%	1.0%
Operation Management	1.6%	-0.3%	0.5%	-0.4%	2.7%
Prestige Management	-51.5%	44.0%	-27.0%	-1.0%	-28.5%
Special Projects	4.0%	47.6%	-24.7%	1.8%	0.4%
Construction Industry Development Board	-3.4%	2.0%	1.6%	0.4%	0.2%
Council for the Built Environment	-7.7%	28.8%	4.3%	1.4%	0.2%
Parliamentary Village Management Board	-0.6%	0.1%	1.1%	-0.4%	0.5%
Augmentation of the Property Management Trading Entity	-3.2%	0.5%	-6.0%	-0.1%	0.6%
Independent Development Trust	-68.1%	-6.3%	-4.7%	-4.8%	-100.0%
Total	**-14.0%**	**-37.8%**	**-8.6%**	**10.1%**	**-0.7%**

- Total programme growth declines over most of the period reviewed
  - Decline in 2012 and 2013 is due to phasing out of devolution of property rates fund grant to provinces, non-completion of projects and Cabinet approved reductions due to underspending
- Generally sub-programme trends are erratic, brings into question soundness of planning in DPW
- Lack of capacity a challenge in this programme – 10% vacancy rate

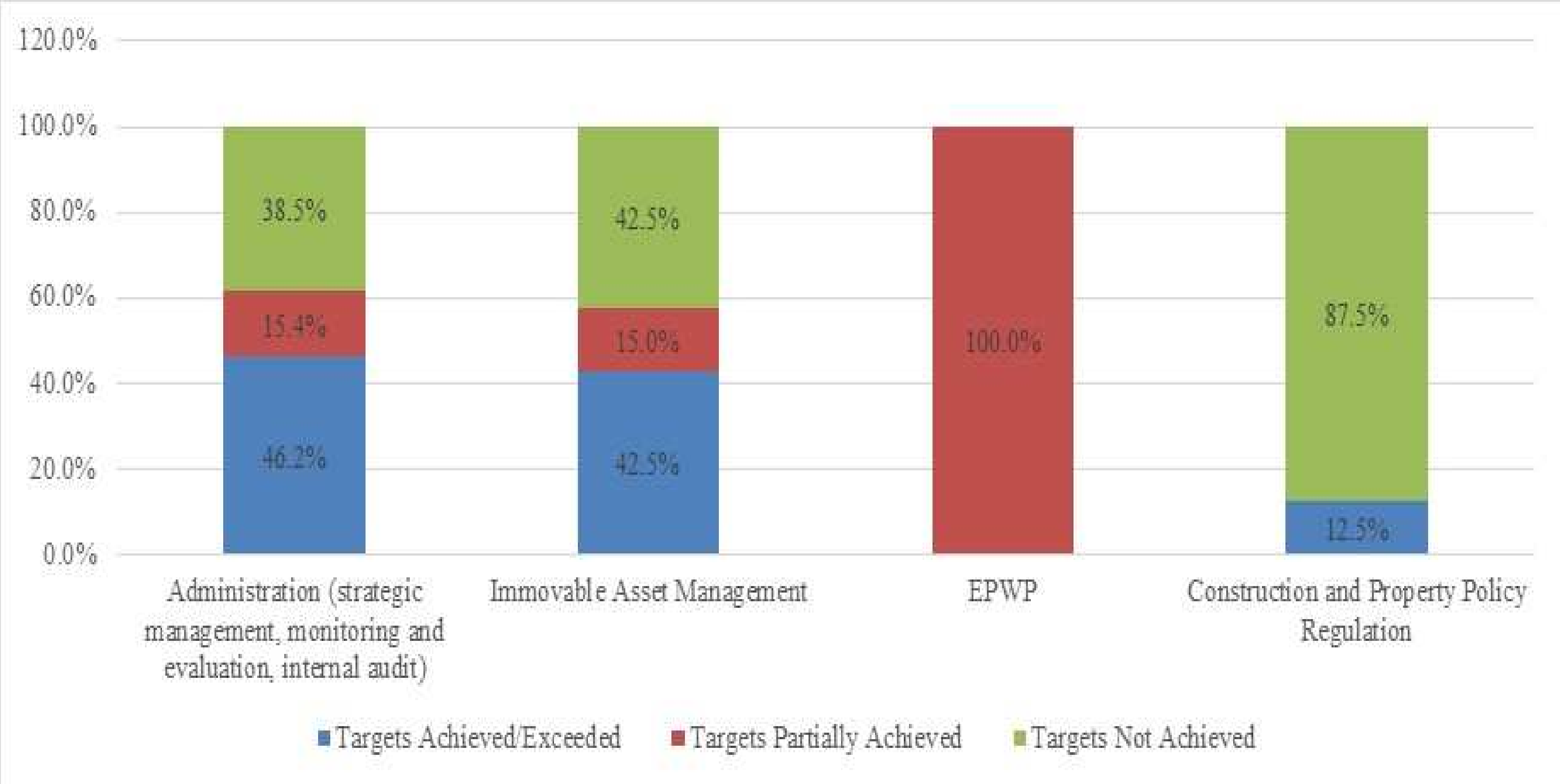
SELECTED SUB-PROGRAMME ANALYSIS: EXPANDED PUBLIC WORKS PROGRAMME

R million	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Expanded Public Works Programme	209.7	236.8	273.8	261.5	267.7	290.6
Performance Based Incentive Allocations	953.3	1 467.3	1 674.2	1 689.8	1 739.2	2 104.6
Total	**1 163.0**	**1 704.1**	**1 948.0**	**1 951.3**	**2 006.8**	**2 395.2**
Real Year on Year Growth		**2011/12-2012/13**	**2012/13-2013/14**	**2013/14-2014/15**	**2014/15-2015/16**	**2015/16-2016/17**
Expanded Public Works Programme		12.9%	15.6%	-4.5%	2.4%	8.6%
Performance Based Incentive Allocations		53.9%	14.1%	0.9%	2.9%	21.0%
Total		**46.5%**	**14.3%**	**0.2%**	**2.8%**	**19.4%**

- EPWP promotes use of government expenditure to create additional employment opportunities through the use of labour-intensive delivery methods
  - Increases in 2012/2013 due to appointment of service providers to support provinces and municipalities in design of infrastructure projects and reporting methods
- Performance Based Incentive Allocations is the largest sub-programme
  - Focus: disburses funds to provinces/municipalities and NGOs to ensure creation of work opportunities in infrastructure, environment, social sectors
  - Increases between 2012 and 2013 are due to additional funding allocated. However to give effect to Cabinet-approved reductions, growth in this sub programme slows in 2014 and 2015
- Overall between 2009/10 and 2012/13, just over 3 million jobs created (68% of target of 4.5 million jobs)

Departmental Performance

- Department not adequately meeting targets set.
  - Number of targets partially met and totally unmet exceptionally high



Departmental Performance [cont.]

Programme	Explanation for Unmet Targets
Administration	Delays due to lack of capacity/high vacancy rate, unrealistic targets given financial resources, lengthy procurement processes that delay appointment of service providers
Immovable Asset Management	Appropriate supply chain management process not followed, unrealistic target setting, inadequate data collection to verify extent to which target was met
EPWP	Delays in project implementation, lack of technical capacity to implement projects, poor performance on part of municipalities/provinces to carry out projects
Construction and Property Policy Regulation	• Legislative framework for Built Environment Professionals: delays in internal consultation • Establish Agrement SA as public entity: delay in the approval of business case • Provide immovable asset lifecycle management guidelines to national and provincial custodians of immovable assets: delay in internal consultation prevented finalisation

Aspects Highlighted by the Auditor-General

- DPW audit outcomes:
  - 2009/10: qualified with findings
  - 2010/11:disclaimer
  - 2011/12: disclaimer
  - 2012/13: qualified with findings
- Key issues highlighted by Auditor-General that need to be addressed:
  - Inadequate internal controls in areas of leadership, financial management, performance management and governance
  - Areas that were identified for specific attention through the turnaround project include: lack of controls in supply chain management, poor lease management, inadequate immovable asset register, lack of built environment and property management skills

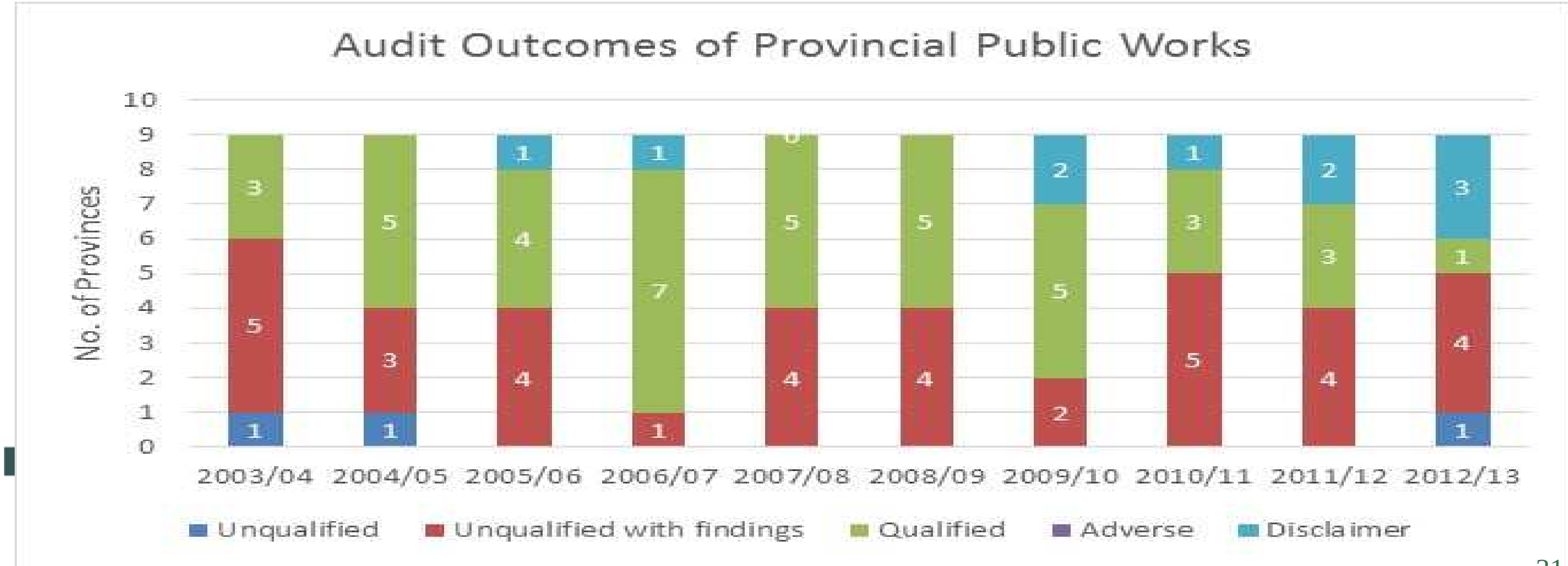
FINANCIAL AND FISCAL COMMISSION

FINANCIAL AND FISCAL COMMISSION

Public Works in the Provinces

PROVINCIAL AUDIT OUTCOMES

- Audit outcomes for provincial departments of public works have not considerably improved in since 2003/04
  - Four out of the nine provinces received a qualified opinion or disclaimer in 2012/13
  - Over a period of 10 years (i.e. 2003/4 – 2012/13), only 3 provincial departments of public works received an unqualified audit opinion



PROVINCIAL AUDIT OUTCOMES [CONT.]

- The Auditor-General raised a number of matters that prevented provincial departments from achieving clean audits such as:
  - Instability in leadership and lack of human resources
  - Internal controls are ineffective
  - Action plans to implement improvement in audit outcomes are not timeously implemented
  - Inaccurate and incomplete fixed asset registers
  - Incomplete disclosures on unauthorized, irregular and fruitless, irregular and wasteful expenditure
  - Commitments by the national sector department to intervene and/or provide support were not honoured
- The Commission's view is that DPW should play a more active role, through the various intergovernmental forums, in providing the necessary support to provincial departments of public works

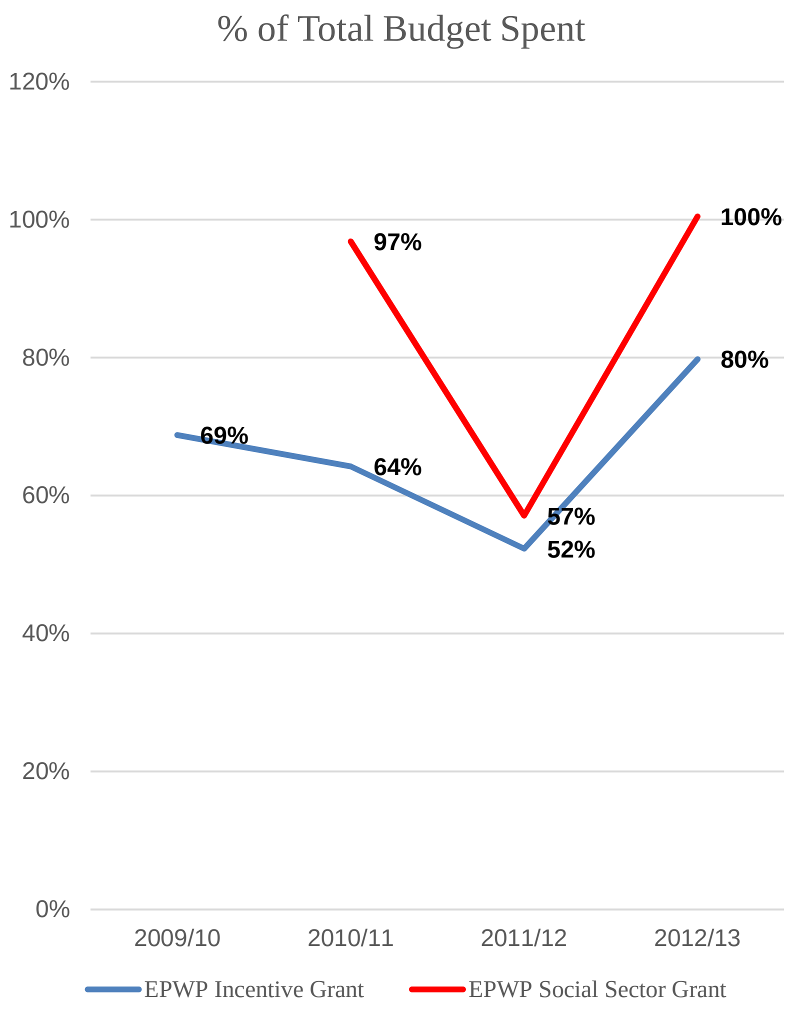
FINANCIAL AND FISCAL COMMISSION

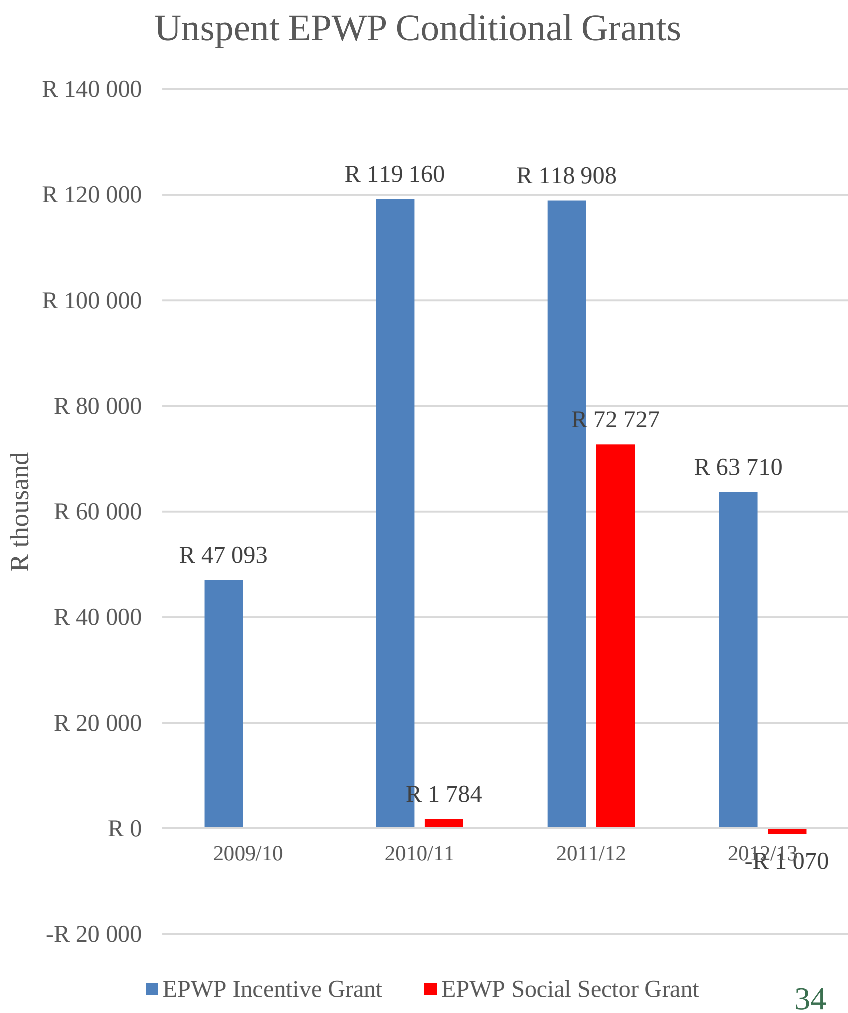
SPENDING PERFORMANCE BY PROVINCES ON EPWP CONDITIONAL GRANTS

- The National Department of Public Works is the transferring agent for two EPWP conditional grants to provinces
- As the transferring agent, the responsibilities of the DPW are prescribed in the conditional grant framework contained in the Division of Revenue Act. These include (among others):
  - Determine eligibility of grant, monitor and provide support to provinces, audit provincial performance and report to national treasury on provincial progress

FINANCIAL AND FISCAL COMMISSION

EPWP Conditional Grants to Provinces





Summary of Performance on EPWP Grants to Provinces

- Over a four year period (2009/10 – 2012/13), provinces have been unable to spend more than 80% of its allocation to the EPWP Incentive Grant in any given year
- Except in 2011/12 where spending on both EPWP grants were below 60% of total, the EPWP Social Sector grant in general, performed better than the Incentive grant
  - Provinces have challenges relating to infrastructure, which affects the spending performance on the Incentive grant
- In many instances, provinces fail to comply with grant conditions stipulated in DORA, resulting in funds being withheld, thereby leaving funds unspent at the end of the year

FINANCIAL AND FISCAL COMMISSION

Concluding Remarks

- Key issues emanating from analysis of DPW
  - Underspending of budget
  - Not meeting set targets
- For the sector to turnaround, the DPW should play a leadership role by providing the necessary support to the provinces and establishing minimum norms and standards to facilitate improvement in service delivery in the provinces
- Department to put in place proper systems to guide expenditure management, setting of appropriate key performance indicators and a plan to attract/retain skilled staff
  - Outcome of the Turnaround Project is key in facilitating progress – some improvements noted but far to go in putting DPW on stable footing

FINANCIAL AND FISCAL COMMISSION

FFC's Website: www.ffc.co.za

FINANCIAL
AND FISCAL
COMMISSION

PORTFOLIO COMMITTEE ON PUBLIC WORKS

Financial and Fiscal Commission

25 September 2014

For an Equitable Sharing of National Revenue

PRESENTATION OUTLINE

1. Role and Function of the Financial and Fiscal Commission
2. Recommendations of the Commission that relate to Public Works
3. Departmental Analysis

FINANCIAL AND FISCAL COMMISSION

1. Role and Function of the Financial and Fiscal Commission

ROLE AND FUNCTION OF THE FFC

- The Financial and Fiscal Commission (FFC)
  - Is an independent, permanent, statutory institution established in terms of Section 220 of Constitution
  - Must function in terms of the FFC Act
- Mandate of Commission
  - To make recommendations, envisaged in Chapter 13 of the Constitution or in national legislation to Parliament, Provincial Legislatures, and any other organ of state determined by national legislation
- The Commission's focus is primarily on the equitable division of nationally collected revenue among the three spheres of government and any other financial and fiscal matters
  - Legislative provisions or executive decisions that affect either provincial or local government from a financial and/or fiscal perspective
  - Includes regulations associated with legislation that may amend or extend such legislation
  - Commission must be consulted in terms of the FFC Act
  - Current research strategy focuses on developmental impacts of IGFR

FINANCIAL AND FISCAL COMMISSION

HOW FFC SUPPORTS POLICY

- Identify weakness within the IGFR system
- Propose evidence-based policy proposals
- Interact and participate with/in forums and institutions responsible for IGFR policy – TCF, Budget Council, Budget Forum
- Information dissemination – invitations from nine provincial legislatures and SALGA
- Interact with various committees within parliament

FINANCIAL AND FISCAL COMMISSION

PROCESSING OF RECOMMENDATIONS

- Recommendations of the Commission
  - Recommendations are made to Parliament so that the legislature can examine the financial and fiscal decisions of government against them and understand why they have been accepted or rejected
  - Section 4(4)(c) of the Money Bills Amendment Procedures and Related Matters Act (MBAPMA) requires Parliament to consider the recommendations of the Commission when deliberating on Money Bills
- Government is obligated through an Act of Parliament to explain how it has taken the FFC recommendations in arriving at the division of revenue for any particular year
  - The response is tabled in Annexure W1 of the DoR Bill and of the Budget Review

FINANCIAL AND FISCAL COMMISSION

How FFC can Support Parliament

DIRECT TRAINING AND INTERVENTION

- Training of members of parliamentary committees and councillors on request (e.g. in Bushbuckridge)
- Advice to municipalities (e.g. Tshwane merger)
- Inputs in various fora (e.g. SALGA)

NON TRAINING SUPPORT AND INTERVENTION

- Member of review committees (LES, Infrastructure Grants, Metro's Own Revenue)
- Public hearings (local government fiscal framework, housing and welfare)
- Inputs in benchmarking exercises
- Recommendations through Annual Submission on DoR, MTBPS, FF and Appropriations

VALUE ADD OF THE FFC

- FFC can provide advice, analysis and training to assist the work of the Committee
  - Specialised IGFR training to committee members and/or parliamentary researchers
  - Provision of recommendations that are founded on evidence based research
  - Technical support with respect to parliamentary fiscal oversight activities

FINANCIAL AND FISCAL COMMISSION

2. Recommendations that Relate to Public Works

FFC WORK RELATED TO DPW [CONT.]

Response to Division of Revenue Bill (DoRB) 2010	The Commission welcomed introduction of the *EPWP Incentive Grant for the Social Sector*. The Commission noted that there was a need to standardise the employment framework for the sector including conditions, wages and progression across provinces and municipalities. The Commission also raised concern regarding difficulties that were being experienced with the transfer of the EPWP Incentive Grant to Local and Provincial Governments. In the 2009/10 certain provinces (e.g. Western Cape) raised concern that they received transfers outside the ambit of the DoR and couldn't spend the money because it was not properly appropriated through various legislatures. At that point the general challenge with the grant was that provinces and municipalities found it difficult to integrate it through their infrastructure programmes. This problem persists because labour intensive infrastructure projects need to be planned, costed and scheduled properly. Not all projects yield the same labour intensity, so targets must be set by project type and category. Some projects will better lend themselves to labour intensive methods than others. This must be factored into the budget allocations and monitoring of the grant. *Current Commission analysis is that provinces continue to have challenges relating to labour intensive infrastructure, which affects the spending of the Incentive grant. In 2012/13 DPW appointed service providers to support provinces and municipalities in design of infrastructure projects and reporting methods.*

FFC Work Related to DPW [cont.]

Response to MTBPS 2011	In terms of the EPWP Incentive grant framework, provinces and municipalities must spend their budgets on EPWP projects and after that the grant will be paid by DPW quarterly as an incentive (after employment has been created). There has been general under-spending against budget since inception of the grant. Projected under-spending in financial year 2011 was 28.4%. In 2010, the actual under-spend was 38.4%. Despite poor spending performance, the annual growth of the budget was high. Expenditure reports on the grant performance at local government were inaccessible. DPW should explain how transfers are reconciled with actual expenditure. The grant should be streamlined to the Division of Revenue Act (DORA) requirements in terms of allocation and disbursements of funds. Punitive and incentive elements of the grant should be made transparent to all the stakeholders. *Current FFC analysis indicates that underspending persists. Between 2009/10 and 2012/13, provinces have been unable to spend more than 80% of their allocation*
Response to DoRB 2012	The Commission reiterated concerns raised in its Response to DoRB 2010 and Response to 2011 MTBPS regarding the challenges with the EPWP Incentive grant. The Commission maintained its view that the grant had not succeeded in achieving the intended goals within the specified time. There had also not been a formal assessment of the achievement of this grant both in terms of expenditure and service delivery outputs including how many direct and full times jobs had been created against the allocated funds. The Commission recommended that an independent review of the grant be undertaken, so that lessons can be drawn from past experience to avoid a replication of past mistakes. Government has since set up a team consisting of National Treasury, DPW, DCoG and SALGA that has been working on this. *This review is ongoing*

FFC Work Related to DPW [cont.]

Submission for the 2009/10 DoR	FFC found a need for reporting on EPWP outcomes to be more specific. In accordance with the requirements of the EPWP, job creation for target groups such as women, youth and people with disabilities should be included in the reporting requirements for all infrastructure conditional grants to provinces and municipalities GOVT. RESPONSE: The recommendation for reporting on targets is supported. Some of these indicators can possibly be reported on as part of the conditional grant frameworks prescribed in terms of the Division of Revenue Act
Submission for the 2007/08 DoR	The World Cup funding was crafted on the basis of requirements to meet FIFA standards of hosting cities, and that the major challenge faced by government was sustainability of built infrastructure. On the funding for the FIFA World Cup, FFC, examined the sustainability of built infrastructure, taking the escalation of construction costs into account. FFC's findings included that the escalation of construction costs be budgeted for, and that collaboration with the private sector should be encouraged. Also that a 2010 World Cup "Legacy Management Policy" should be introduced and prudent fiscal policy should be maintained leading to the World Cup GOVT. RESPONSE: Government is of the view that the costs relating to maintenance of constructed 2010 FIFA World Cup facilities should be provided by municipalities

3. Departmental Analysis

CONTEXTUALISING THE DEPARTMENT OF PUBLIC WORKS

- Aim of Department of Public Works (DPW):
  - provide for and manage accommodation, housing, land and infrastructure needs of national departments
  - Lead and direct implementation of the national expanded public works programme (EPWP)
  - Promote growth, job creation and transformation in the construction and property industries
- Public works is a concurrent function between national and provincial spheres of government
- DPW contribution to National Development Plan (NDP) achieved through:
  - Implementation of job creation initiatives
  - Transition to low cost carbon economy
  - Development of an inclusive and integrated rural economy
  - Fight against corruption

FINANCIAL AND FISCAL COMMISSION

KEY CHALLENGES CONFRONTING DPW

- Due to consistent trend of poor audit outcomes and generally poor performance, DPW implemented a turnaround project in November 2012
- Areas that were identified for specific attention through the turnaround project include:
  - Lack of controls in supply chain management (SCM)
    - Identified as major risk area by Auditor-General – DPW capacity to process tenders eroded and has led to numerous instances of fraud/corruption. SCM has been major focus of the Special Investigating Unit (SIU). SCM is the key focus of turnaround project in DPW. A service provider appointed to assist with fundamental review of SCM
      - Irregular expenditure, R171 million in 2011/12; R874 million in 2012/13
  - Poor lease management
    - Numerous irregularities with respect to lease agreements – gives rise to legal risks. DPW reviewing all lease agreements

KEY CHALLENGES CONFRONTING DPW [CONT.]

– Inadequate immovable asset register
    - Lack of compliant immovable asset register resulted in negative audit opinions. DPW now in process of rebuilding immovable asset register and building a model to revalue immovable assets
– Lack of built environment and property management skills
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FINANCIAL AND FISCAL COMMISSION

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FINANCIAL AND FISCAL COMMISSION

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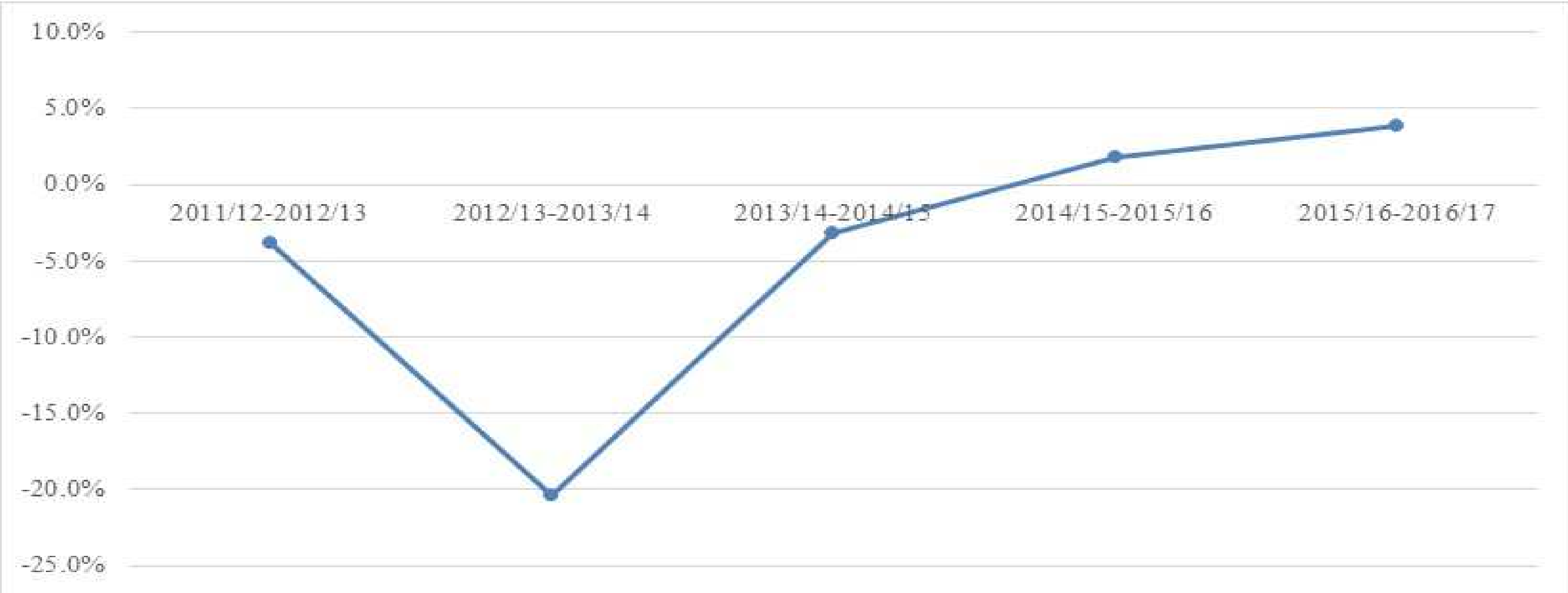
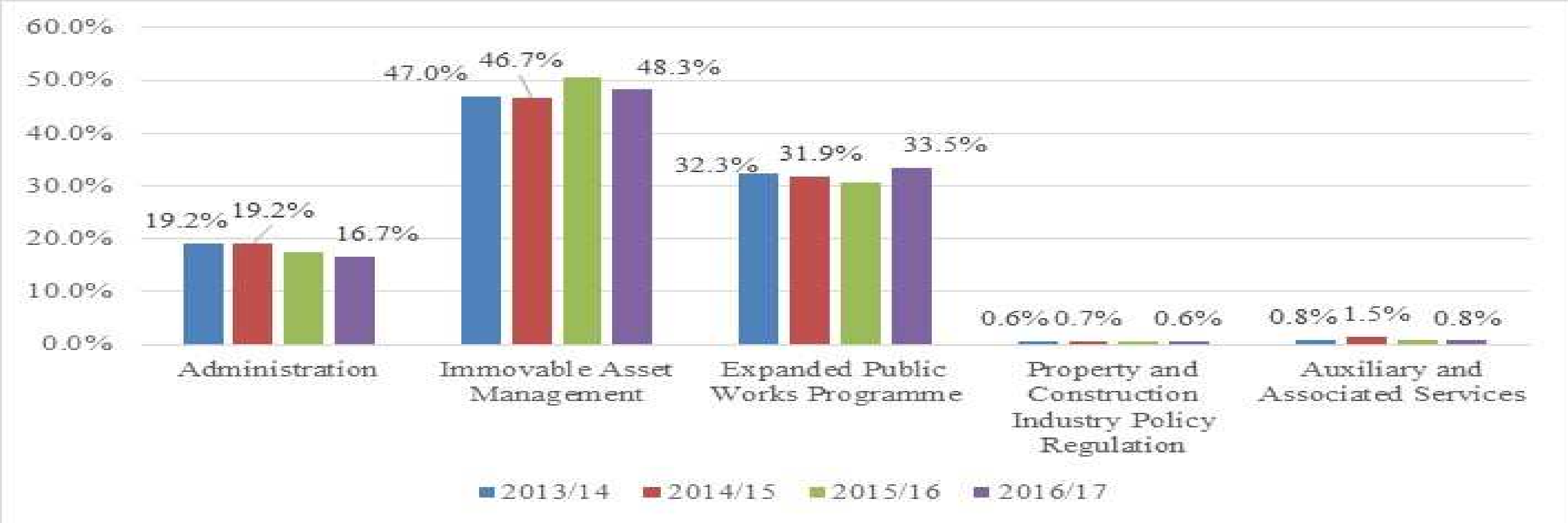
  - Though still declining in real terms in 2014/15, there is some improvement
- Over rest of 2014 MTEF period, positive growth projected
  - Focus will be on rehabilitating 34 state owned buildings, and ensuring that at least 100 buildings are made accessible to people with disabilities in each year of MTEF



BUDGET COMPOSITION ACROSS PROGRAMMES



- Immovable Asset Management Programme consumes largest share of DPW budget – by end of 2014 MTEF period this programme is projected to consume just under half of DPW budget
- Share allocated to Administration Programme consumers about one fifth of departmental budget – funding for Turnaround Project fall under Administration
  - Turnaround Project will support activities relating to the Special Investigating Unit, a technical support unit, a clean audit project, irregular expenditure management, internal audit support

FINANCIAL AND FISCAL COMMISSION

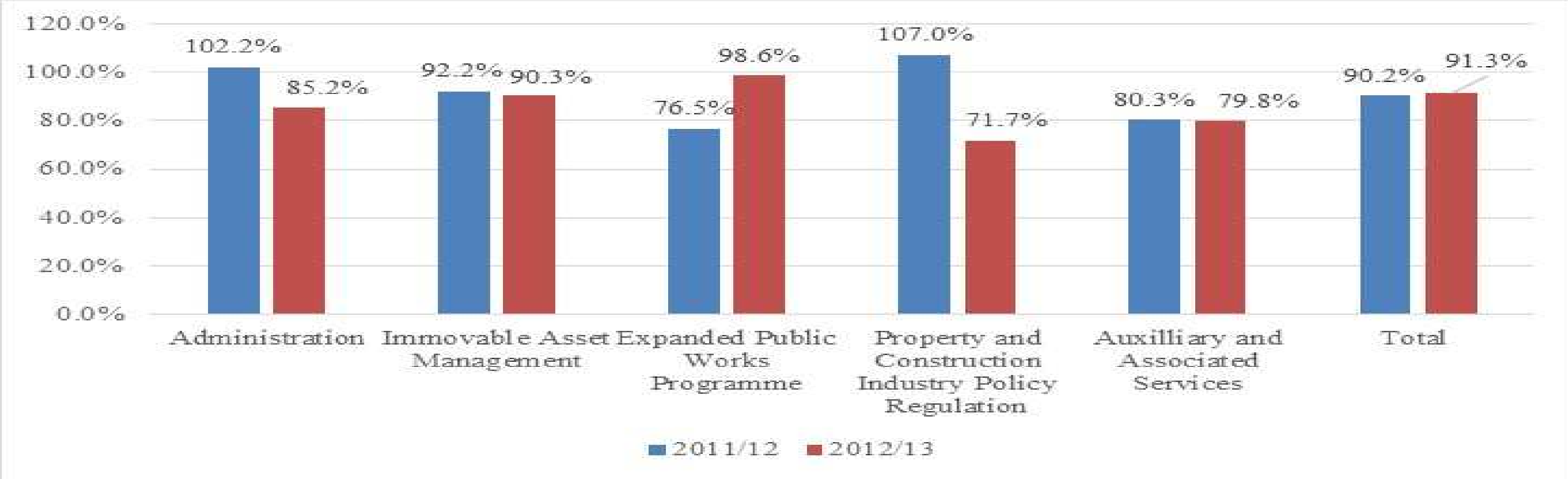
Economic Classification

Item (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Compensation of Employees	1 269.6	1 374.6	1 473.5	1 659.9	1 753.5	1 870.5
Goods and Services	1 032.9	977.0	1 379.6	1 302.1	1 202.9	1 269.0
Transfers and Subsidies	3 656.2	4 092.4	2 543.9	2 563.4	2 654.2	3 017.9
Payments for Capital Assets	1 099.1	756.8	628.4	595.9	934.8	981.7
Real Year on Year Growth (%)						
Compensation of Employees		2.1%	2.1%	7.3%	0.6%	1.6%
Goods and Services		-10.8%	34.5%	-10.1%	-12.0%	0.5%
Transfers and Subsidies		5.6%	-40.8%	-4.0%	-1.4%	8.3%
Payments for Capital Assets		-35.1%	-20.9%	-9.7%	49.4%	-0.003%

- Transfers and subsidies is the largest item
  - the decrease in 2013/14 due to phasing out of the Devolution of Property Rates Fund Grant to Provinces, hence reduction in transfers to provinces
- The increase in spending on Goods and Services in 2013/14 driven by spending on consultants – due to shortage of technical skills in property/project management and specialists as required for the DPW's turnaround project
- Payments for capital assets very erratic
- Relative to strong annual average growth between 2011/12 and 2013/14, growth in Goods and Service set to decline over the 2014 MTEF period

FINANCIAL AND FISCAL COMMISSION

SPENDING PERFORMANCE (FISCAL DISCIPLINE)

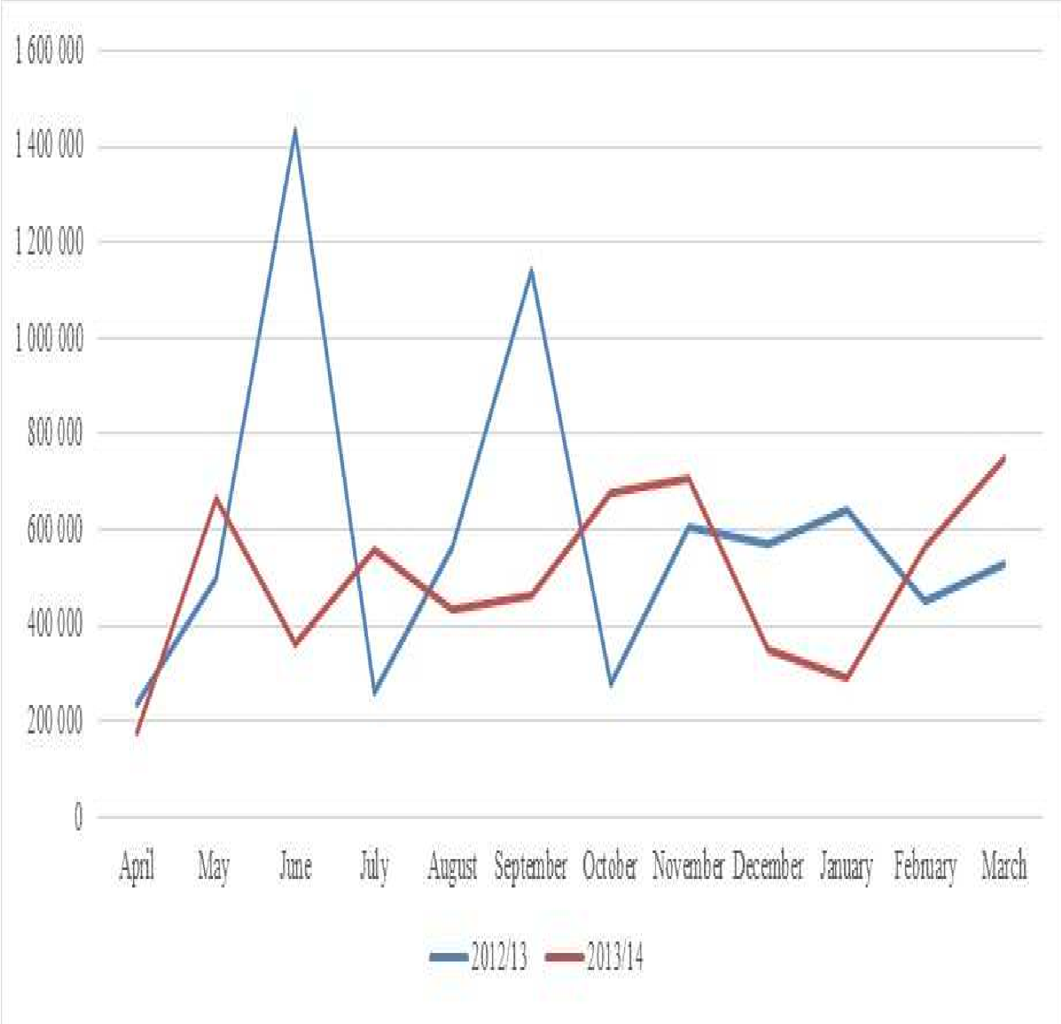


- DPW underspent in 2011/12 and 2012/13
- In 2011 underspending on EPWP and Auxilliary and Associated Services Programme
- In 2012, underspending is as a result of poor spending in Property and Construction Industry Policy Regulation Programme and again Auxilliary and Associated Services Programme
- Due to persistent underspending on capital, baseline reductions of R1.3 billion effected over 2014 MTEF period

FINANCIAL AND FISCAL COMMISSION

In-Year Expenditure

- 2012/13 in-year spending erratic
- Appears to be improving in 2013/14 – variances in monthly spending not as large as during 2012/13
- Concern with poor in-year spending is that it hints at unstable cash flow and disbursements



FINANCIAL AND FISCAL COMMISSION

Selected Sub-Programme Analysis: Immovable Asset Management Programme

Real Year on Year Growth	2011/12-2012/13	2012/13-2013/14	2013/14-2014/15	2014/15-2015/16	2015/16-2016/17
Infrastructure (Public Works)	-33.5%	-9.7%	-28.1%	57.5%	-0.1%
Strategic Asset Investment Analysis	-67.7%	149.1%	10.4%	0.2%	1.0%
Operation Management	1.6%	-0.3%	0.5%	-0.4%	2.7%
Prestige Management	-51.5%	44.0%	-27.0%	-1.0%	-28.5%
Special Projects	4.0%	47.6%	-24.7%	1.8%	0.4%
Construction Industry Development Board	-3.4%	2.0%	1.6%	0.4%	0.2%
Council for the Built Environment	-7.7%	28.8%	4.3%	1.4%	0.2%
Parliamentary Village Management Board	-0.6%	0.1%	1.1%	-0.4%	0.5%
Augmentation of the Property Management Trading Entity	-3.2%	0.5%	-6.0%	-0.1%	0.6%
Independent Development Trust	-68.1%	-6.3%	-4.7%	-4.8%	-100.0%
Total	**-14.0%**	**-37.8%**	**-8.6%**	**10.1%**	**-0.7%**

- Total programme growth declines over most of the period reviewed
  - Decline in 2012 and 2013 is due to phasing out of devolution of property rates fund grant to provinces, non-completion of projects and Cabinet approved reductions due to underspending
- Generally sub-programme trends are erratic, brings into question soundness of planning in DPW
- Lack of capacity a challenge in this programme – 10% vacancy rate

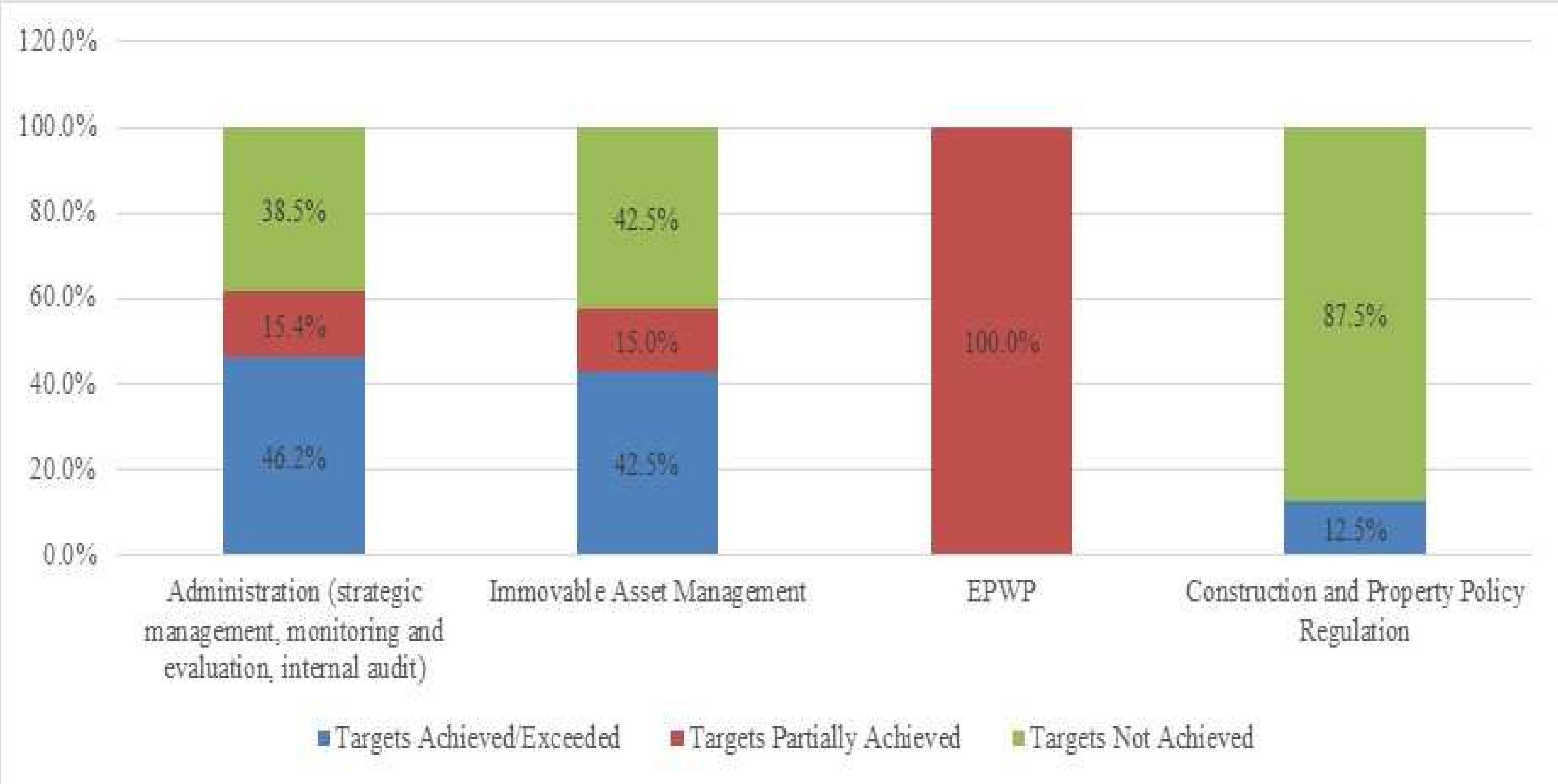
Selected Sub-Programme Analysis: Expanded Public Works Programme

R million	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Expanded Public Works Programme	209.7	236.8	273.8	261.5	267.7	290.6
Performance Based Incentive Allocations	953.3	1 467.3	1 674.2	1 689.8	1 739.2	2 104.6
Total	**1 163.0**	**1 704.1**	**1 948.0**	**1 951.3**	**2 006.8**	**2 395.2**
Real Year on Year Growth		**2011/12-2012/13**	**2012/13-2013/14**	**2013/14-2014/15**	**2014/15-2015/16**	**2015/16-2016/17**
Expanded Public Works Programme		12.9%	15.6%	-4.5%	2.4%	8.6%
Performance Based Incentive Allocations		53.9%	14.1%	0.9%	2.9%	21.0%
Total		**46.5%**	**14.3%**	**0.2%**	**2.8%**	**19.4%**

- EPWP promotes use of government expenditure to create additional employment opportunities through the use of labour-intensive delivery methods
  - Increases in 2012/2013 due to appointment of service providers to support provinces and municipalities in design of infrastructure projects and reporting methods
- Performance Based Incentive Allocations is the largest sub-programme
  - Focus: disburses funds to provinces/municipalities and NGOs to ensure creation of work opportunities in infrastructure, environment, social sectors
  - Increases between 2012 and 2013 are due to additional funding allocated. However to give effect to Cabinet-approved reductions, growth in this sub programme slows in 2014 and 2015
- Overall between 2009/10 and 2012/13, just over 3 million jobs created (68% of target of 4.5 million jobs)

DEPARTMENTAL PERFORMANCE

- Department not adequately meeting targets set.
  - Number of targets partially met and totally unmet exceptionally high



DEPARTMENTAL PERFORMANCE [CONT.]

Programme	Explanation for Unmet Targets
Administration	Delays due to lack of capacity/high vacancy rate, unrealistic targets given financial resources, lengthy procurement processes that delay appointment of service providers
Immovable Asset Management	Appropriate supply chain management process not followed, unrealistic target setting, inadequate data collection to verify extent to which target was met
EPWP	Delays in project implementation, lack of technical capacity to implement projects, poor performance on part of municipalities/provinces to carry out projects
Construction and Property Policy Regulation	• Legislative framework for Built Environment Professionals: delays in internal consultation • Establish Agrement SA as public entity: delay in the approval of business case • Provide immovable asset lifecycle management guidelines to national and provincial custodians of immovable assets: delay in internal consultation prevented finalisation

ASPECTS HIGHLIGHTED BY THE AUDITOR-GENERAL

- DPW audit outcomes:
  - 2009/10: qualified with findings
  - 2010/11:disclaimer
  - 2011/12: disclaimer
  - 2012/13: qualified with findings
- Key issues highlighted by Auditor-General that need to be addressed:
  - Inadequate internal controls in areas of leadership, financial management, performance management and governance
  - Areas that were identified for specific attention through the turnaround project include: lack of controls in supply chain management, poor lease management, inadequate immovable asset register, lack of built environment and property management skills

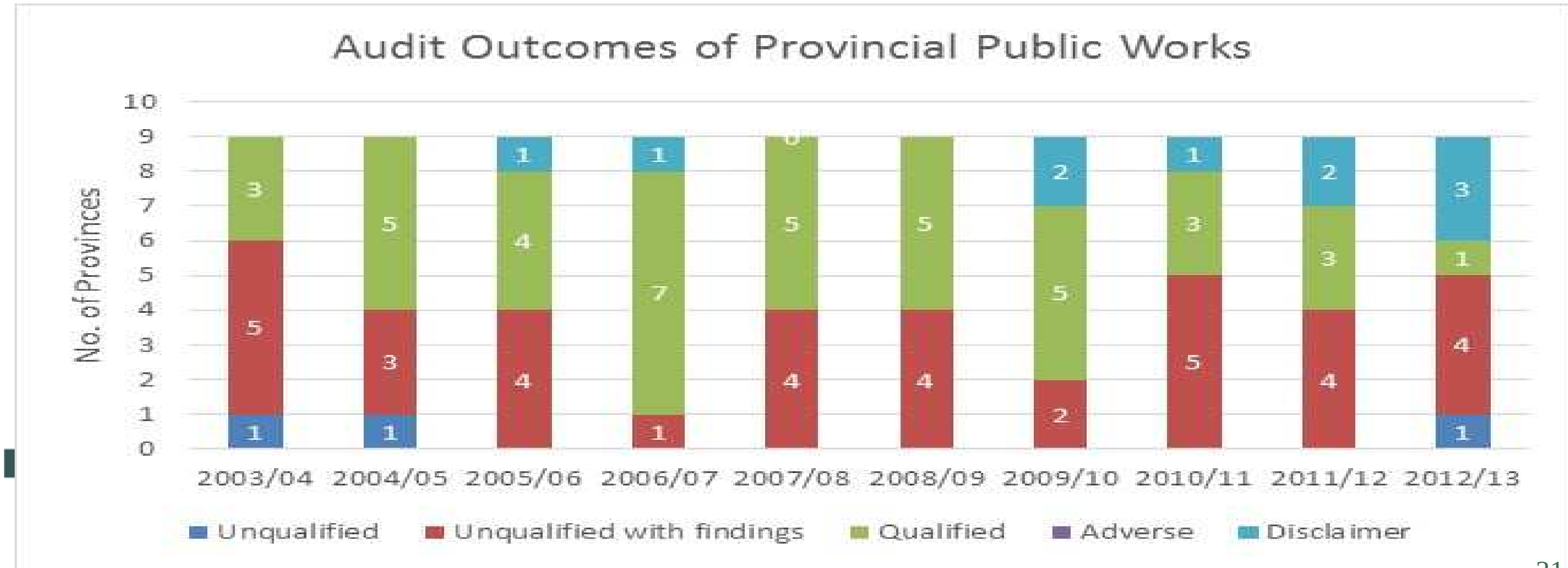
FINANCIAL AND FISCAL COMMISSION

FINANCIAL AND FISCAL COMMISSION

PUBLIC WORKS IN THE PROVINCES

PROVINCIAL AUDIT OUTCOMES

- Audit outcomes for provincial departments of public works have not considerably improved in since 2003/04
  - Four out of the nine provinces received a qualified opinion or disclaimer in 2012/13
  - Over a period of 10 years (i.e. 2003/4 – 2012/13), only 3 provincial departments of public works received an unqualified audit opinion



PROVINCIAL AUDIT OUTCOMES [CONT.]

- The Auditor-General raised a number of matters that prevented provincial departments from achieving clean audits such as:
  - Instability in leadership and lack of human resources
  - Internal controls are ineffective
  - Action plans to implement improvement in audit outcomes are not timeously implemented
  - Inaccurate and incomplete fixed asset registers
  - Incomplete disclosures on unauthorized, irregular and fruitless, irregular and wasteful expenditure
  - Commitments by the national sector department to intervene and/or provide support were not honoured
- The Commission's view is that DPW should play a more active role, through the various intergovernmental forums, in providing the necessary support to provincial departments of public works

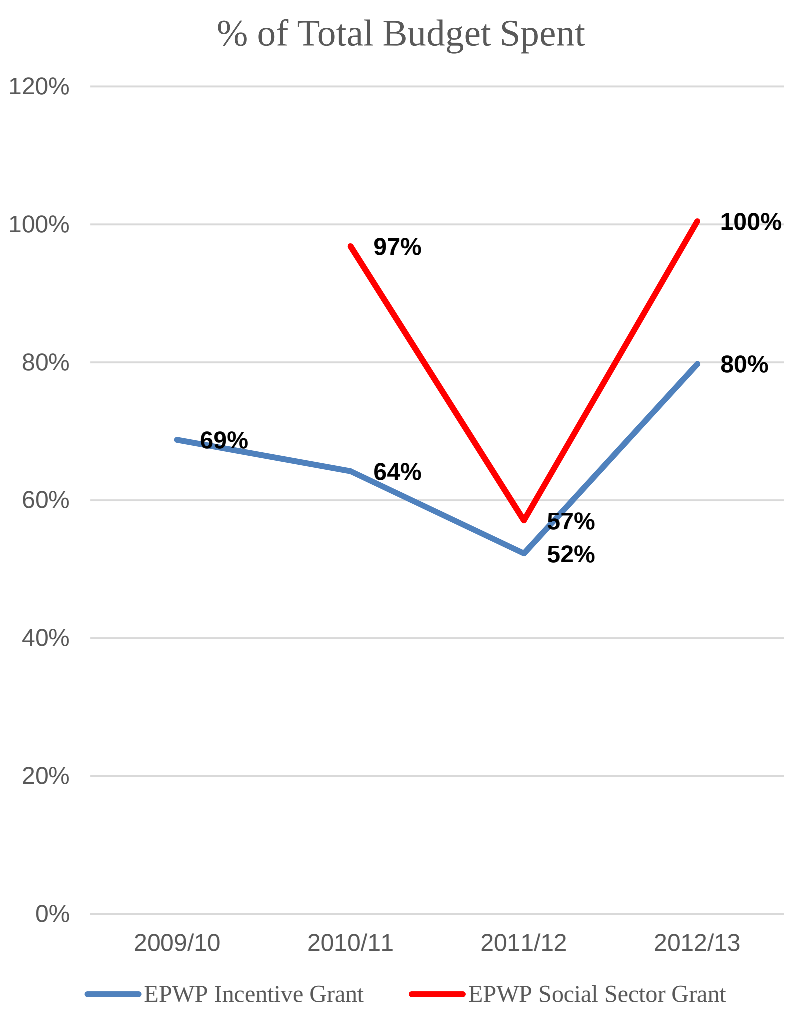
FINANCIAL AND FISCAL COMMISSION

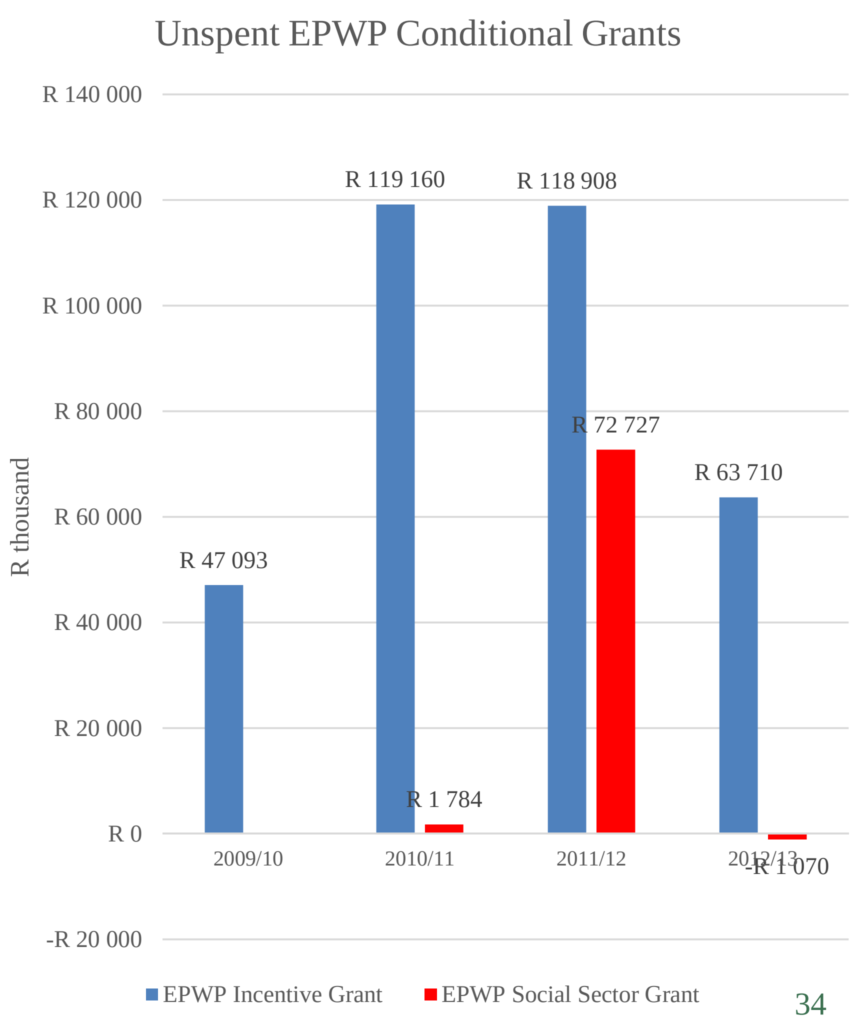
SPENDING PERFORMANCE BY PROVINCES ON EPWP CONDITIONAL GRANTS

- The National Department of Public Works is the transferring agent for two EPWP conditional grants to provinces
- As the transferring agent, the responsibilities of the DPW are prescribed in the conditional grant framework contained in the Division of Revenue Act. These include (among others):
  - Determine eligibility of grant, monitor and provide support to provinces, audit provincial performance and report to national treasury on provincial progress

FINANCIAL AND FISCAL COMMISSION

EPWP Conditional Grants to Provinces





Summary of Performance on EPWP Grants to Provinces

- Over a four year period (2009/10 – 2012/13), provinces have been unable to spend more than 80% of its allocation to the EPWP Incentive Grant in any given year
- Except in 2011/12 where spending on both EPWP grants were below 60% of total, the EPWP Social Sector grant in general, performed better than the Incentive grant
  - Provinces have challenges relating to infrastructure, which affects the spending performance on the Incentive grant
- In many instances, provinces fail to comply with grant conditions stipulated in DORA, resulting in funds being withheld, thereby leaving funds unspent at the end of the year

FINANCIAL AND FISCAL COMMISSION

CONCLUDING REMARKS

- Key issues emanating from analysis of DPW
  - Underspending of budget
  - Not meeting set targets
- For the sector to turnaround, the DPW should play a leadership role by providing the necessary support to the provinces and establishing minimum norms and standards to facilitate improvement in service delivery in the provinces
- Department to put in place proper systems to guide expenditure management, setting of appropriate key performance indicators and a plan to attract/retain skilled staff
  - Outcome of the Turnaround Project is key in facilitating progress – some improvements noted but far to go in putting DPW on stable footing

FINANCIAL AND FISCAL COMMISSION

FFC's Website: www.ffc.co.za

PORTFOLIO COMMITTEE ON PUBLIC WORKS

Financial and Fiscal Commission

25 September 2014

For an Equitable Sharing of National Revenue

PRESENTATION OUTLINE

1. Role and Function of the Financial and Fiscal Commission
2. Recommendations of the Commission that relate to Public Works
3. Departmental Analysis

FINANCIAL AND FISCAL COMMISSION

FINANCIAL AND FISCAL COMMISSION

1. Role and Function of the Financial and Fiscal Commission

Role and Function of the FFC

- The Financial and Fiscal Commission (FFC)
  - Is an independent, permanent, statutory institution established in terms of Section 220 of Constitution
  - Must function in terms of the FFC Act
- Mandate of Commission
  - To make recommendations, envisaged in Chapter 13 of the Constitution or in national legislation to Parliament, Provincial Legislatures, and any other organ of state determined by national legislation
- The Commission's focus is primarily on the equitable division of nationally collected revenue among the three spheres of government and any other financial and fiscal matters
  - Legislative provisions or executive decisions that affect either provincial or local government from a financial and/or fiscal perspective
  - Includes regulations associated with legislation that may amend or extend such legislation
  - Commission must be consulted in terms of the FFC Act
  - Current research strategy focuses on developmental impacts of IGFR

FINANCIAL AND FISCAL COMMISSION

HOW FFC SUPPORTS POLICY

- Identify weakness within the IGFR system
- Propose evidence-based policy proposals
- Interact and participate with/in forums and institutions responsible for IGFR policy – TCF, Budget Council, Budget Forum
- Information dissemination – invitations from nine provincial legislatures and SALGA
- Interact with various committees within parliament

FINANCIAL AND FISCAL COMMISSION

PROCESSING OF RECOMMENDATIONS

- Recommendations of the Commission
  - Recommendations are made to Parliament so that the legislature can examine the financial and fiscal decisions of government against them and understand why they have been accepted or rejected
  - Section 4(4)(c) of the Money Bills Amendment Procedures and Related Matters Act (MBAPMA) requires Parliament to consider the recommendations of the Commission when deliberating on Money Bills
- Government is obligated through an Act of Parliament to explain how it has taken the FFC recommendations in arriving at the division of revenue for any particular year
  - The response is tabled in Annexure W1 of the DoR Bill and of the Budget Review

FINANCIAL AND FISCAL COMMISSION

How FFC can Support Parliament

DIRECT TRAINING AND INTERVENTION

- Training of members of parliamentary committees and councillors on request (e.g. in Bushbuckridge)
- Advice to municipalities (e.g. Tshwane merger)
- Inputs in various fora (e.g. SALGA)

NON TRAINING SUPPORT AND INTERVENTION

- Member of review committees (LES, Infrastructure Grants, Metro's Own Revenue)
- Public hearings (local government fiscal framework, housing and welfare)
- Inputs in benchmarking exercises
- Recommendations through Annual Submission on DoR, MTBPS, FF and Appropriations

VALUE ADD OF THE FFC

- FFC can provide advice, analysis and training to assist the work of the Committee
  - Specialised IGFR training to committee members and/or parliamentary researchers
  - Provision of recommendations that are founded on evidence based research
  - Technical support with respect to parliamentary fiscal oversight activities

FINANCIAL AND FISCAL COMMISSION

FINANCIAL
AND FISCAL
COMMISSION

2. Recommendations that Relate to Public Works

FFC Work Related to DPW [cont.]

Response to Division of Revenue Bill (DoRB) 2010	The Commission welcomed introduction of the *EPWP Incentive Grant for the Social Sector*. The Commission noted that there was a need to standardise the employment framework for the sector including conditions, wages and progression across provinces and municipalities. The Commission also raised concern regarding difficulties that were being experienced with the transfer of the EPWP Incentive Grant to Local and Provincial Governments. In the 2009/10 certain provinces (e.g. Western Cape) raised concern that they received transfers outside the ambit of the DoR and couldn't spend the money because it was not properly appropriated through various legislatures. At that point the general challenge with the grant was that provinces and municipalities found it difficult to integrate it through their infrastructure programmes. This problem persists because labour intensive infrastructure projects need to be planned, costed and scheduled properly. Not all projects yield the same labour intensity, so targets must be set by project type and category. Some projects will better lend themselves to labour intensive methods than others. This must be factored into the budget allocations and monitoring of the grant. *Current Commission analysis is that provinces continue to have challenges relating to labour intensive infrastructure, which affects the spending of the Incentive grant. In 2012/13 DPW appointed service providers to support provinces and municipalities in design of infrastructure projects and reporting methods.*

FFC Work Related to DPW [cont.]

Response to MTBPS 2011	In terms of the EPWP Incentive grant framework, provinces and municipalities must spend their budgets on EPWP projects and after that the grant will be paid by DPW quarterly as an incentive (after employment has been created). There has been general under-spending against budget since inception of the grant. Projected under-spending in financial year 2011 was 28.4%. In 2010, the actual under-spend was 38.4%. Despite poor spending performance, the annual growth of the budget was high. Expenditure reports on the grant performance at local government were inaccessible. DPW should explain how transfers are reconciled with actual expenditure. The grant should be streamlined to the Division of Revenue Act (DORA) requirements in terms of allocation and disbursements of funds. Punitive and incentive elements of the grant should be made transparent to all the stakeholders. *Current FFC analysis indicates that underspending persists. Between 2009/10 and 2012/13, provinces have been unable to spend more than 80% of their allocation*
Response to DoRB 2012	The Commission reiterated concerns raised in its Response to DoRB 2010 and Response to 2011 MTBPS regarding the challenges with the EPWP Incentive grant. The Commission maintained its view that the grant had not succeeded in achieving the intended goals within the specified time. There had also not been a formal assessment of the achievement of this grant both in terms of expenditure and service delivery outputs including how many direct and full times jobs had been created against the allocated funds. The Commission recommended that an independent review of the grant be undertaken, so that lessons can be drawn from past experience to avoid a replication of past mistakes. Government has since set up a team consisting of National Treasury, DPW, DCoG and SALGA that has been working on this. *This review is ongoing*

FFC Work Related to DPW [cont.]

Submission for the 2009/10 DoR	FFC found a need for reporting on EPWP outcomes to be more specific. In accordance with the requirements of the EPWP, job creation for target groups such as women, youth and people with disabilities should be included in the reporting requirements for all infrastructure conditional grants to provinces and municipalities GOVT. RESPONSE: The recommendation for reporting on targets is supported. Some of these indicators can possibly be reported on as part of the conditional grant frameworks prescribed in terms of the Division of Revenue Act
Submission for the 2007/08 DoR	The World Cup funding was crafted on the basis of requirements to meet FIFA standards of hosting cities, and that the major challenge faced by government was sustainability of built infrastructure. On the funding for the FIFA World Cup, FFC, examined the sustainability of built infrastructure, taking the escalation of construction costs into account. FFC's findings included that the escalation of construction costs be budgeted for, and that collaboration with the private sector should be encouraged. Also that a 2010 World Cup "Legacy Management Policy" should be introduced and prudent fiscal policy should be maintained leading to the World Cup GOVT. RESPONSE: Government is of the view that the costs relating to maintenance of constructed 2010 FIFA World Cup facilities should be provided by municipalities

FINANCIAL AND FISCAL COMMISSION

3. Departmental Analysis

CONTEXTUALISING THE DEPARTMENT OF PUBLIC WORKS

- Aim of Department of Public Works (DPW):
  - provide for and manage accommodation, housing, land and infrastructure needs of national departments
  - Lead and direct implementation of the national expanded public works programme (EPWP)
  - Promote growth, job creation and transformation in the construction and property industries
- Public works is a concurrent function between national and provincial spheres of government
- DPW contribution to National Development Plan (NDP) achieved through:
  - Implementation of job creation initiatives
  - Transition to low cost carbon economy
  - Development of an inclusive and integrated rural economy
  - Fight against corruption

FINANCIAL AND FISCAL COMMISSION

KEY CHALLENGES CONFRONTING DPW

- Due to consistent trend of poor audit outcomes and generally poor performance, DPW implemented a turnaround project in November 2012
- Areas that were identified for specific attention through the turnaround project include:
  - Lack of controls in supply chain management (SCM)
    - Identified as major risk area by Auditor-General – DPW capacity to process tenders eroded and has led to numerous instances of fraud/corruption. SCM has been major focus of the Special Investigating Unit (SIU). SCM is the key focus of turnaround project in DPW. A service provider appointed to assist with fundamental review of SCM
      - Irregular expenditure, R171 million in 2011/12; R874 million in 2012/13
  - Poor lease management
    - Numerous irregularities with respect to lease agreements – gives rise to legal risks. DPW reviewing all lease agreements

FINANCIAL AND FISCAL COMMISSION

Key Challenges Confronting DPW [cont.]

- Inadequate immovable asset register
  - Lack of compliant immovable asset register resulted in negative audit opinions. DPW now in process of rebuilding immovable asset register and building a model to revalue immovable assets
- Lack of built environment and property management skills
  - Lack of technical capacity to undertake direct construction/maintenance functions. Cooperating with DPSA and Higher Education and Training to address challenge

FINANCIAL AND FISCAL COMMISSION

Starting Point for Budget Analysis

- By vote
  - Compare different votes with each other
- By vote programme
  - Compare different programmes within a vote
- By sub-programme
- Compare different sub-programmes within a programme
- By province
- Compare different provinces with each other
- Use Outputs, Targets and Indicators to measure performance
- Use policy documents as a benchmark

FINANCIAL AND FISCAL COMMISSION

USEFUL TOOLS

- Percentage Share of Total Budget
- Growth in the Budget
  - Percentage Change
    - Reflecting increases/decreases in percentage form
  - Annual Growth Rate
    - How does the allocation change year on year
  - Real Percentage Change
    - Takes inflation into consideration
  - Variances and explanations
    - Investigating the reasons/drivers of change
  - Spending by economic classification
    - Distinguishes between various categories of current (goods and services, transfers and subsidies) and capital expenditure (acquisition of fixed capital assets, purchase of land)

FINANCIAL AND FISCAL COMMISSION

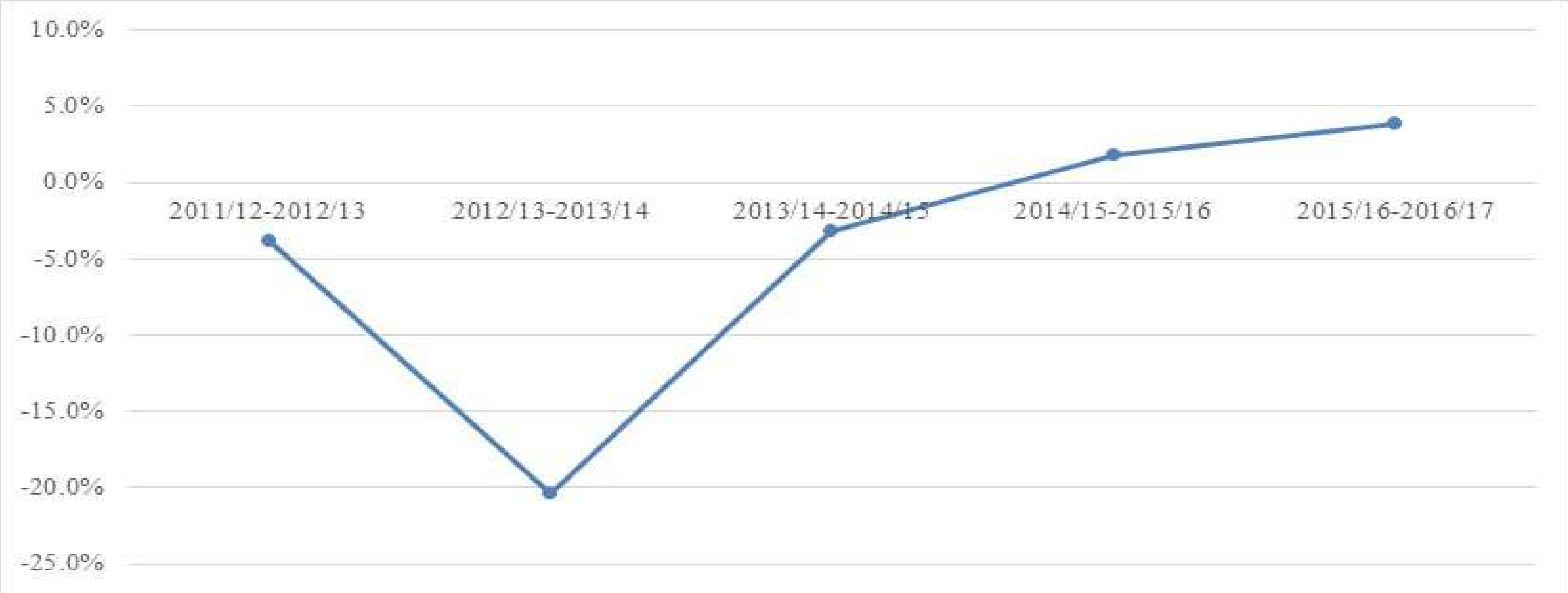
BUDGET AND PROGRAMMES OF PUBLIC WORKS

Nominal (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Real Annual Average Growth 2011/12-2013/14	Real Annual Average Growth 2014/15-2016/17
Administration	837.1	856.2	1 158.2	1 175.3	1 133.3	1 191.5	11.5%	-4.1%
Immovable Asset Management	5 001.7	4 563.5	2 831.8	2 861.4	3 308.1	3 450.0	-28.7%	4.6%
Expanded Public Works Programme	1 163.0	1 704.1	1 948.0	1 951.3	2 006.8	2 395.2	22.7%	5.5%
Property and Construction Industry Policy Regulation	34.4	26.9	36.7	41.5	43.4	45.9	-2.1%	0.1%
Auxiliary and Associated Services	25.2	53.3	50.7	91.8	53.7	56.6	34.4%	-25.2%
Total	**7 061.4**	**7 203.9**	**6 025.3**	**6 121.3**	**6 545.3**	**7 139.2**	**-12.5%**	**2.8%**

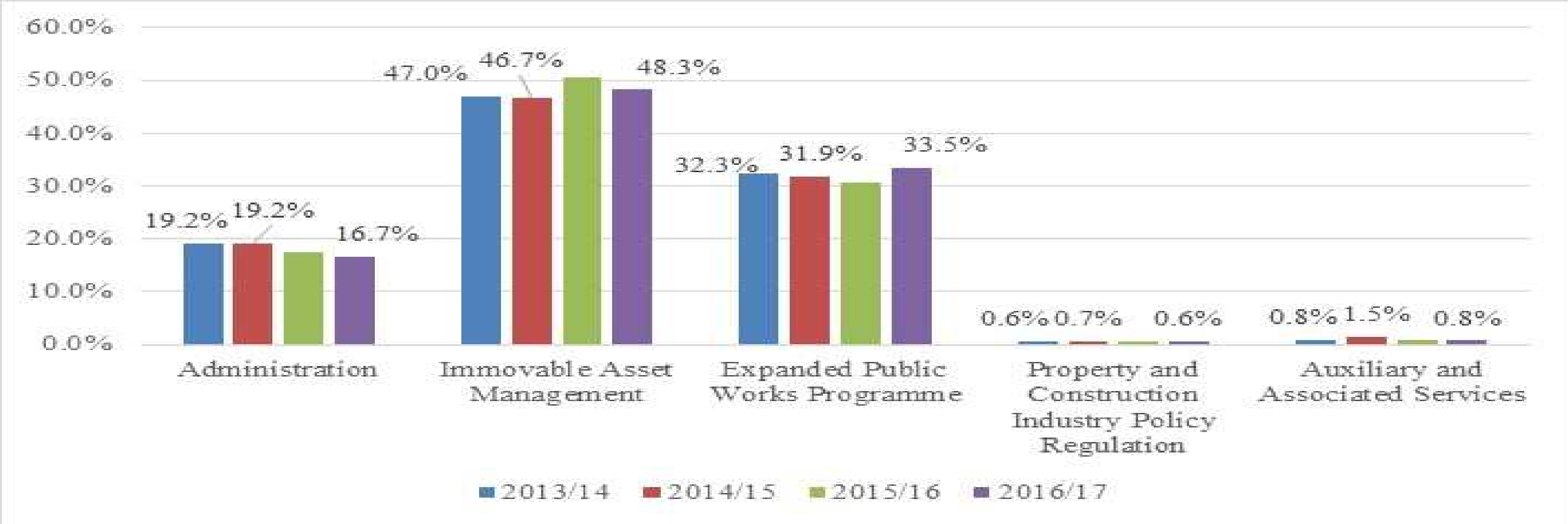
- Five programmes on Department of Public Works (DPW) budget
- Allocation reduced significantly in 2013/14, due to phasing out of Devolution of Property Rates Fund Grant to provinces and non-completion of various projects. As result of underspending, Cabinet approved reductions were effected
  – Following poor spending performance and audit outcomes, DPW implementing a Turnaround Project
- DPW budget projected to recover to just over R7.1 billion by end of 2014 medium term expenditure framework (MTEF) period
  – 2014 MTEF growth driven by additional allocation of R159 million in 2016/17 for Expanded Public Works Programme (EPWP)

Real Year on Year Growth of Public Works Budget

- Significant decline in year on year growth in 2013/14
  - Though still declining in real terms in 2014/15, there is some improvement
- Over rest of 2014 MTEF period, positive growth projected
  - Focus will be on rehabilitating 34 state owned buildings, and ensuring that at least 100 buildings are made accessible to people with disabilities in each year of MTEF



BUDGET COMPOSITION ACROSS PROGRAMMES



- Immovable Asset Management Programme consumes largest share of DPW budget – by end of 2014 MTEF period this programme is projected to consume just under half of DPW budget
- Share allocated to Administration Programme consumers about one fifth of departmental budget – funding for Turnaround Project fall under Administration
  - Turnaround Project will support activities relating to the Special Investigating Unit, a technical support unit, a clean audit project, irregular expenditure management, internal audit support

FINANCIAL AND FISCAL COMMISSION

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Goods and Services		-10.8%	34.5%	-10.1%	-12.0%	0.5%
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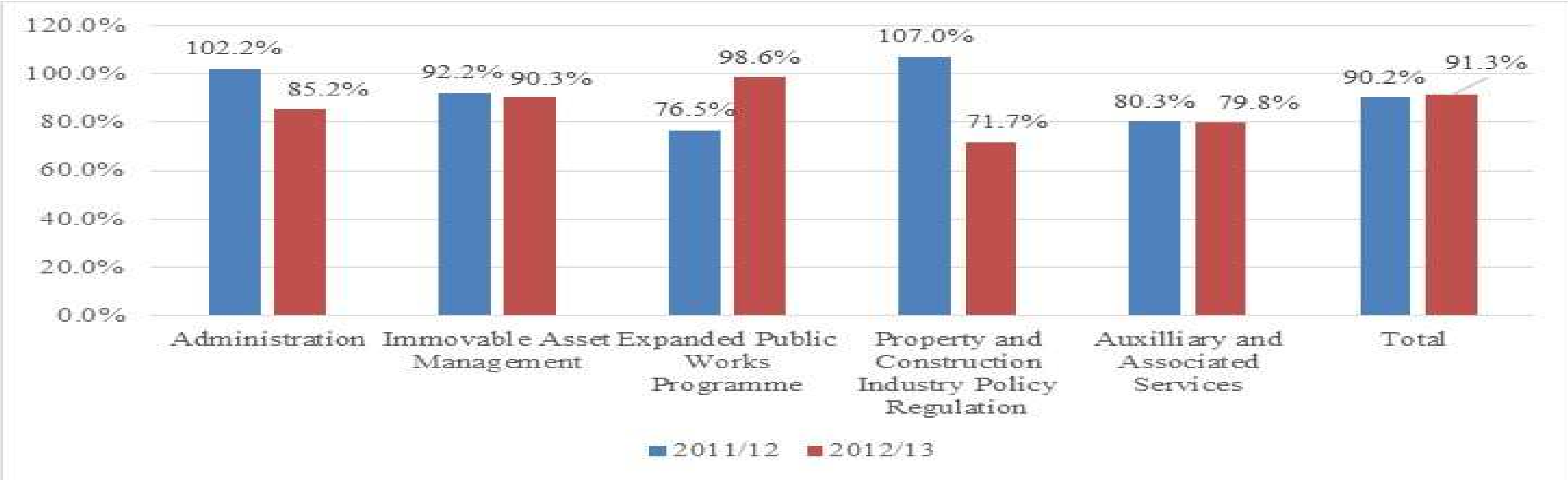
Payments for Capital Assets		-35.1%	-20.9%	-9.7%	49.4%	-0.003%

- Transfers and subsidies is the largest item
  - the decrease in 2013/14 due to phasing out of the Devolution of Property Rates Fund Grant to Provinces, hence reduction in transfers to provinces
- The increase in spending on Goods and Services in 2013/14 driven by spending on consultants – due to shortage of technical skills in property/project management and specialists as required for the DPW's turnaround project
- Payments for capital assets very erratic
- Relative to strong annual average growth between 2011/12 and 2013/14, growth in Goods and Service set to decline over the 2014 MTEF period

FINANCIAL AND FISCAL COMMISSION

SPENDING PERFORMANCE (FISCAL DISCIPLINE)



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- In 2011 underspending on EPWP and Auxilliary and Associated Services Programme
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- Due to persistent underspending on capital, baseline reductions of R1.3 billion effected over 2014 MTEF period

FINANCIAL AND FISCAL COMMISSION

IN-YEAR EXPENDITURE

- 2012/13 in-year spending erratic
- Appears to be improving in 2013/14 – variances in monthly spending not as large as during 2012/13
- Concern with poor in-year spending is that it hints at unstable cash flow and disbursements

FINANCIAL AND FISCAL COMMISSION

Selected Sub-Programme Analysis: Immovable Asset Management Programme

Real Year on Year Growth	2011/12-2012/13	2012/13-2013/14	2013/14-2014/15	2014/15-2015/16	2015/16-2016/17
Infrastructure (Public Works)	-33.5%	-9.7%	-28.1%	57.5%	-0.1%
Strategic Asset Investment Analysis	-67.7%	149.1%	10.4%	0.2%	1.0%
Operation Management	1.6%	-0.3%	0.5%	-0.4%	2.7%
Prestige Management	-51.5%	44.0%	-27.0%	-1.0%	-28.5%
Special Projects	4.0%	47.6%	-24.7%	1.8%	0.4%
Construction Industry Development Board	-3.4%	2.0%	1.6%	0.4%	0.2%
Council for the Built Environment	-7.7%	28.8%	4.3%	1.4%	0.2%
Parliamentary Village Management Board	-0.6%	0.1%	1.1%	-0.4%	0.5%
Augmentation of the Property Management Trading Entity	-3.2%	0.5%	-6.0%	-0.1%	0.6%
Independent Development Trust	-68.1%	-6.3%	-4.7%	-4.8%	-100.0%
Total	**-14.0%**	**-37.8%**	**-8.6%**	**10.1%**	**-0.7%**

- Total programme growth declines over most of the period reviewed
  - Decline in 2012 and 2013 is due to phasing out of devolution of property rates fund grant to provinces, non-completion of projects and Cabinet approved reductions due to underspending
- Generally sub-programme trends are erratic, brings into question soundness of planning in DPW
- Lack of capacity a challenge in this programme – 10% vacancy rate

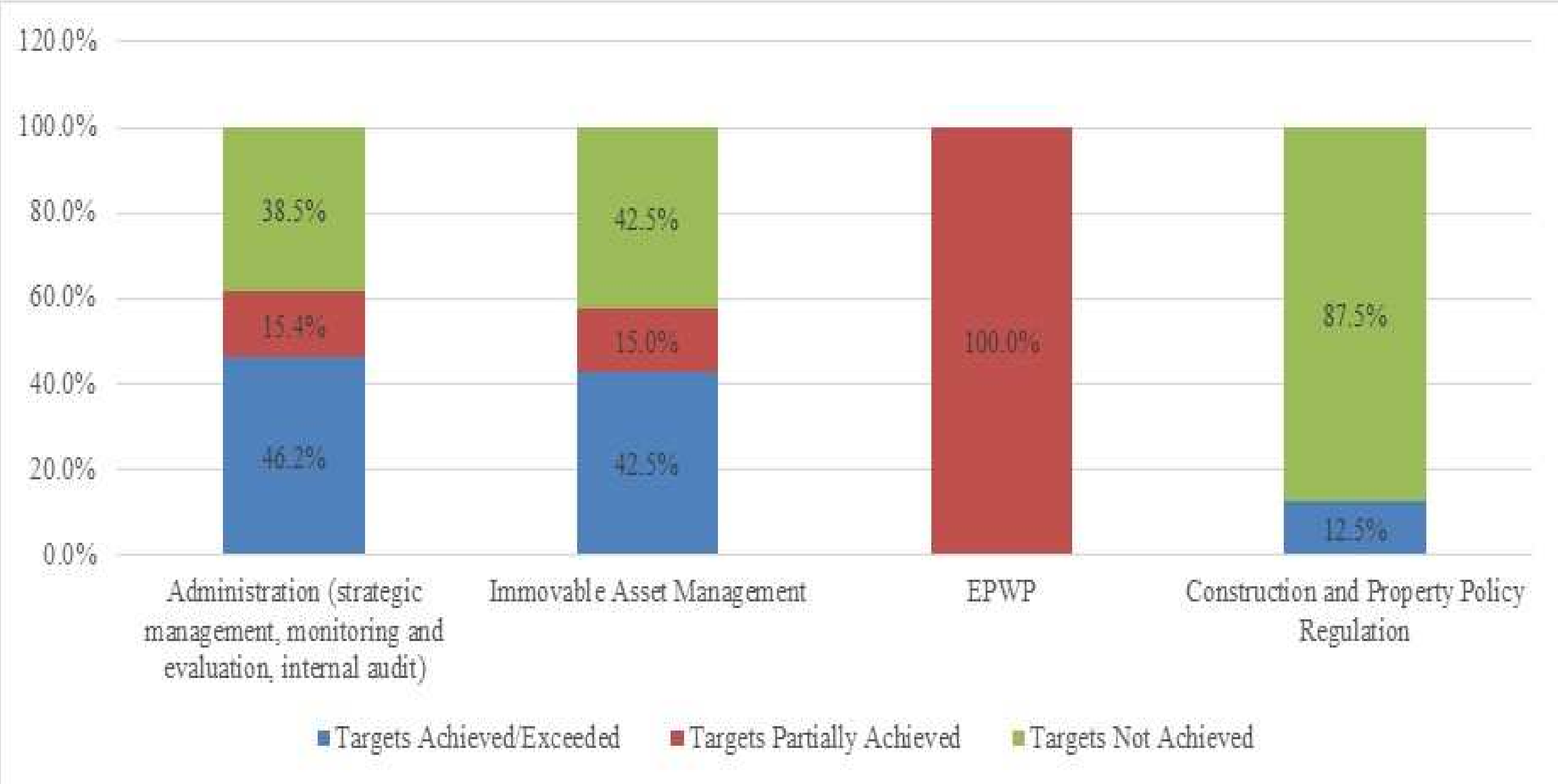
SELECTED SUB-PROGRAMME ANALYSIS: EXPANDED PUBLIC WORKS PROGRAMME

R million	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Expanded Public Works Programme	209.7	236.8	273.8	261.5	267.7	290.6
Performance Based Incentive Allocations	953.3	1 467.3	1 674.2	1 689.8	1 739.2	2 104.6
Total	**1 163.0**	**1 704.1**	**1 948.0**	**1 951.3**	**2 006.8**	**2 395.2**
Real Year on Year Growth		**2011/12-2012/13**	**2012/13-2013/14**	**2013/14-2014/15**	**2014/15-2015/16**	**2015/16-2016/17**
Expanded Public Works Programme		12.9%	15.6%	-4.5%	2.4%	8.6%
Performance Based Incentive Allocations		53.9%	14.1%	0.9%	2.9%	21.0%
Total		**46.5%**	**14.3%**	**0.2%**	**2.8%**	**19.4%**

- EPWP promotes use of government expenditure to create additional employment opportunities through the use of labour-intensive delivery methods
  - Increases in 2012/2013 due to appointment of service providers to support provinces and municipalities in design of infrastructure projects and reporting methods
- Performance Based Incentive Allocations is the largest sub-programme
  - Focus: disburses funds to provinces/municipalities and NGOs to ensure creation of work opportunities in infrastructure, environment, social sectors
  - Increases between 2012 and 2013 are due to additional funding allocated. However to give effect to Cabinet-approved reductions, growth in this sub programme slows in 2014 and 2015
- Overall between 2009/10 and 2012/13, just over 3 million jobs created (68% of target of 4.5 million jobs)

DEPARTMENTAL PERFORMANCE

- Department not adequately meeting targets set.
  - Number of targets partially met and totally unmet exceptionally high



Departmental Performance [cont.]

Programme	Explanation for Unmet Targets
Administration	Delays due to lack of capacity/high vacancy rate, unrealistic targets given financial resources, lengthy procurement processes that delay appointment of service providers
Immovable Asset Management	Appropriate supply chain management process not followed, unrealistic target setting, inadequate data collection to verify extent to which target was met
EPWP	Delays in project implementation, lack of technical capacity to implement projects, poor performance on part of municipalities/provinces to carry out projects
Construction and Property Policy Regulation	• Legislative framework for Built Environment Professionals: delays in internal consultation • Establish Agrement SA as public entity: delay in the approval of business case • Provide immovable asset lifecycle management guidelines to national and provincial custodians of immovable assets: delay in internal consultation prevented finalisation

Aspects Highlighted by the Auditor-General

- DPW audit outcomes:
  - 2009/10: qualified with findings
  - 2010/11:disclaimer
  - 2011/12: disclaimer
  - 2012/13: qualified with findings
- Key issues highlighted by Auditor-General that need to be addressed:
  - Inadequate internal controls in areas of leadership, financial management, performance management and governance
  - Areas that were identified for specific attention through the turnaround project include: lack of controls in supply chain management, poor lease management, inadequate immovable asset register, lack of built environment and property management skills

FINANCIAL AND FISCAL COMMISSION

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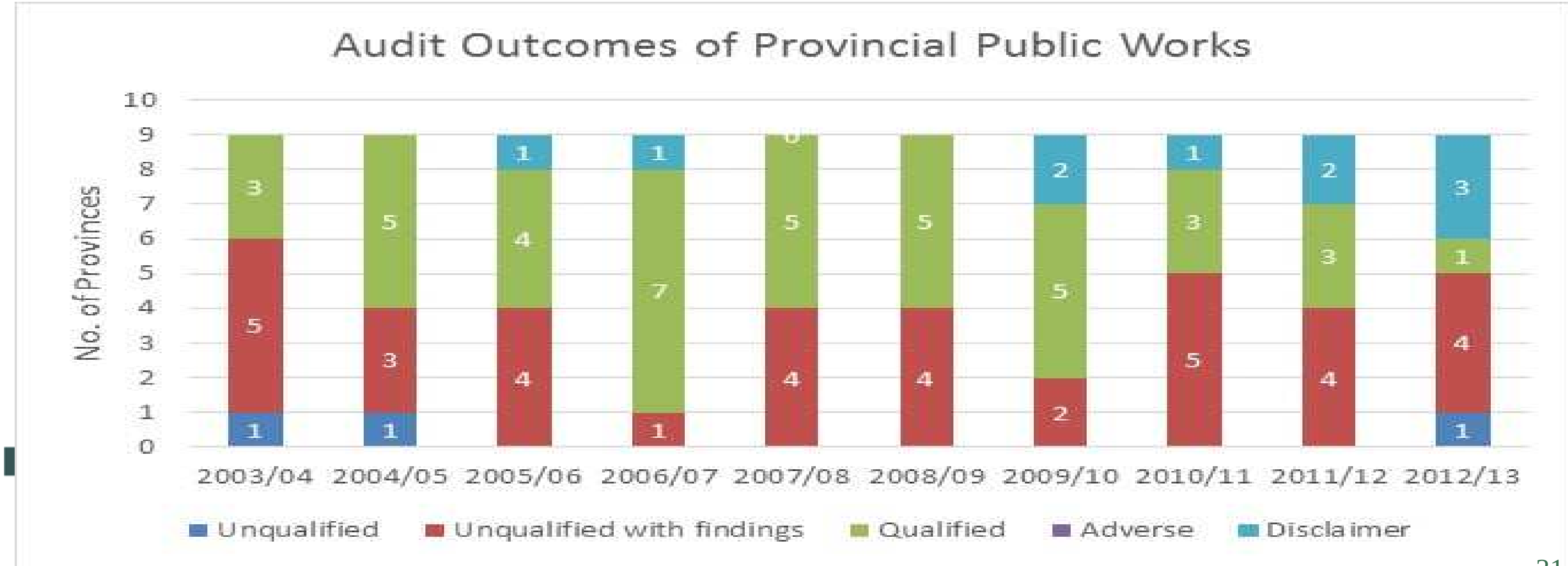
PUBLIC WORKS IN THE PROVINCES

PROVINCIAL AUDIT OUTCOMES

- Audit outcomes for provincial departments of public works have not considerably improved in since 2003/04
  - Four out of the nine provinces received a qualified opinion or disclaimer in 2012/13
  - Over a period of 10 years (i.e. 2003/4 – 2012/13), only 3 provincial departments of public works received an unqualified audit opinion



Provincial Audit Outcomes [cont.]

- The Auditor-General raised a number of matters that prevented provincial departments from achieving clean audits such as:
  - Instability in leadership and lack of human resources
  - Internal controls are ineffective
  - Action plans to implement improvement in audit outcomes are not timeously implemented
  - Inaccurate and incomplete fixed asset registers
  - Incomplete disclosures on unauthorized, irregular and fruitless, irregular and wasteful expenditure
  - Commitments by the national sector department to intervene and/or provide support were not honoured
- The Commission's view is that DPW should play a more active role, through the various intergovernmental forums, in providing the necessary support to provincial departments of public works

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SPENDING PERFORMANCE BY PROVINCES ON EPWP CONDITIONAL GRANTS

- The National Department of Public Works is the transferring agent for two EPWP conditional grants to provinces
- As the transferring agent, the responsibilities of the DPW are prescribed in the conditional grant framework contained in the Division of Revenue Act. These include (among others):
  – Determine eligibility of grant, monitor and provide support to provinces, audit provincial performance and report to national treasury on provincial progress

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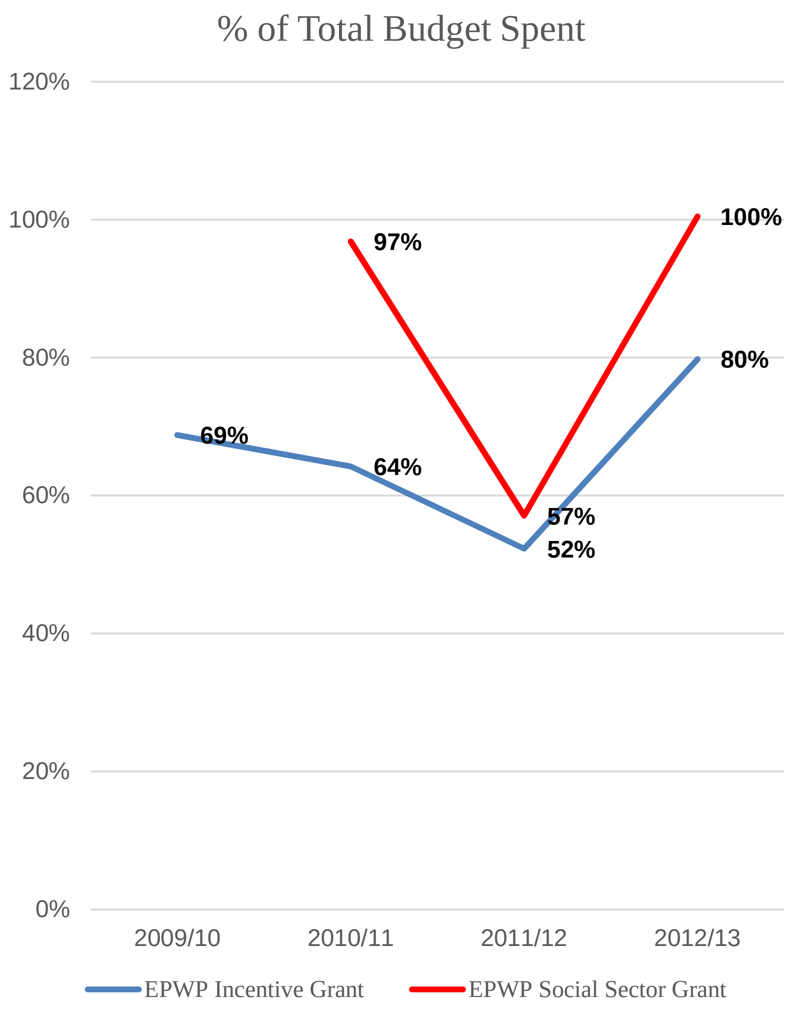
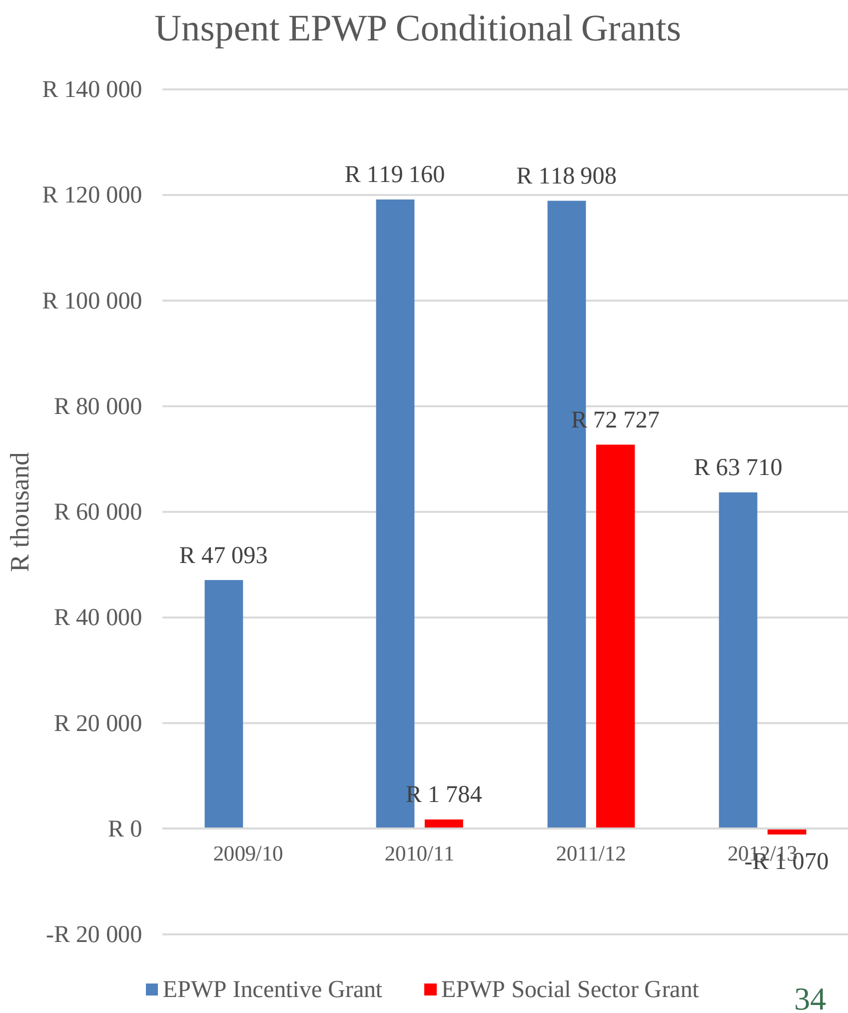
EPWP Conditional Grants to Provinces





Summary of Performance on EPWP Grants to Provinces

- Over a four year period (2009/10 – 2012/13), provinces have been unable to spend more than 80% of its allocation to the EPWP Incentive Grant in any given year
- Except in 2011/12 where spending on both EPWP grants were below 60% of total, the EPWP Social Sector grant in general, performed better than the Incentive grant
  - Provinces have challenges relating to infrastructure, which affects the spending performance on the Incentive grant
- In many instances, provinces fail to comply with grant conditions stipulated in DORA, resulting in funds being withheld, thereby leaving funds unspent at the end of the year

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CONCLUDING REMARKS

- Key issues emanating from analysis of DPW
  - Underspending of budget
  - Not meeting set targets
- For the sector to turnaround, the DPW should play a leadership role by providing the necessary support to the provinces and establishing minimum norms and standards to facilitate improvement in service delivery in the provinces
- Department to put in place proper systems to guide expenditure management, setting of appropriate key performance indicators and a plan to attract/retain skilled staff
  - Outcome of the Turnaround Project is key in facilitating progress – some improvements noted but far to go in putting DPW on stable footing

FINANCIAL AND FISCAL COMMISSION

FFC's Website: www.ffc.co.za

FINANCIAL AND FISCAL COMMISSION

PORTFOLIO COMMITTEE ON PUBLIC WORKS

Financial and Fiscal Commission

25 September 2014

For an Equitable Sharing of National Revenue

PRESENTATION OUTLINE

1. Role and Function of the Financial and Fiscal Commission
2. Recommendations of the Commission that relate to Public Works
3. Departmental Analysis

FINANCIAL AND FISCAL COMMISSION

FINANCIAL
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1. Role and Function of the Financial and Fiscal Commission

Role and Function of the FFC

- The Financial and Fiscal Commission (FFC)
  - Is an independent, permanent, statutory institution established in terms of Section 220 of Constitution
  - Must function in terms of the FFC Act
- Mandate of Commission
  - To make recommendations, envisaged in Chapter 13 of the Constitution or in national legislation to Parliament, Provincial Legislatures, and any other organ of state determined by national legislation
- The Commission's focus is primarily on the equitable division of nationally collected revenue among the three spheres of government and any other financial and fiscal matters
  - Legislative provisions or executive decisions that affect either provincial or local government from a financial and/or fiscal perspective
  - Includes regulations associated with legislation that may amend or extend such legislation
  - Commission must be consulted in terms of the FFC Act
  - Current research strategy focuses on developmental impacts of IGFR

FINANCIAL AND FISCAL COMMISSION

HOW FFC SUPPORTS POLICY

- Identify weakness within the IGFR system
- Propose evidence-based policy proposals
- Interact and participate with/in forums and institutions responsible for IGFR policy – TCF, Budget Council, Budget Forum
- Information dissemination – invitations from nine provincial legislatures and SALGA
- Interact with various committees within parliament

FINANCIAL AND FISCAL COMMISSION

PROCESSING OF RECOMMENDATIONS

- Recommendations of the Commission
  - Recommendations are made to Parliament so that the legislature can examine the financial and fiscal decisions of government against them and understand why they have been accepted or rejected
  - Section 4(4)(c) of the Money Bills Amendment Procedures and Related Matters Act (MBAPMA) requires Parliament to consider the recommendations of the Commission when deliberating on Money Bills
- Government is obligated through an Act of Parliament to explain how it has taken the FFC recommendations in arriving at the division of revenue for any particular year
  - The response is tabled in Annexure W1 of the DoR Bill and of the Budget Review

FINANCIAL AND FISCAL COMMISSION

How FFC can Support Parliament

DIRECT TRAINING AND INTERVENTION

- Training of members of parliamentary committees and councillors on request (e.g. in Bushbuckridge)
- Advice to municipalities (e.g. Tshwane merger)
- Inputs in various fora (e.g. SALGA)

NON TRAINING SUPPORT AND INTERVENTION

- Member of review committees (LES, Infrastructure Grants, Metro's Own Revenue)
- Public hearings (local government fiscal framework, housing and welfare)
- Inputs in benchmarking exercises
- Recommendations through Annual Submission on DoR, MTBPS, FF and Appropriations

VALUE ADD OF THE FFC

- FFC can provide advice, analysis and training to assist the work of the Committee
  - Specialised IGFR training to committee members and/or parliamentary researchers
  - Provision of recommendations that are founded on evidence based research
  - Technical support with respect to parliamentary fiscal oversight activities

FINANCIAL AND FISCAL COMMISSION

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2. Recommendations that Relate to Public Works

FFC Work Related to DPW [cont.]

Response to Division of Revenue Bill (DoRB) 2010	The Commission welcomed introduction of the *EPWP Incentive Grant for the Social Sector*. The Commission noted that there was a need to standardise the employment framework for the sector including conditions, wages and progression across provinces and municipalities. The Commission also raised concern regarding difficulties that were being experienced with the transfer of the EPWP Incentive Grant to Local and Provincial Governments. In the 2009/10 certain provinces (e.g. Western Cape) raised concern that they received transfers outside the ambit of the DoR and couldn't spend the money because it was not properly appropriated through various legislatures. At that point the general challenge with the grant was that provinces and municipalities found it difficult to integrate it through their infrastructure programmes. This problem persists because labour intensive infrastructure projects need to be planned, costed and scheduled properly. Not all projects yield the same labour intensity, so targets must be set by project type and category. Some projects will better lend themselves to labour intensive methods than others. This must be factored into the budget allocations and monitoring of the grant. *Current Commission analysis is that provinces continue to have challenges relating to labour intensive infrastructure, which affects the spending of the Incentive grant. In 2012/13 DPW appointed service providers to support provinces and municipalities in design of infrastructure projects and reporting methods.*

FFC Work Related to DPW [cont.]

Response to MTBPS 2011	In terms of the EPWP Incentive grant framework, provinces and municipalities must spend their budgets on EPWP projects and after that the grant will be paid by DPW quarterly as an incentive (after employment has been created). There has been general under-spending against budget since inception of the grant. Projected under-spending in financial year 2011 was 28.4%. In 2010, the actual under-spend was 38.4%. Despite poor spending performance, the annual growth of the budget was high. Expenditure reports on the grant performance at local government were inaccessible. DPW should explain how transfers are reconciled with actual expenditure. The grant should be streamlined to the Division of Revenue Act (DORA) requirements in terms of allocation and disbursements of funds. Punitive and incentive elements of the grant should be made transparent to all the stakeholders. *Current FFC analysis indicates that underspending persists. Between 2009/10 and 2012/13, provinces have been unable to spend more than 80% of their allocation*
Response to DoRB 2012	The Commission reiterated concerns raised in its Response to DoRB 2010 and Response to 2011 MTBPS regarding the challenges with the EPWP Incentive grant. The Commission maintained its view that the grant had not succeeded in achieving the intended goals within the specified time. There had also not been a formal assessment of the achievement of this grant both in terms of expenditure and service delivery outputs including how many direct and full times jobs had been created against the allocated funds. The Commission recommended that an independent review of the grant be undertaken, so that lessons can be drawn from past experience to avoid a replication of past mistakes. Government has since set up a team consisting of National Treasury, DPW, DCoG and SALGA that has been working on this. *This review is ongoing*

FFC Work Related to DPW [cont.]

Submission for the 2009/10 DoR	FFC found a need for reporting on EPWP outcomes to be more specific. In accordance with the requirements of the EPWP, job creation for target groups such as women, youth and people with disabilities should be included in the reporting requirements for all infrastructure conditional grants to provinces and municipalities GOVT. RESPONSE: The recommendation for reporting on targets is supported. Some of these indicators can possibly be reported on as part of the conditional grant frameworks prescribed in terms of the Division of Revenue Act
Submission for the 2007/08 DoR	The World Cup funding was crafted on the basis of requirements to meet FIFA standards of hosting cities, and that the major challenge faced by government was sustainability of built infrastructure. On the funding for the FIFA World Cup, FFC, examined the sustainability of built infrastructure, taking the escalation of construction costs into account. FFC's findings included that the escalation of construction costs be budgeted for, and that collaboration with the private sector should be encouraged. Also that a 2010 World Cup "Legacy Management Policy" should be introduced and prudent fiscal policy should be maintained leading to the World Cup GOVT. RESPONSE: Government is of the view that the costs relating to maintenance of constructed 2010 FIFA World Cup facilities should be provided by municipalities

FINANCIAL AND FISCAL COMMISSION

3. DEPARTMENTAL ANALYSIS

CONTEXTUALISING THE DEPARTMENT OF PUBLIC WORKS

- Aim of Department of Public Works (DPW):
  - provide for and manage accommodation, housing, land and infrastructure needs of national departments
  - Lead and direct implementation of the national expanded public works programme (EPWP)
  - Promote growth, job creation and transformation in the construction and property industries
- Public works is a concurrent function between national and provincial spheres of government
- DPW contribution to National Development Plan (NDP) achieved through:
  - Implementation of job creation initiatives
  - Transition to low cost carbon economy
  - Development of an inclusive and integrated rural economy
  - Fight against corruption

FINANCIAL AND FISCAL COMMISSION

Key Challenges Confronting DPW

- Due to consistent trend of poor audit outcomes and generally poor performance, DPW implemented a turnaround project in November 2012
- Areas that were identified for specific attention through the turnaround project include:
  - Lack of controls in supply chain management (SCM)
    - Identified as major risk area by Auditor-General – DPW capacity to process tenders eroded and has led to numerous instances of fraud/corruption. SCM has been major focus of the Special Investigating Unit (SIU). SCM is the key focus of turnaround project in DPW. A service provider appointed to assist with fundamental review of SCM
      - Irregular expenditure, R171 million in 2011/12; R874 million in 2012/13
  - Poor lease management
    - Numerous irregularities with respect to lease agreements – gives rise to legal risks. DPW reviewing all lease agreements

FINANCIAL AND FISCAL COMMISSION

KEY CHALLENGES CONFRONTING DPW [CONT.]

- Inadequate immovable asset register
  - Lack of compliant immovable asset register resulted in negative audit opinions. DPW now in process of rebuilding immovable asset register and building a model to revalue immovable assets
- Lack of built environment and property management skills
  - Lack of technical capacity to undertake direct construction/maintenance functions. Cooperating with DPSA and Higher Education and Training to address challenge

FINANCIAL AND FISCAL COMMISSION

STARTING POINT FOR BUDGET ANALYSIS

- By vote
  - Compare different votes with each other
- By vote programme
  - Compare different programmes within a vote
- By sub-programme
- Compare different sub-programmes within a programme
- By province
- Compare different provinces with each other
- Use Outputs, Targets and Indicators to measure performance
- Use policy documents as a benchmark

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USEFUL TOOLS

- Percentage Share of Total Budget
- Growth in the Budget
  - Percentage Change
    - Reflecting increases/decreases in percentage form
  - Annual Growth Rate
    - How does the allocation change year on year
  - Real Percentage Change
    - Takes inflation into consideration
  - Variances and explanations
    - Investigating the reasons/drivers of change
  - Spending by economic classification
    - Distinguishes between various categories of current (goods and services, transfers and subsidies) and capital expenditure (acquisition of fixed capital assets, purchase of land)

FINANCIAL AND FISCAL COMMISSION

BUDGET AND PROGRAMMES OF PUBLIC WORKS

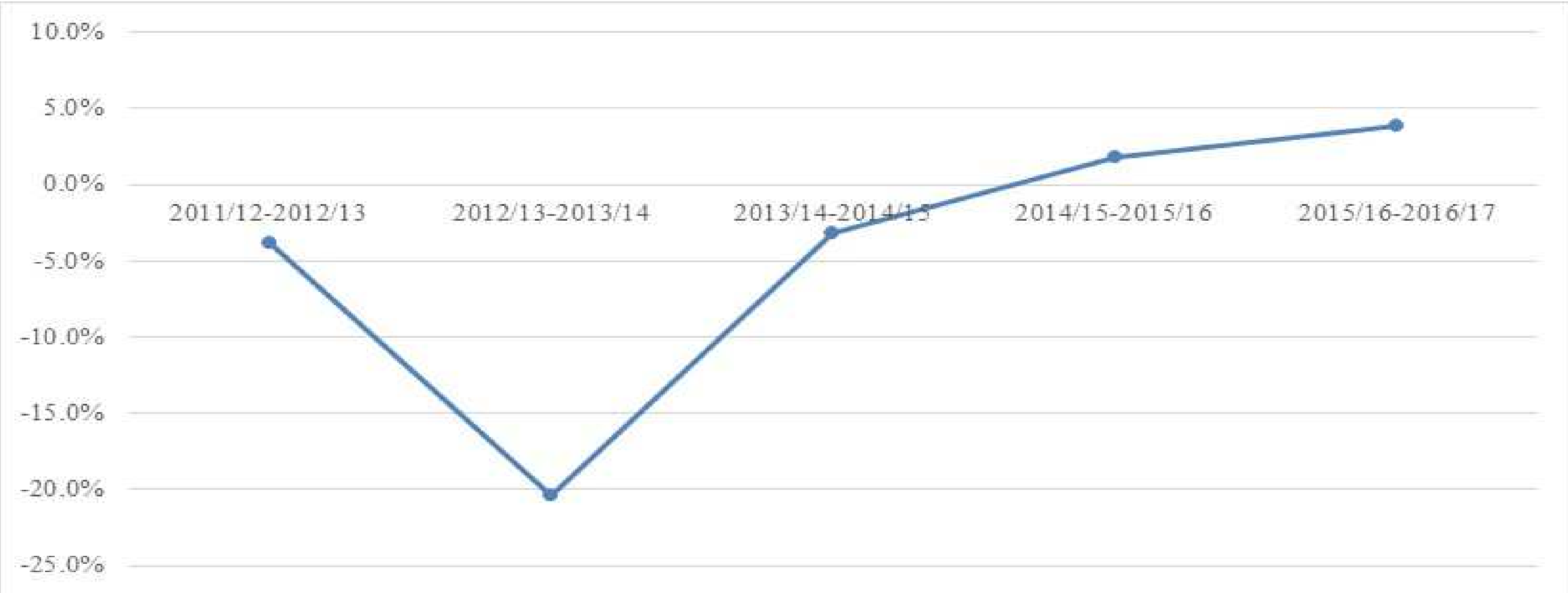
Nominal (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Real Annual Average Growth 2011/12-2013/14	Real Annual Average Growth 2014/15-2016/17
Administration	837.1	856.2	1 158.2	1 175.3	1 133.3	1 191.5	11.5%	-4.1%
Immovable Asset Management	5 001.7	4 563.5	2 831.8	2 861.4	3 308.1	3 450.0	-28.7%	4.6%
Expanded Public Works Programme	1 163.0	1 704.1	1 948.0	1 951.3	2 006.8	2 395.2	22.7%	5.5%
Property and Construction Industry Policy Regulation	34.4	26.9	36.7	41.5	43.4	45.9	-2.1%	0.1%
Auxiliary and Associated Services	25.2	53.3	50.7	91.8	53.7	56.6	34.4%	-25.2%
Total	**7 061.4**	**7 203.9**	**6 025.3**	**6 121.3**	**6 545.3**	**7 139.2**	**-12.5%**	**2.8%**

- Five programmes on Department of Public Works (DPW) budget
- Allocation reduced significantly in 2013/14, due to phasing out of Devolution of Property Rates Fund Grant to provinces and non-completion of various projects. As result of underspending, Cabinet approved reductions were effected
  - Following poor spending performance and audit outcomes, DPW implementing a Turnaround Project
- DPW budget projected to recover to just over R7.1 billion by end of 2014 medium term expenditure framework (MTEF) period
  - 2014 MTEF growth driven by additional allocation of R159 million in 2016/17 for Expanded Public Works Programme (EPWP)

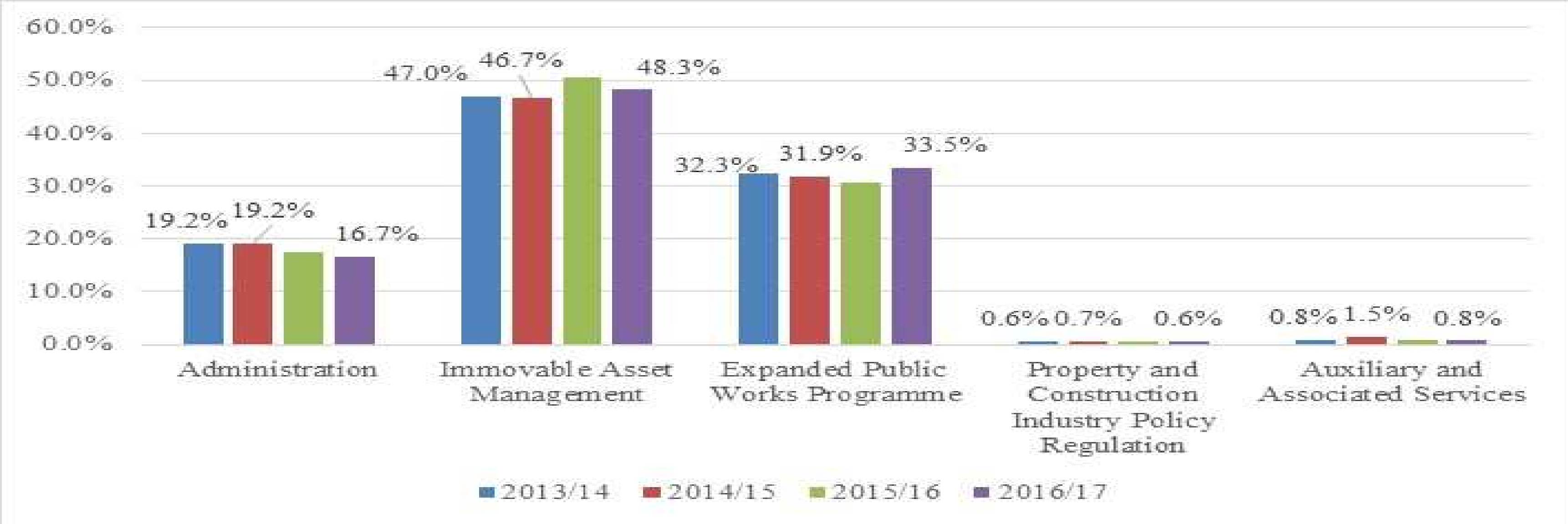
FINANCIAL AND FISCAL COMMISSION

REAL YEAR ON YEAR GROWTH OF PUBLIC WORKS BUDGET

- Significant decline in year on year growth in 2013/14
  - Though still declining in real terms in 2014/15, there is some improvement
- Over rest of 2014 MTEF period, positive growth projected
  - Focus will be on rehabilitating 34 state owned buildings, and ensuring that at least 100 buildings are made accessible to people with disabilities in each year of MTEF



Budget Composition across Programmes



- Immovable Asset Management Programme consumes largest share of DPW budget – by end of 2014 MTEF period this programme is projected to consume just under half of DPW budget
- Share allocated to Administration Programme consumers about one fifth of departmental budget – funding for Turnaround Project fall under Administration
  - Turnaround Project will support activities relating to the Special Investigating Unit, a technical support unit, a clean audit project, irregular expenditure management, internal audit support

FINANCIAL AND FISCAL COMMISSION

ECONOMIC CLASSIFICATION

Item (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Compensation of Employees	1 269.6	1 374.6	1 473.5	1 659.9	1 753.5	1 870.5
Goods and Services	1 032.9	977.0	1 379.6	1 302.1	1 202.9	1 269.0
Transfers and Subsidies	3 656.2	4 092.4	2 543.9	2 563.4	2 654.2	3 017.9
Payments for Capital Assets	1 099.1	756.8	628.4	595.9	934.8	981.7
Real Year on Year Growth (%)						
Compensation of Employees		2.1%	2.1%	7.3%	0.6%	1.6%
Goods and Services		-10.8%	34.5%	-10.1%	-12.0%	0.5%
Transfers and Subsidies		5.6%	-40.8%	-4.0%	-1.4%	8.3%
Payments for Capital Assets		-35.1%	-20.9%	-9.7%	49.4%	-0.003%

- Transfers and subsidies is the largest item
  - the decrease in 2013/14 due to phasing out of the Devolution of Property Rates Fund Grant to Provinces, hence reduction in transfers to provinces
- The increase in spending on Goods and Services in 2013/14 driven by spending on consultants – due to shortage of technical skills in property/project management and specialists as required for the DPW's turnaround project
- Payments for capital assets very erratic
- Relative to strong annual average growth between 2011/12 and 2013/14, growth in Goods and Service set to decline over the 2014 MTEF period

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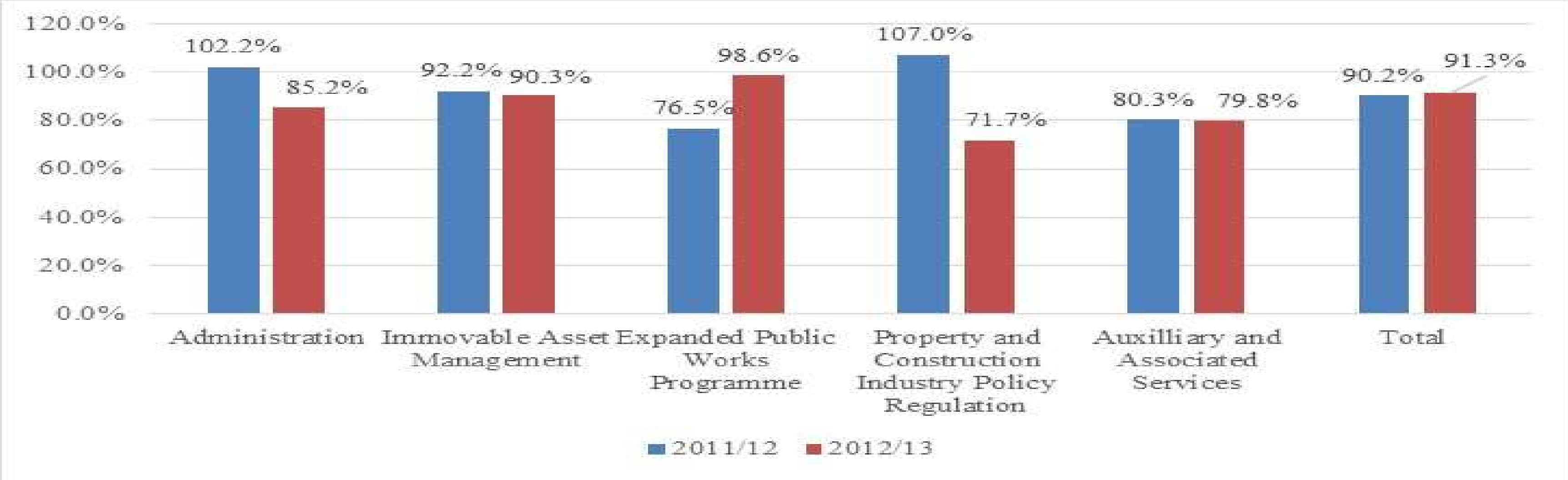
SPENDING PERFORMANCE (FISCAL DISCIPLINE)

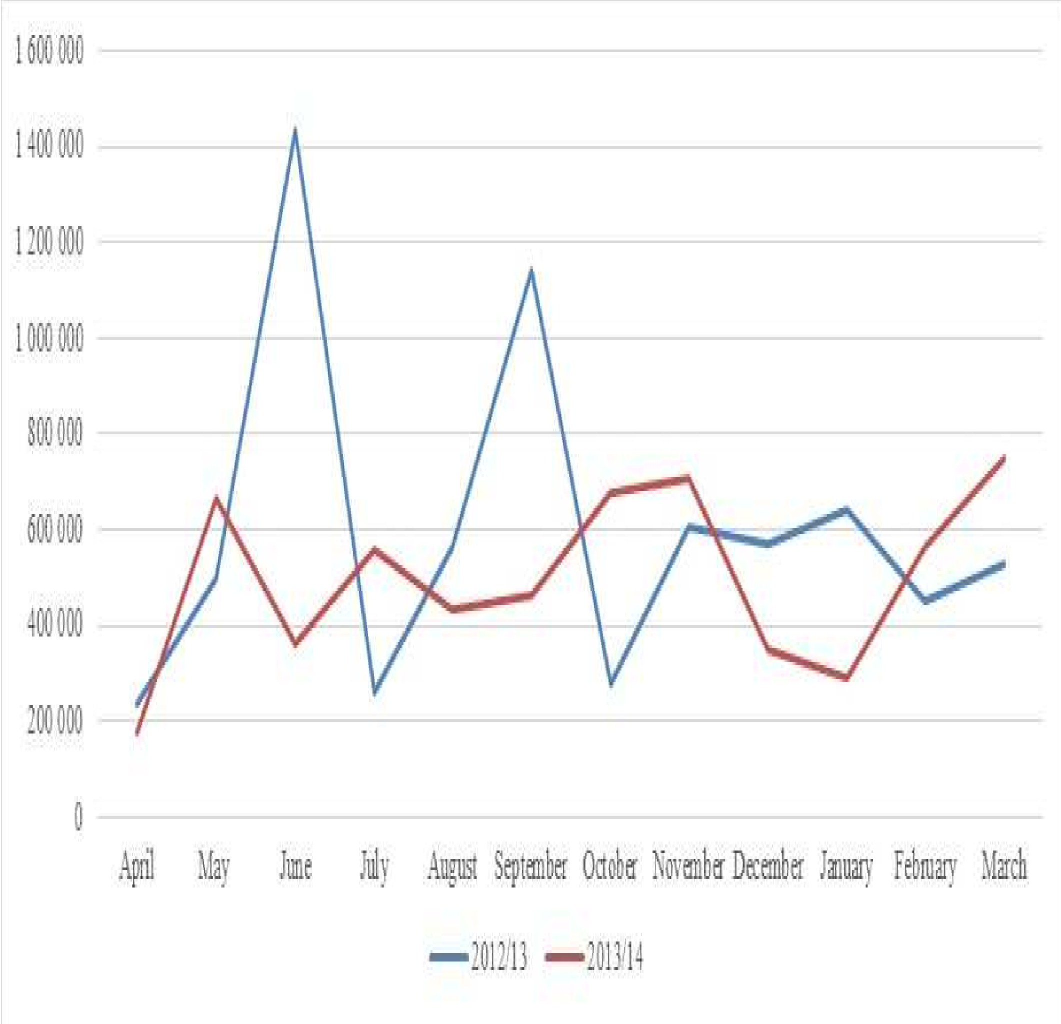


- DPW underspent in 2011/12 and 2012/13
- In 2011 underspending on EPWP and Auxilliary and Associated Services Programme
- In 2012, underspending is as a result of poor spending in Property and Construction Industry Policy Regulation Programme and again Auxilliary and Associated Services Programme
- Due to persistent underspending on capital, baseline reductions of R1.3 billion effected over 2014 MTEF period

FINANCIAL AND FISCAL COMMISSION

IN-YEAR EXPENDITURE

- 2012/13 in-year spending erratic
- Appears to be improving in 2013/14 – variances in monthly spending not as large as during 2012/13
- Concern with poor in-year spending is that it hints at unstable cash flow and disbursements



FINANCIAL AND FISCAL COMMISSION

SELECTED SUB-PROGRAMME ANALYSIS: IMMOVABLE ASSET MANAGEMENT PROGRAMME

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Augmentation of the Property Management Trading Entity	-3.2%	0.5%	-6.0%	-0.1%	0.6%
Independent Development Trust	-68.1%	-6.3%	-4.7%	-4.8%	-100.0%
Total	**-14.0%**	**-37.8%**	**-8.6%**	**10.1%**	**-0.7%**

- Total programme growth declines over most of the period reviewed
  - Decline in 2012 and 2013 is due to phasing out of devolution of property rates fund grant to provinces, non-completion of projects and Cabinet approved reductions due to underspending
- Generally sub-programme trends are erratic, brings into question soundness of planning in DPW
- Lack of capacity a challenge in this programme – 10% vacancy rate

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- Performance Based Incentive Allocations is the largest sub-programme
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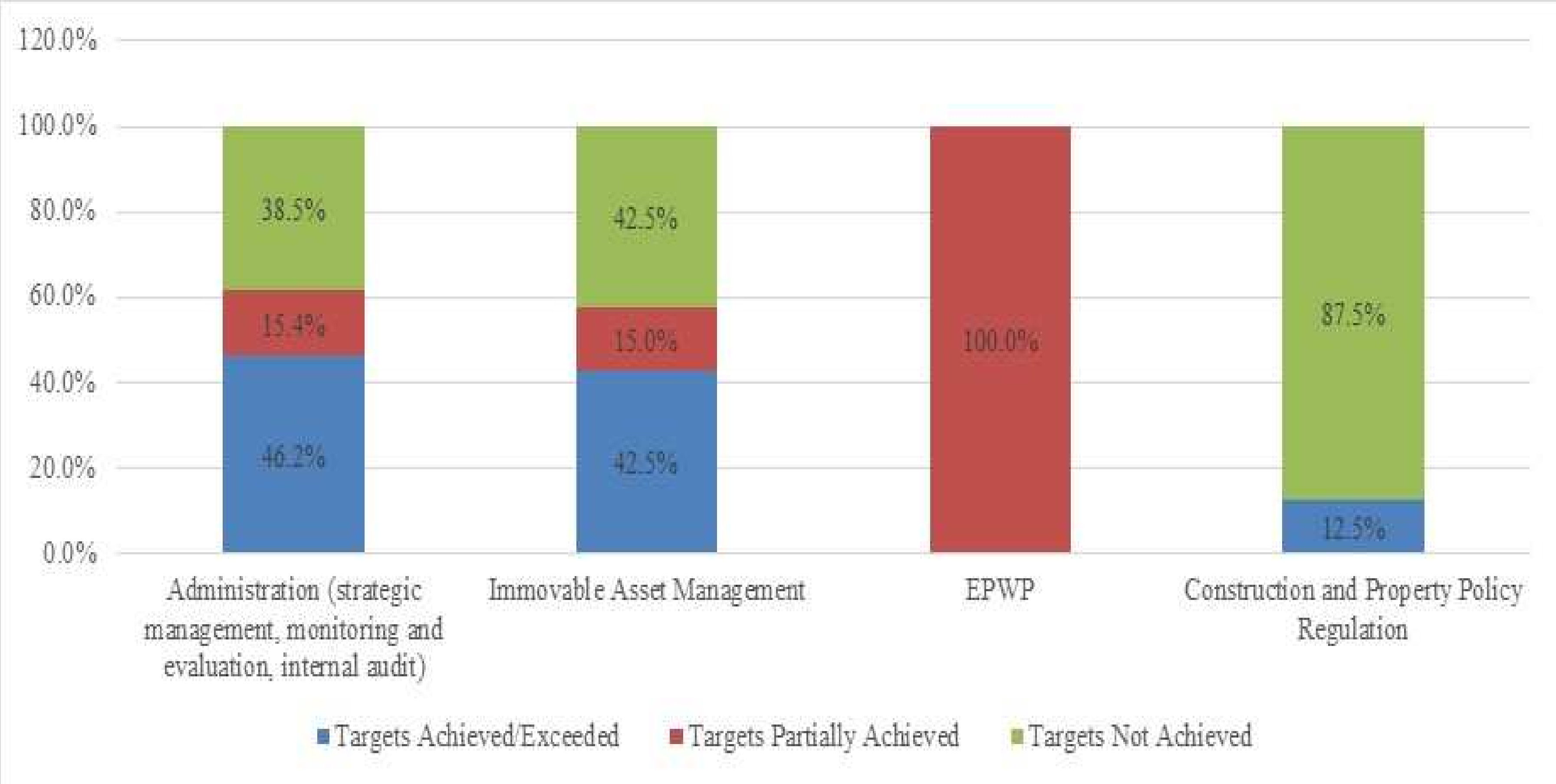
- Overall between 2009/10 and 2012/13, just over 3 million jobs created (68% of target of 4.5 million jobs)

DEPARTMENTAL PERFORMANCE

- Department not adequately meeting targets set.
  - Number of targets partially met and totally unmet exceptionally high



DEPARTMENTAL PERFORMANCE [CONT.]

Programme	Explanation for Unmet Targets
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Aspects Highlighted by the Auditor-General

- DPW audit outcomes:
  - 2009/10: qualified with findings
  - 2010/11:disclaimer
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- Key issues highlighted by Auditor-General that need to be addressed:
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  - Areas that were identified for specific attention through the turnaround project include: lack of controls in supply chain management, poor lease management, inadequate immovable asset register, lack of built environment and property management skills

FINANCIAL AND FISCAL COMMISSION

FINANCIAL
AND FISCAL
COMMISSION

PUBLIC WORKS IN THE PROVINCES

PROVINCIAL AUDIT OUTCOMES

- Audit outcomes for provincial departments of public works have not considerably improved in since 2003/04
  - Four out of the nine provinces received a qualified opinion or disclaimer in 2012/13
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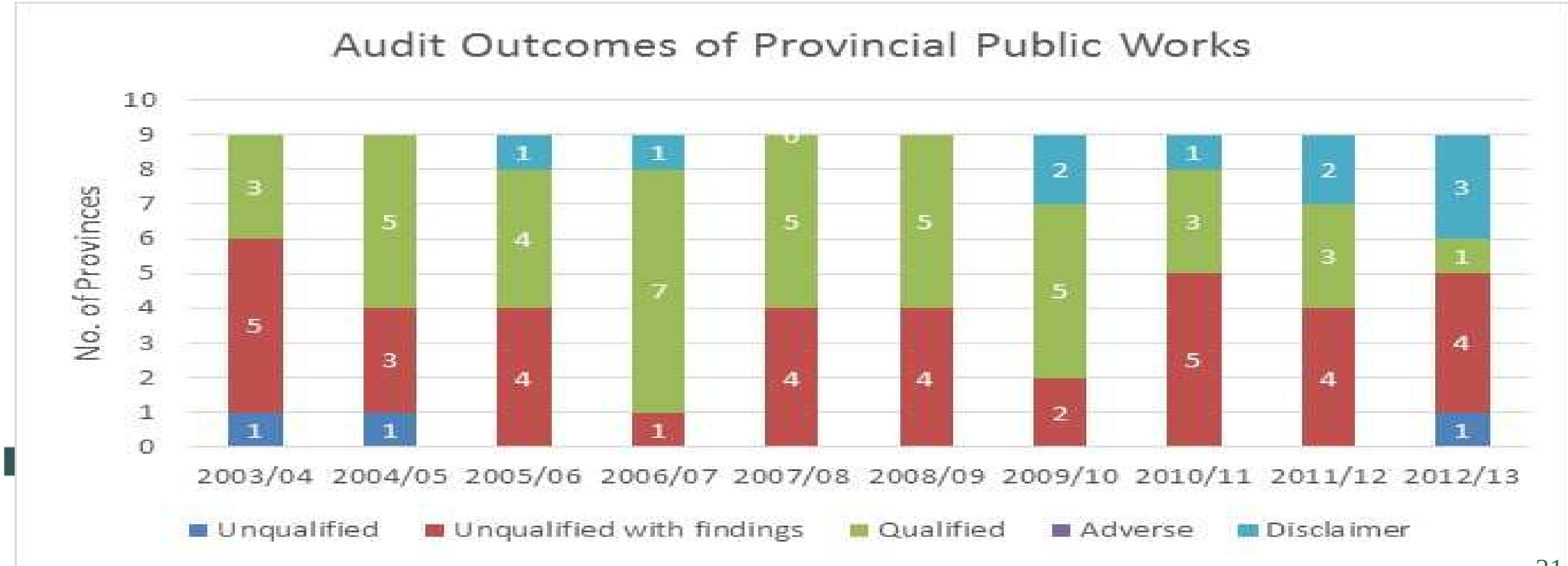

PROVINCIAL AUDIT OUTCOMES [CONT.]

- The Auditor-General raised a number of matters that prevented provincial departments from achieving clean audits such as:
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  - Inaccurate and incomplete fixed asset registers
  - Incomplete disclosures on unauthorized, irregular and fruitless, irregular and wasteful expenditure
  - Commitments by the national sector department to intervene and/or provide support were not honoured
- The Commission's view is that DPW should play a more active role, through the various intergovernmental forums, in providing the necessary support to provincial departments of public works

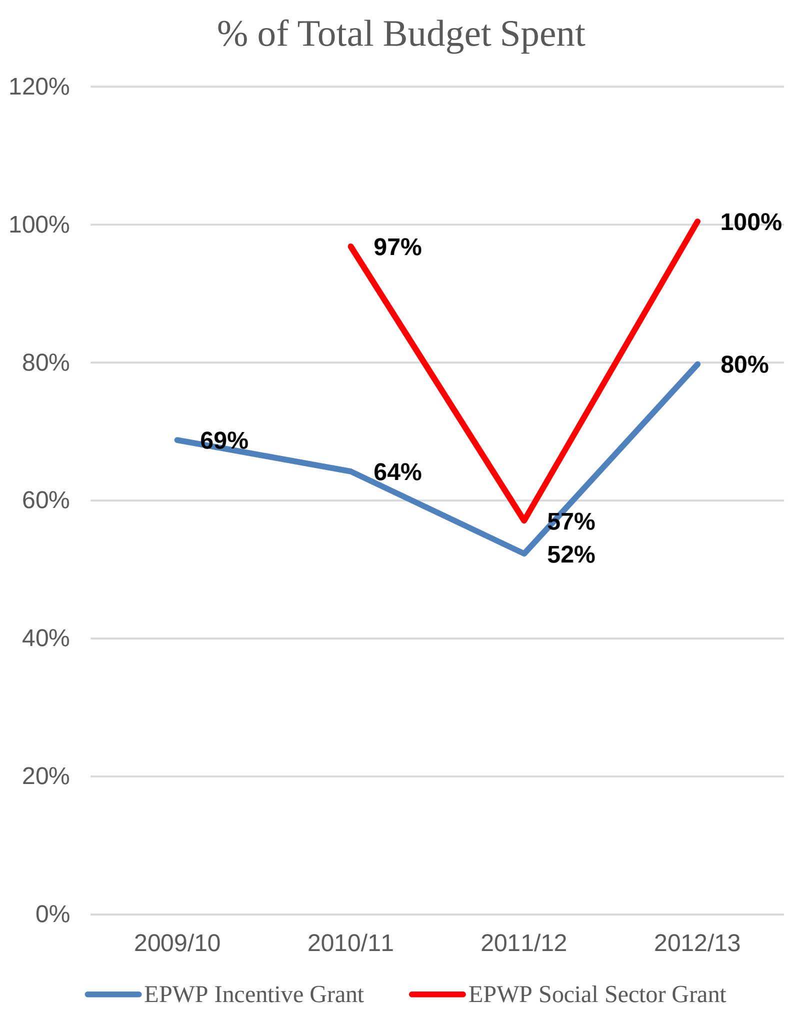
FINANCIAL AND FISCAL COMMISSION

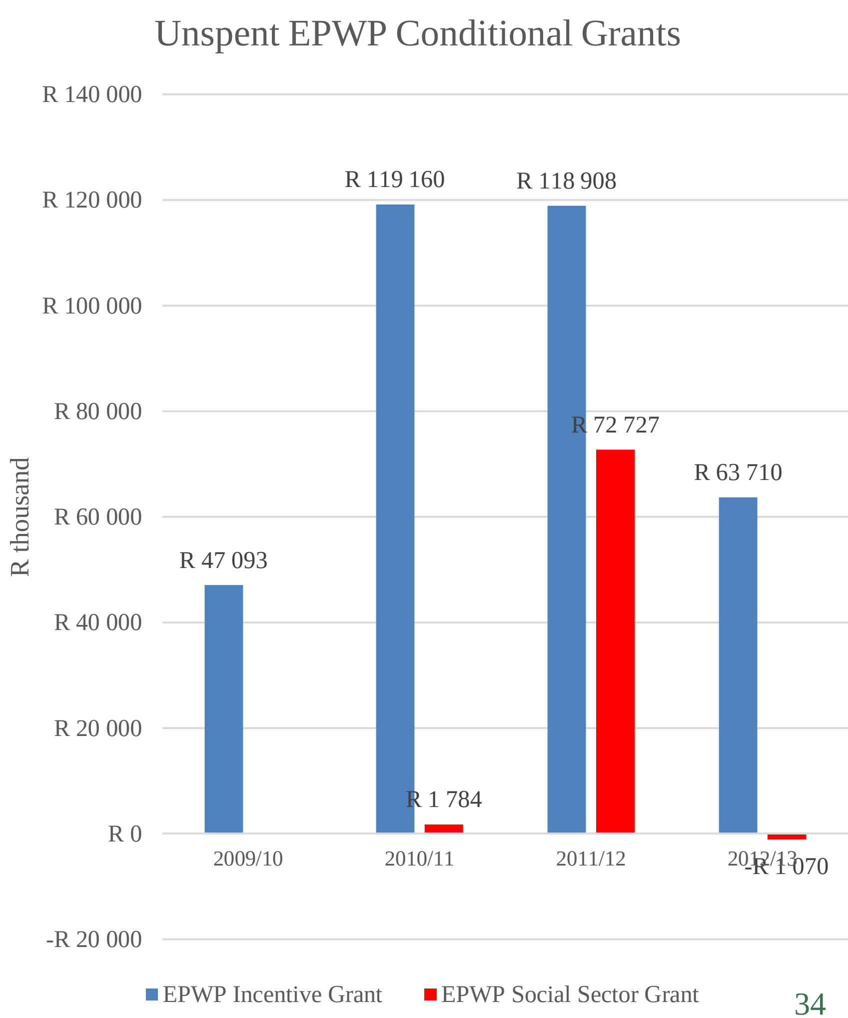
Spending Performance by Provinces on EPWP Conditional Grants

- The National Department of Public Works is the transferring agent for two EPWP conditional grants to provinces
- As the transferring agent, the responsibilities of the DPW are prescribed in the conditional grant framework contained in the Division of Revenue Act. These include (among others):
  – Determine eligibility of grant, monitor and provide support to provinces, audit provincial performance and report to national treasury on provincial progress

FINANCIAL AND FISCAL COMMISSION

EPWP Conditional Grants to Provinces





SUMMARY OF PERFORMANCE ON EPWP GRANTS TO PROVINCES

- Over a four year period (2009/10 – 2012/13), provinces have been unable to spend more than 80% of its allocation to the EPWP Incentive Grant in any given year
- Except in 2011/12 where spending on both EPWP grants were below 60% of total, the EPWP Social Sector grant in general, performed better than the Incentive grant
  - Provinces have challenges relating to infrastructure, which affects the spending performance on the Incentive grant
- In many instances, provinces fail to comply with grant conditions stipulated in DORA, resulting in funds being withheld, thereby leaving funds unspent at the end of the year

FINANCIAL AND FISCAL COMMISSION

CONCLUDING REMARKS

- Key issues emanating from analysis of DPW
  - Underspending of budget
  - Not meeting set targets
- For the sector to turnaround, the DPW should play a leadership role by providing the necessary support to the provinces and establishing minimum norms and standards to facilitate improvement in service delivery in the provinces
- Department to put in place proper systems to guide expenditure management, setting of appropriate key performance indicators and a plan to attract/retain skilled staff
  - Outcome of the Turnaround Project is key in facilitating progress – some improvements noted but far to go in putting DPW on stable footing

FINANCIAL AND FISCAL COMMISSION

FFC's Website: www.ffc.co.za

PORTFOLIO COMMITTEE ON PUBLIC WORKS

Financial and Fiscal Commission

25 September 2014

For an Equitable Sharing of National Revenue

PRESENTATION OUTLINE

1. Role and Function of the Financial and Fiscal Commission
2. Recommendations of the Commission that relate to Public Works
3. Departmental Analysis

FINANCIAL AND FISCAL COMMISSION

1. Role and Function of the Financial and Fiscal Commission

Role and Function of the FFC

- The Financial and Fiscal Commission (FFC)
  - Is an independent, permanent, statutory institution established in terms of Section 220 of Constitution
  - Must function in terms of the FFC Act
- Mandate of Commission
  - To make recommendations, envisaged in Chapter 13 of the Constitution or in national legislation to Parliament, Provincial Legislatures, and any other organ of state determined by national legislation
- The Commission's focus is primarily on the equitable division of nationally collected revenue among the three spheres of government and any other financial and fiscal matters
  - Legislative provisions or executive decisions that affect either provincial or local government from a financial and/or fiscal perspective
  - Includes regulations associated with legislation that may amend or extend such legislation
  - Commission must be consulted in terms of the FFC Act
  - Current research strategy focuses on developmental impacts of IGFR

FINANCIAL AND FISCAL COMMISSION

HOW FFC SUPPORTS POLICY

- Identify weakness within the IGFR system
- Propose evidence-based policy proposals
- Interact and participate with/in forums and institutions responsible for IGFR policy – TCF, Budget Council, Budget Forum
- Information dissemination – invitations from nine provincial legislatures and SALGA
- Interact with various committees within parliament

FINANCIAL AND FISCAL COMMISSION

PROCESSING OF RECOMMENDATIONS

- Recommendations of the Commission
  - Recommendations are made to Parliament so that the legislature can examine the financial and fiscal decisions of government against them and understand why they have been accepted or rejected
  - Section 4(4)(c) of the Money Bills Amendment Procedures and Related Matters Act (MBAPMA) requires Parliament to consider the recommendations of the Commission when deliberating on Money Bills
- Government is obligated through an Act of Parliament to explain how it has taken the FFC recommendations in arriving at the division of revenue for any particular year
  - The response is tabled in Annexure W1 of the DoR Bill and of the Budget Review

FINANCIAL AND FISCAL COMMISSION

How FFC can Support Parliament

DIRECT TRAINING AND INTERVENTION

- Training of members of parliamentary committees and councillors on request (e.g. in Bushbuckridge)
- Advice to municipalities (e.g. Tshwane merger)
- Inputs in various fora (e.g. SALGA)

NON TRAINING SUPPORT AND INTERVENTION

- Member of review committees (LES, Infrastructure Grants, Metro's Own Revenue)
- Public hearings (local government fiscal framework, housing and welfare)
- Inputs in benchmarking exercises
- Recommendations through Annual Submission on DoR, MTBPS, FF and Appropriations

VALUE ADD OF THE FFC

- FFC can provide advice, analysis and training to assist the work of the Committee
  - Specialised IGFR training to committee members and/or parliamentary researchers
  - Provision of recommendations that are founded on evidence based research
  - Technical support with respect to parliamentary fiscal oversight activities

FINANCIAL AND FISCAL COMMISSION

2. Recommendations that Relate to Public Works

FFC Work Related to DPW [cont.]

Response to Division of Revenue Bill (DoRB) 2010	The Commission welcomed introduction of the *EPWP Incentive Grant for the Social Sector*. The Commission noted that there was a need to standardise the employment framework for the sector including conditions, wages and progression across provinces and municipalities. The Commission also raised concern regarding difficulties that were being experienced with the transfer of the EPWP Incentive Grant to Local and Provincial Governments. In the 2009/10 certain provinces (e.g. Western Cape) raised concern that they received transfers outside the ambit of the DoR and couldn't spend the money because it was not properly appropriated through various legislatures. At that point the general challenge with the grant was that provinces and municipalities found it difficult to integrate it through their infrastructure programmes. This problem persists because labour intensive infrastructure projects need to be planned, costed and scheduled properly. Not all projects yield the same labour intensity, so targets must be set by project type and category. Some projects will better lend themselves to labour intensive methods than others. This must be factored into the budget allocations and monitoring of the grant. *Current Commission analysis is that provinces continue to have challenges relating to labour intensive infrastructure, which affects the spending of the Incentive grant. In 2012/13 DPW appointed service providers to support provinces and municipalities in design of infrastructure projects and reporting methods.*

FFC Work Related to DPW [cont.]

Response to MTBPS 2011	In terms of the EPWP Incentive grant framework, provinces and municipalities must spend their budgets on EPWP projects and after that the grant will be paid by DPW quarterly as an incentive (after employment has been created). There has been general under-spending against budget since inception of the grant. Projected under-spending in financial year 2011 was 28.4%. In 2010, the actual under-spend was 38.4%. Despite poor spending performance, the annual growth of the budget was high. Expenditure reports on the grant performance at local government were inaccessible. DPW should explain how transfers are reconciled with actual expenditure. The grant should be streamlined to the Division of Revenue Act (DORA) requirements in terms of allocation and disbursements of funds. Punitive and incentive elements of the grant should be made transparent to all the stakeholders. *Current FFC analysis indicates that underspending persists. Between 2009/10 and 2012/13, provinces have been unable to spend more than 80% of their allocation*
Response to DoRB 2012	The Commission reiterated concerns raised in its Response to DoRB 2010 and Response to 2011 MTBPS regarding the challenges with the EPWP Incentive grant. The Commission maintained its view that the grant had not succeeded in achieving the intended goals within the specified time. There had also not been a formal assessment of the achievement of this grant both in terms of expenditure and service delivery outputs including how many direct and full times jobs had been created against the allocated funds. The Commission recommended that an independent review of the grant be undertaken, so that lessons can be drawn from past experience to avoid a replication of past mistakes. Government has since set up a team consisting of National Treasury, DPW, DCoG and SALGA that has been working on this. *This review is ongoing*

FFC Work Related to DPW [cont.]

Submission for the 2009/10 DoR	FFC found a need for reporting on EPWP outcomes to be more specific. In accordance with the requirements of the EPWP, job creation for target groups such as women, youth and people with disabilities should be included in the reporting requirements for all infrastructure conditional grants to provinces and municipalities GOVT. RESPONSE: The recommendation for reporting on targets is supported. Some of these indicators can possibly be reported on as part of the conditional grant frameworks prescribed in terms of the Division of Revenue Act
Submission for the 2007/08 DoR	The World Cup funding was crafted on the basis of requirements to meet FIFA standards of hosting cities, and that the major challenge faced by government was sustainability of built infrastructure. On the funding for the FIFA World Cup, FFC, examined the sustainability of built infrastructure, taking the escalation of construction costs into account. FFC's findings included that the escalation of construction costs be budgeted for, and that collaboration with the private sector should be encouraged. Also that a 2010 World Cup "Legacy Management Policy" should be introduced and prudent fiscal policy should be maintained leading to the World Cup GOVT. RESPONSE: Government is of the view that the costs relating to maintenance of constructed 2010 FIFA World Cup facilities should be provided by municipalities

3. Departmental Analysis

CONTEXTUALISING THE DEPARTMENT OF PUBLIC WORKS

- Aim of Department of Public Works (DPW):
  - provide for and manage accommodation, housing, land and infrastructure needs of national departments
  - Lead and direct implementation of the national expanded public works programme (EPWP)
  - Promote growth, job creation and transformation in the construction and property industries
- Public works is a concurrent function between national and provincial spheres of government
- DPW contribution to National Development Plan (NDP) achieved through:
  - Implementation of job creation initiatives
  - Transition to low cost carbon economy
  - Development of an inclusive and integrated rural economy
  - Fight against corruption

FINANCIAL AND FISCAL COMMISSION

Key Challenges Confronting DPW

- Due to consistent trend of poor audit outcomes and generally poor performance, DPW implemented a turnaround project in November 2012
- Areas that were identified for specific attention through the turnaround project include:
  - Lack of controls in supply chain management (SCM)
    - Identified as major risk area by Auditor-General – DPW capacity to process tenders eroded and has led to numerous instances of fraud/corruption. SCM has been major focus of the Special Investigating Unit (SIU). SCM is the key focus of turnaround project in DPW. A service provider appointed to assist with fundamental review of SCM
      - Irregular expenditure, R171 million in 2011/12; R874 million in 2012/13
  - Poor lease management
    - Numerous irregularities with respect to lease agreements – gives rise to legal risks. DPW reviewing all lease agreements

FINANCIAL AND FISCAL COMMISSION

KEY CHALLENGES CONFRONTING DPW [CONT.]

- Inadequate immovable asset register
  - Lack of compliant immovable asset register resulted in negative audit opinions. DPW now in process of rebuilding immovable asset register and building a model to revalue immovable assets
- Lack of built environment and property management skills
  - Lack of technical capacity to undertake direct construction/maintenance functions. Cooperating with DPSA and Higher Education and Training to address challenge

FINANCIAL AND FISCAL COMMISSION

Starting Point for Budget Analysis

- By vote
  - Compare different votes with each other
- By vote programme
  - Compare different programmes within a vote
- By sub-programme
- Compare different sub-programmes within a programme
- By province
- Compare different provinces with each other
- Use Outputs, Targets and Indicators to measure performance
- Use policy documents as a benchmark

FINANCIAL AND FISCAL COMMISSION

USEFUL TOOLS

- Percentage Share of Total Budget
- Growth in the Budget
  - Percentage Change
    - Reflecting increases/decreases in percentage form
  - Annual Growth Rate
    - How does the allocation change year on year
  - Real Percentage Change
    - Takes inflation into consideration
  - Variances and explanations
    - Investigating the reasons/drivers of change
  - Spending by economic classification
    - Distinguishes between various categories of current (goods and services, transfers and subsidies) and capital expenditure (acquisition of fixed capital assets, purchase of land)

FINANCIAL AND FISCAL COMMISSION

Budget and Programmes of Public Works

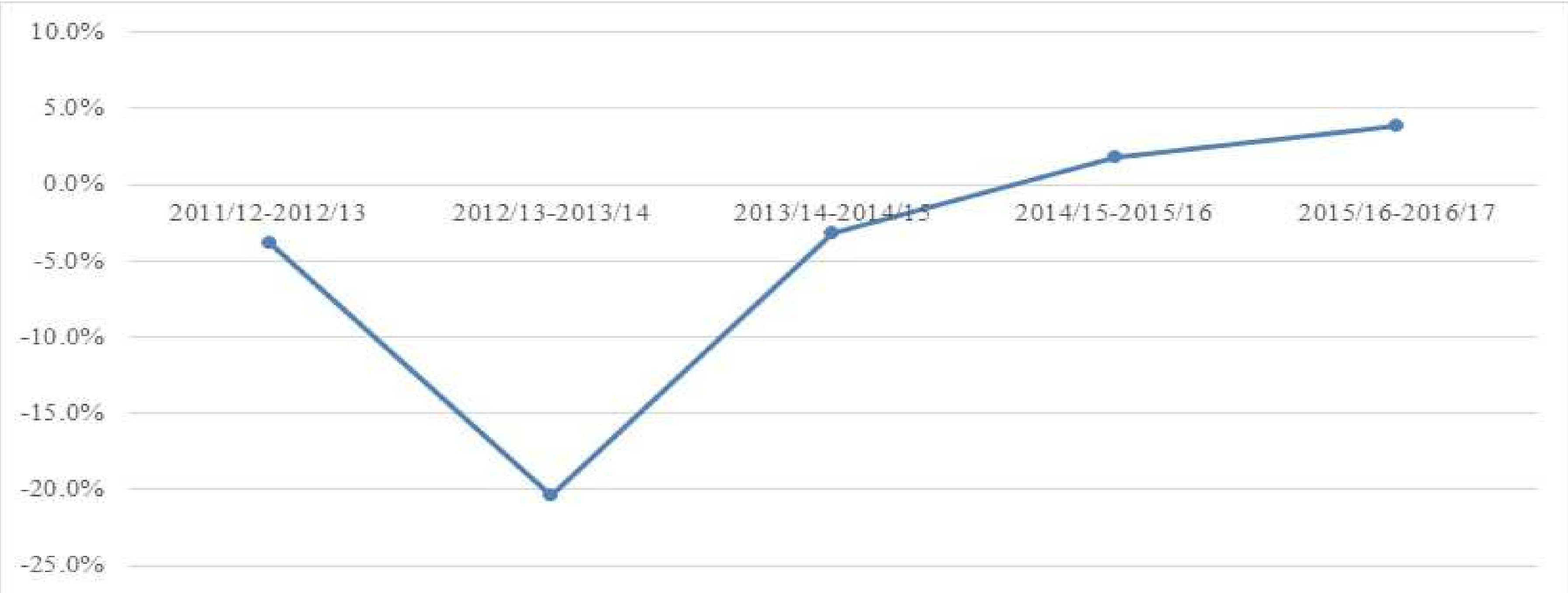
Nominal (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Real Annual Average Growth 2011/12-2013/14	Real Annual Average Growth 2014/15-2016/17
Administration	837.1	856.2	1 158.2	1 175.3	1 133.3	1 191.5	11.5%	-4.1%
Immovable Asset Management	5 001.7	4 563.5	2 831.8	2 861.4	3 308.1	3 450.0	-28.7%	4.6%
Expanded Public Works Programme	1 163.0	1 704.1	1 948.0	1 951.3	2 006.8	2 395.2	22.7%	5.5%
Property and Construction Industry Policy Regulation	34.4	26.9	36.7	41.5	43.4	45.9	-2.1%	0.1%
Auxiliary and Associated Services	25.2	53.3	50.7	91.8	53.7	56.6	34.4%	-25.2%
Total	**7 061.4**	**7 203.9**	**6 025.3**	**6 121.3**	**6 545.3**	**7 139.2**	**-12.5%**	**2.8%**

- Five programmes on Department of Public Works (DPW) budget
- Allocation reduced significantly in 2013/14, due to phasing out of Devolution of Property Rates Fund Grant to provinces and non-completion of various projects. As result of underspending, Cabinet approved reductions were effected
  - Following poor spending performance and audit outcomes, DPW implementing a Turnaround Project
- DPW budget projected to recover to just over R7.1 billion by end of 2014 medium term expenditure framework (MTEF) period
  - 2014 MTEF growth driven by additional allocation of R159 million in 2016/17 for Expanded Public Works Programme (EPWP)

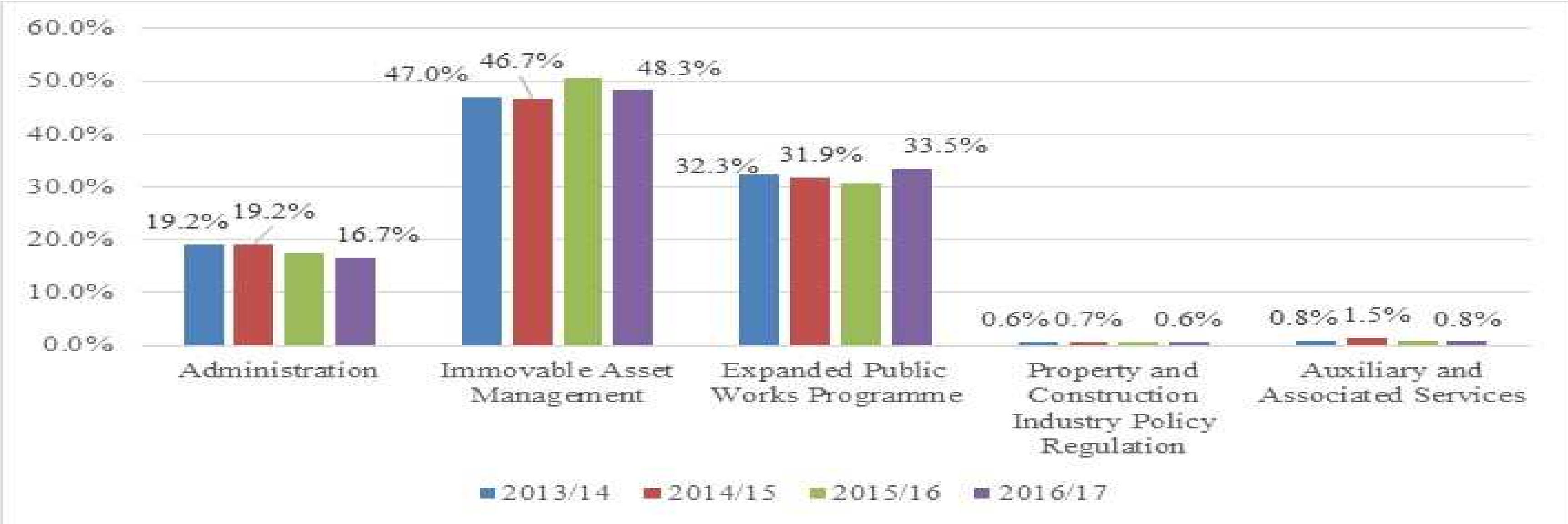
FINANCIAL AND FISCAL COMMISSION

REAL YEAR ON YEAR GROWTH OF PUBLIC WORKS BUDGET

- Significant decline in year on year growth in 2013/14
  - Though still declining in real terms in 2014/15, there is some improvement
- Over rest of 2014 MTEF period, positive growth projected
  - Focus will be on rehabilitating 34 state owned buildings, and ensuring that at least 100 buildings are made accessible to people with disabilities in each year of MTEF



BUDGET COMPOSITION ACROSS PROGRAMMES



- Immovable Asset Management Programme consumes largest share of DPW budget – by end of 2014 MTEF period this programme is projected to consume just under half of DPW budget
- Share allocated to Administration Programme consumers about one fifth of departmental budget – funding for Turnaround Project fall under Administration
  - Turnaround Project will support activities relating to the Special Investigating Unit, a technical support unit, a clean audit project, irregular expenditure management, internal audit support

FINANCIAL AND FISCAL COMMISSION

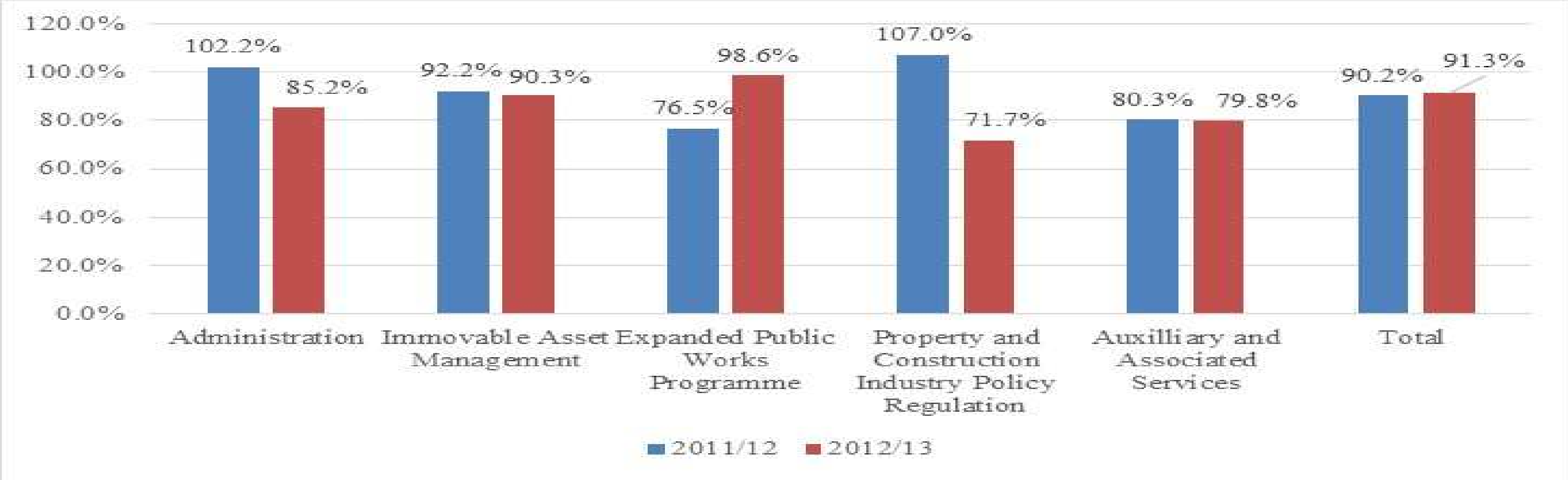
ECONOMIC CLASSIFICATION

Item (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Compensation of Employees	1 269.6	1 374.6	1 473.5	1 659.9	1 753.5	1 870.5
Goods and Services	1 032.9	977.0	1 379.6	1 302.1	1 202.9	1 269.0
Transfers and Subsidies	3 656.2	4 092.4	2 543.9	2 563.4	2 654.2	3 017.9
Payments for Capital Assets	1 099.1	756.8	628.4	595.9	934.8	981.7
Real Year on Year Growth (%)						
Compensation of Employees		2.1%	2.1%	7.3%	0.6%	1.6%
Goods and Services		-10.8%	34.5%	-10.1%	-12.0%	0.5%
Transfers and Subsidies		5.6%	-40.8%	-4.0%	-1.4%	8.3%
Payments for Capital Assets		-35.1%	-20.9%	-9.7%	49.4%	-0.003%

- Transfers and subsidies is the largest item
  - the decrease in 2013/14 due to phasing out of the Devolution of Property Rates Fund Grant to Provinces, hence reduction in transfers to provinces
- The increase in spending on Goods and Services in 2013/14 driven by spending on consultants – due to shortage of technical skills in property/project management and specialists as required for the DPW's turnaround project
- Payments for capital assets very erratic
- Relative to strong annual average growth between 2011/12 and 2013/14, growth in Goods and Service set to decline over the 2014 MTEF period

FINANCIAL AND FISCAL COMMISSION

SPENDING PERFORMANCE (FISCAL DISCIPLINE)



- DPW underspent in 2011/12 and 2012/13
- In 2011 underspending on EPWP and Auxilliary and Associated Services Programme
- In 2012, underspending is as a result of poor spending in Property and Construction Industry Policy Regulation Programme and again Auxilliary and Associated Services Programme
- Due to persistent underspending on capital, baseline reductions of R1.3 billion effected over 2014 MTEF period

FINANCIAL AND FISCAL COMMISSION

IN-YEAR EXPENDITURE

- 2012/13 in-year spending erratic
- Appears to be improving in 2013/14 – variances in monthly spending not as large as during 2012/13
- Concern with poor in-year spending is that it hints at unstable cash flow and disbursements

FINANCIAL AND FISCAL COMMISSION

SELECTED SUB-PROGRAMME ANALYSIS: IMMOVABLE ASSET MANAGEMENT PROGRAMME

Real Year on Year Growth	2011/12-2012/13	2012/13-2013/14	2013/14-2014/15	2014/15-2015/16	2015/16-2016/17
Infrastructure (Public Works)	-33.5%	-9.7%	-28.1%	57.5%	-0.1%
Strategic Asset Investment Analysis	-67.7%	149.1%	10.4%	0.2%	1.0%
Operation Management	1.6%	-0.3%	0.5%	-0.4%	2.7%
Prestige Management	-51.5%	44.0%	-27.0%	-1.0%	-28.5%
Special Projects	4.0%	47.6%	-24.7%	1.8%	0.4%
Construction Industry Development Board	-3.4%	2.0%	1.6%	0.4%	0.2%
Council for the Built Environment	-7.7%	28.8%	4.3%	1.4%	0.2%
Parliamentary Village Management Board	-0.6%	0.1%	1.1%	-0.4%	0.5%
Augmentation of the Property Management Trading Entity	-3.2%	0.5%	-6.0%	-0.1%	0.6%
Independent Development Trust	-68.1%	-6.3%	-4.7%	-4.8%	-100.0%
Total	**-14.0%**	**-37.8%**	**-8.6%**	**10.1%**	**-0.7%**

- Total programme growth declines over most of the period reviewed
  - Decline in 2012 and 2013 is due to phasing out of devolution of property rates fund grant to provinces, non-completion of projects and Cabinet approved reductions due to underspending
- Generally sub-programme trends are erratic, brings into question soundness of planning in DPW
- Lack of capacity a challenge in this programme – 10% vacancy rate

SELECTED SUB-PROGRAMME ANALYSIS: EXPANDED PUBLIC WORKS PROGRAMME

R million	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**
Expanded Public Works Programme	209.7	236.8	273.8	261.5	267.7	290.6
Performance Based Incentive Allocations	953.3	1 467.3	1 674.2	1 689.8	1 739.2	2 104.6
Total	**1 163.0**	**1 704.1**	**1 948.0**	**1 951.3**	**2 006.8**	**2 395.2**
Real Year on Year Growth		**2011/12-2012/13**	**2012/13-2013/14**	**2013/14-2014/15**	**2014/15-2015/16**	**2015/16-2016/17**
Expanded Public Works Programme		12.9%	15.6%	-4.5%	2.4%	8.6%
Performance Based Incentive Allocations		53.9%	14.1%	0.9%	2.9%	21.0%
Total		**46.5%**	**14.3%**	**0.2%**	**2.8%**	**19.4%**

- EPWP promotes use of government expenditure to create additional employment opportunities through the use of labour-intensive delivery methods
  - Increases in 2012/2013 due to appointment of service providers to support provinces and municipalities in design of infrastructure projects and reporting methods
- Performance Based Incentive Allocations is the largest sub-programme
  - Focus: disburses funds to provinces/municipalities and NGOs to ensure creation of work opportunities in infrastructure, environment, social sectors
  - Increases between 2012 and 2013 are due to additional funding allocated. However to give effect to Cabinet-approved reductions, growth in this sub programme slows in 2014 and 2015
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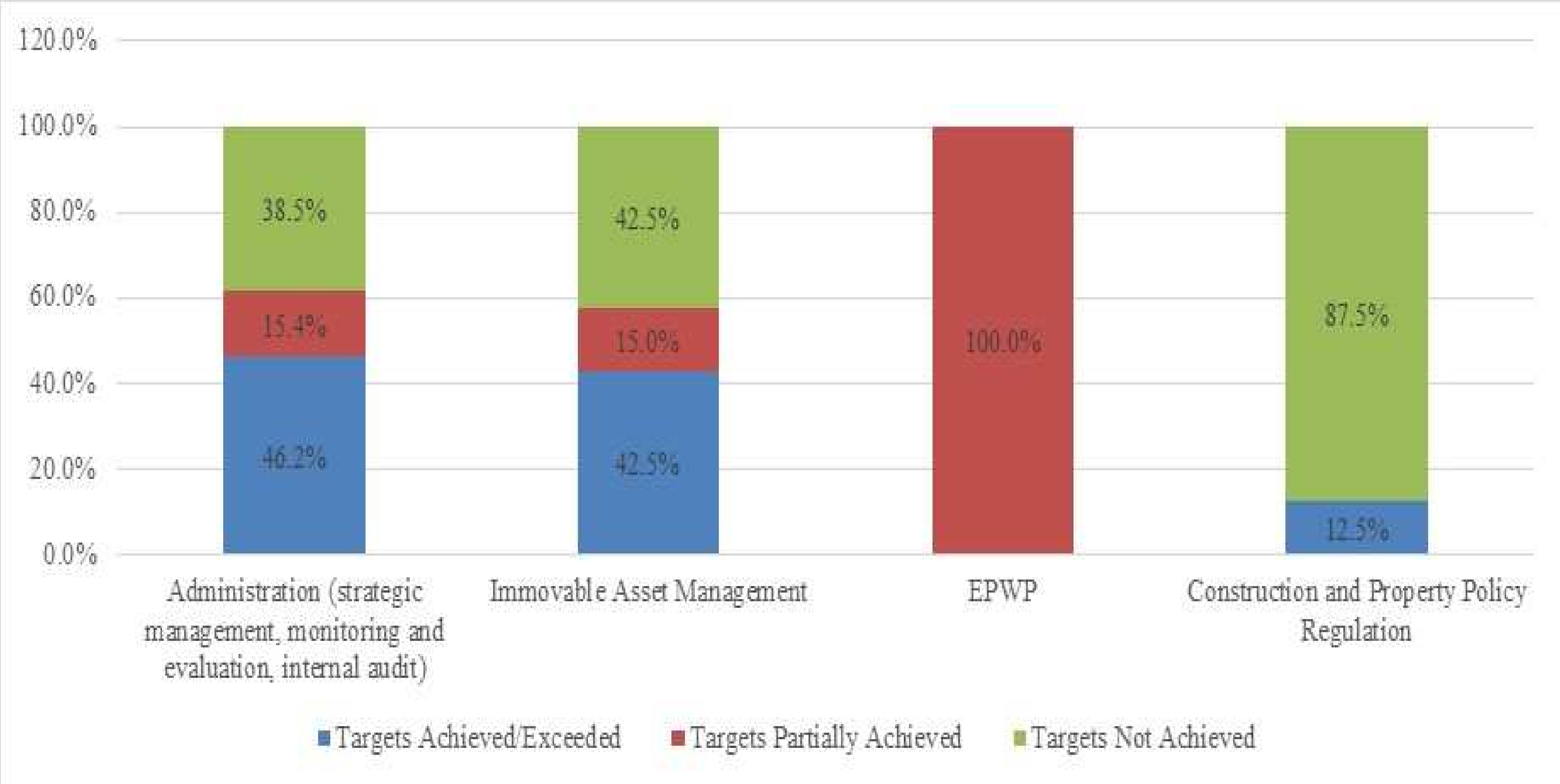

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FINANCIAL AND FISCAL COMMISSION

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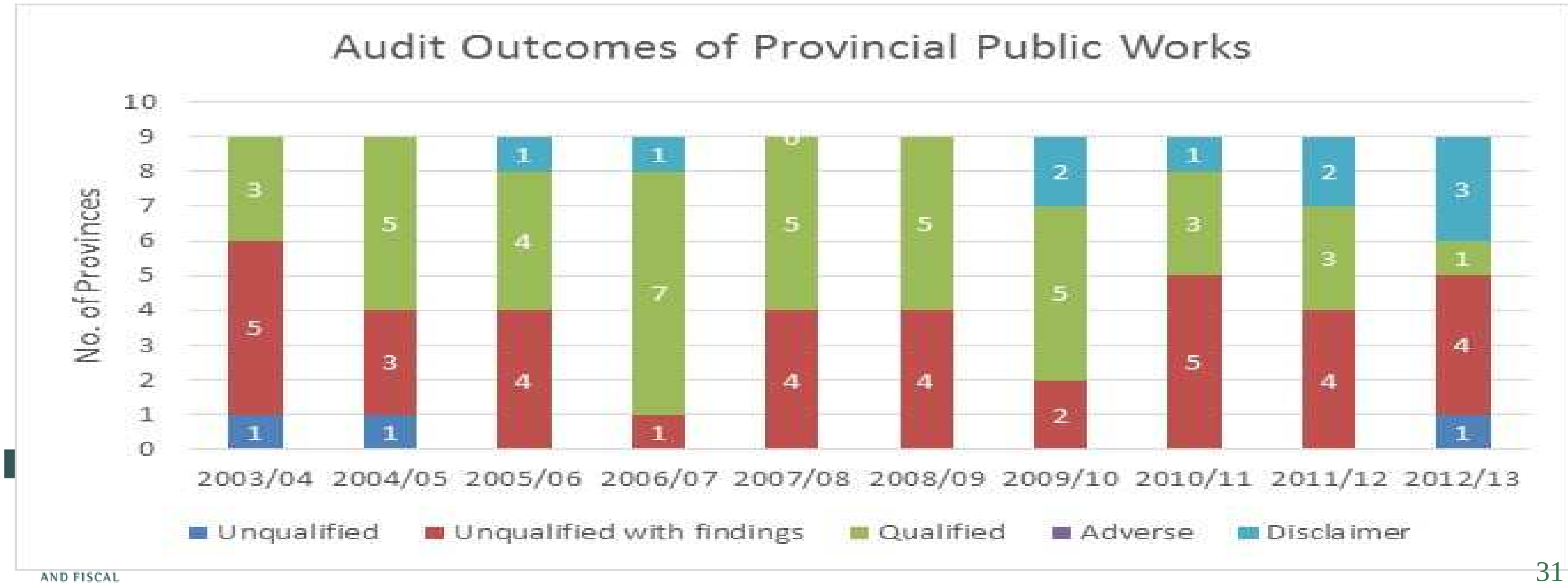

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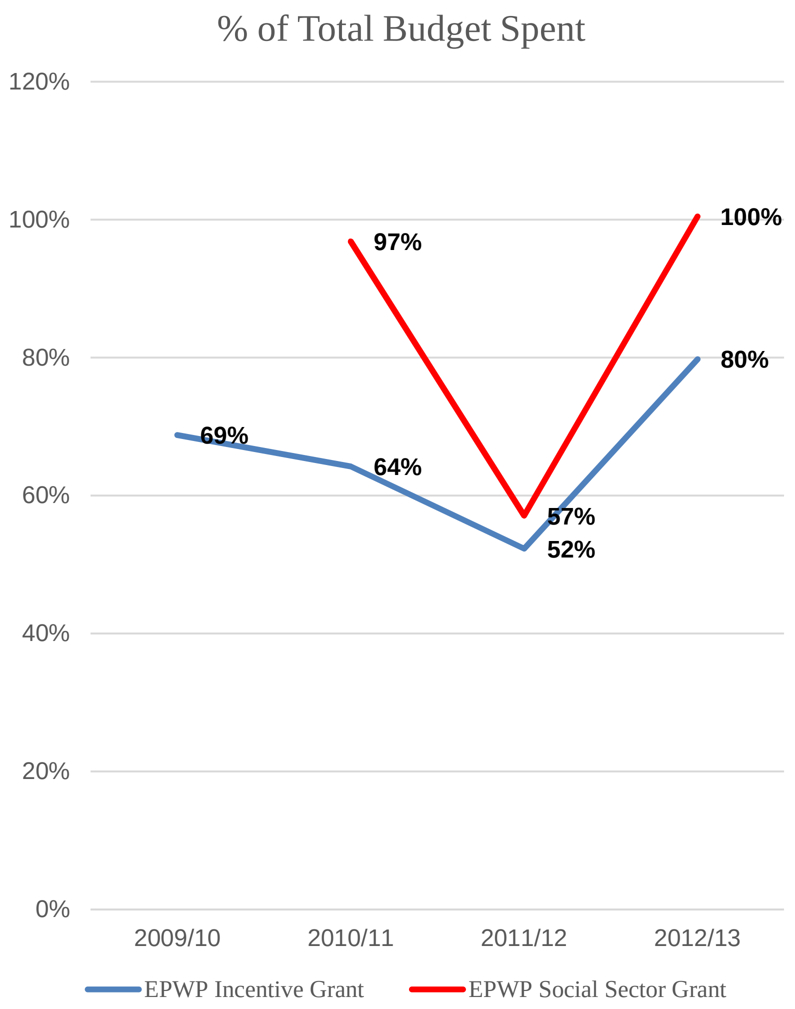
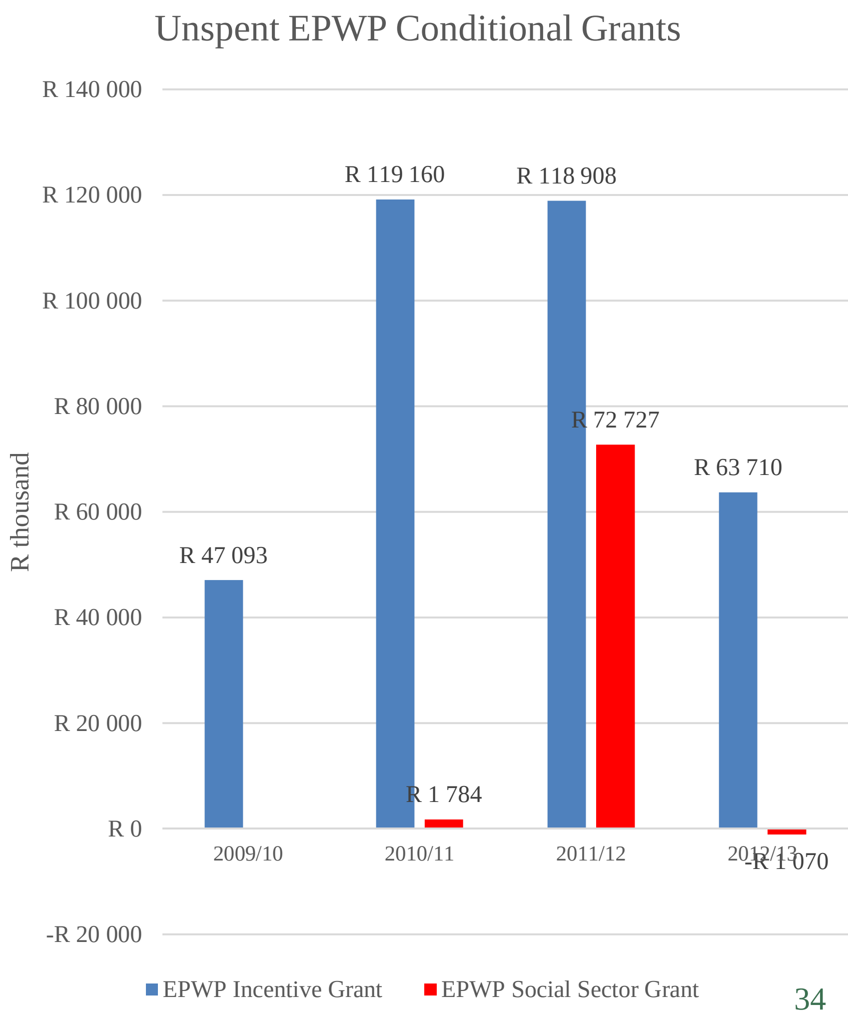
FINANCIAL AND FISCAL COMMISSION

EPWP Conditional Grants to Provinces





Summary of Performance on EPWP Grants to Provinces

- Over a four year period (2009/10 – 2012/13), provinces have been unable to spend more than 80% of its allocation to the EPWP Incentive Grant in any given year
- Except in 2011/12 where spending on both EPWP grants were below 60% of total, the EPWP Social Sector grant in general, performed better than the Incentive grant
  - Provinces have challenges relating to infrastructure, which affects the spending performance on the Incentive grant
- In many instances, provinces fail to comply with grant conditions stipulated in DORA, resulting in funds being withheld, thereby leaving funds unspent at the end of the year

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CONCLUDING REMARKS

- Key issues emanating from analysis of DPW
  - Underspending of budget
  - Not meeting set targets
- For the sector to turnaround, the DPW should play a leadership role by providing the necessary support to the provinces and establishing minimum norms and standards to facilitate improvement in service delivery in the provinces
- Department to put in place proper systems to guide expenditure management, setting of appropriate key performance indicators and a plan to attract/retain skilled staff
  - Outcome of the Turnaround Project is key in facilitating progress – some improvements noted but far to go in putting DPW on stable footing

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Financial and Fiscal Commission
Intergovernmental Fiscal Relations Conference
11 - 13 August 2014
International Convention Centre, Cape Town, South Africa

2015/16 Submission | Housing Financing | Child Welfare Services | 2012/2013 Annual report

2015/16 SUBMISSION FOR THE DIVISION OF REVENUE

SUBMISSION FOR THE DIVISION OF REVENUE 2015/16

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

NEW!!!

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

UPCOMING EVENTS

FINANCIAL AND FISCAL COMMISSION

PORTFOLIO COMMITTEE ON PUBLIC WORKS

Financial and Fiscal Commission

25 September 2014

For an Equitable Sharing of National Revenue

PRESENTATION OUTLINE

1. Role and Function of the Financial and Fiscal Commission
2. Recommendations of the Commission that relate to Public Works
3. Departmental Analysis

FINANCIAL AND FISCAL COMMISSION

FINANCIAL
AND FISCAL
COMMISSION

1. ROLE AND FUNCTION OF THE FINANCIAL AND FISCAL COMMISSION

ROLE AND FUNCTION OF THE FFC

- The Financial and Fiscal Commission (FFC)
  - Is an independent, permanent, statutory institution established in terms of Section 220 of Constitution
  - Must function in terms of the FFC Act
- Mandate of Commission
  - To make recommendations, envisaged in Chapter 13 of the Constitution or in national legislation to Parliament, Provincial Legislatures, and any other organ of state determined by national legislation
- The Commission's focus is primarily on the equitable division of nationally collected revenue among the three spheres of government and any other financial and fiscal matters
  - Legislative provisions or executive decisions that affect either provincial or local government from a financial and/or fiscal perspective
  - Includes regulations associated with legislation that may amend or extend such legislation
  - Commission must be consulted in terms of the FFC Act
  - Current research strategy focuses on developmental impacts of IGFR

FINANCIAL AND FISCAL COMMISSION

How FFC Supports Policy

- Identify weakness within the IGFR system
- Propose evidence-based policy proposals
- Interact and participate with/in forums and institutions responsible for IGFR policy – TCF, Budget Council, Budget Forum
- Information dissemination – invitations from nine provincial legislatures and SALGA
- Interact with various committees within parliament

FINANCIAL AND FISCAL COMMISSION

PROCESSING OF RECOMMENDATIONS

- Recommendations of the Commission
  - Recommendations are made to Parliament so that the legislature can examine the financial and fiscal decisions of government against them and understand why they have been accepted or rejected
  - Section 4(4)(c) of the Money Bills Amendment Procedures and Related Matters Act (MBAPMA) requires Parliament to consider the recommendations of the Commission when deliberating on Money Bills
- Government is obligated through an Act of Parliament to explain how it has taken the FFC recommendations in arriving at the division of revenue for any particular year
  - The response is tabled in Annexure W1 of the DoR Bill and of the Budget Review

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How FFC can Support Parliament

DIRECT TRAINING AND INTERVENTION

- Training of members of parliamentary committees and councillors on request (e.g. in Bushbuckridge)
- Advice to municipalities (e.g. Tshwane merger)
- Inputs in various fora (e.g. SALGA)

NON TRAINING SUPPORT AND INTERVENTION

- Member of review committees (LES, Infrastructure Grants, Metro's Own Revenue)
- Public hearings (local government fiscal framework, housing and welfare)
- Inputs in benchmarking exercises
- Recommendations through Annual Submission on DoR, MTBPS, FF and Appropriations

VALUE ADD OF THE FFC

- FFC can provide advice, analysis and training to assist the work of the Committee
  - Specialised IGFR training to committee members and/or parliamentary researchers
  - Provision of recommendations that are founded on evidence based research
  - Technical support with respect to parliamentary fiscal oversight activities

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2. Recommendations that Relate to Public Works

FFC Work Related to DPW [cont.]

Response to Division of Revenue Bill (DoRB) 2010	The Commission welcomed introduction of the *EPWP Incentive Grant for the Social Sector*. The Commission noted that there was a need to standardise the employment framework for the sector including conditions, wages and progression across provinces and municipalities. The Commission also raised concern regarding difficulties that were being experienced with the transfer of the EPWP Incentive Grant to Local and Provincial Governments. In the 2009/10 certain provinces (e.g. Western Cape) raised concern that they received transfers outside the ambit of the DoR and couldn't spend the money because it was not properly appropriated through various legislatures. At that point the general challenge with the grant was that provinces and municipalities found it difficult to integrate it through their infrastructure programmes. This problem persists because labour intensive infrastructure projects need to be planned, costed and scheduled properly. Not all projects yield the same labour intensity, so targets must be set by project type and category. Some projects will better lend themselves to labour intensive methods than others. This must be factored into the budget allocations and monitoring of the grant. *Current Commission analysis is that provinces continue to have challenges relating to labour intensive infrastructure, which affects the spending of the Incentive grant. In 2012/13 DPW appointed service providers to support provinces and municipalities in design of infrastructure projects and reporting methods.*

FFC Work Related to DPW [cont.]

Response to MTBPS 2011	In terms of the EPWP Incentive grant framework, provinces and municipalities must spend their budgets on EPWP projects and after that the grant will be paid by DPW quarterly as an incentive (after employment has been created). There has been general under-spending against budget since inception of the grant. Projected under-spending in financial year 2011 was 28.4%. In 2010, the actual under-spend was 38.4%. Despite poor spending performance, the annual growth of the budget was high. Expenditure reports on the grant performance at local government were inaccessible. DPW should explain how transfers are reconciled with actual expenditure. The grant should be streamlined to the Division of Revenue Act (DORA) requirements in terms of allocation and disbursements of funds. Punitive and incentive elements of the grant should be made transparent to all the stakeholders. *Current FFC analysis indicates that underspending persists. Between 2009/10 and 2012/13, provinces have been unable to spend more than 80% of their allocation*
Response to DoRB 2012	The Commission reiterated concerns raised in its Response to DoRB 2010 and Response to 2011 MTBPS regarding the challenges with the EPWP Incentive grant. The Commission maintained its view that the grant had not succeeded in achieving the intended goals within the specified time. There had also not been a formal assessment of the achievement of this grant both in terms of expenditure and service delivery outputs including how many direct and full times jobs had been created against the allocated funds. The Commission recommended that an independent review of the grant be undertaken, so that lessons can be drawn from past experience to avoid a replication of past mistakes. Government has since set up a team consisting of National Treasury, DPW, DCoG and SALGA that has been working on this. *This review is ongoing*

FFC Work Related to DPW [cont.]

Submission for the 2009/10 DoR	FFC found a need for reporting on EPWP outcomes to be more specific. In accordance with the requirements of the EPWP, job creation for target groups such as women, youth and people with disabilities should be included in the reporting requirements for all infrastructure conditional grants to provinces and municipalities GOVT. RESPONSE: The recommendation for reporting on targets is supported. Some of these indicators can possibly be reported on as part of the conditional grant frameworks prescribed in terms of the Division of Revenue Act
Submission for the 2007/08 DoR	The World Cup funding was crafted on the basis of requirements to meet FIFA standards of hosting cities, and that the major challenge faced by government was sustainability of built infrastructure. On the funding for the FIFA World Cup, FFC, examined the sustainability of built infrastructure, taking the escalation of construction costs into account. FFC's findings included that the escalation of construction costs be budgeted for, and that collaboration with the private sector should be encouraged. Also that a 2010 World Cup "Legacy Management Policy" should be introduced and prudent fiscal policy should be maintained leading to the World Cup GOVT. RESPONSE: Government is of the view that the costs relating to maintenance of constructed 2010 FIFA World Cup facilities should be provided by municipalities

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3. Departmental Analysis

CONTEXTUALISING THE DEPARTMENT OF PUBLIC WORKS

- Aim of Department of Public Works (DPW):
  - provide for and manage accommodation, housing, land and infrastructure needs of national departments
  - Lead and direct implementation of the national expanded public works programme (EPWP)
  - Promote growth, job creation and transformation in the construction and property industries
- Public works is a concurrent function between national and provincial spheres of government
- DPW contribution to National Development Plan (NDP) achieved through:
  - Implementation of job creation initiatives
  - Transition to low cost carbon economy
  - Development of an inclusive and integrated rural economy
  - Fight against corruption

FINANCIAL AND FISCAL COMMISSION

KEY CHALLENGES CONFRONTING DPW

- Due to consistent trend of poor audit outcomes and generally poor performance, DPW implemented a turnaround project in November 2012
- Areas that were identified for specific attention through the turnaround project include:
  - Lack of controls in supply chain management (SCM)
    - Identified as major risk area by Auditor-General – DPW capacity to process tenders eroded and has led to numerous instances of fraud/corruption. SCM has been major focus of the Special Investigating Unit (SIU). SCM is the key focus of turnaround project in DPW. A service provider appointed to assist with fundamental review of SCM
      - Irregular expenditure, R171 million in 2011/12; R874 million in 2012/13
  - Poor lease management
    - Numerous irregularities with respect to lease agreements – gives rise to legal risks. DPW reviewing all lease agreements

Key Challenges Confronting DPW [cont.]

– Inadequate immovable asset register
  - Lack of compliant immovable asset register resulted in negative audit opinions. DPW now in process of rebuilding immovable asset register and building a model to revalue immovable assets
– Lack of built environment and property management skills
  - Lack of technical capacity to undertake direct construction/maintenance functions. Cooperating with DPSA and Higher Education and Training to address challenge

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STARTING POINT FOR BUDGET ANALYSIS

- By vote
  - Compare different votes with each other
- By vote programme
  - Compare different programmes within a vote
- By sub-programme
- Compare different sub-programmes within a programme
- By province
- Compare different provinces with each other
- Use Outputs, Targets and Indicators to measure performance
- Use policy documents as a benchmark

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USEFUL TOOLS

- Percentage Share of Total Budget
- Growth in the Budget
  - Percentage Change
    - Reflecting increases/decreases in percentage form
  - Annual Growth Rate
    - How does the allocation change year on year
  - Real Percentage Change
    - Takes inflation into consideration
  - Variances and explanations
    - Investigating the reasons/drivers of change
  - Spending by economic classification
    - Distinguishes between various categories of current (goods and services, transfers and subsidies) and capital expenditure (acquisition of fixed capital assets, purchase of land)

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BUDGET AND PROGRAMMES OF PUBLIC WORKS

Nominal (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Real Annual Average Growth 2011/12-2013/14	Real Annual Average Growth 2014/15-2016/17
Administration	837.1	856.2	1 158.2	1 175.3	1 133.3	1 191.5	11.5%	-4.1%
Immovable Asset Management	5 001.7	4 563.5	2 831.8	2 861.4	3 308.1	3 450.0	-28.7%	4.6%
Expanded Public Works Programme	1 163.0	1 704.1	1 948.0	1 951.3	2 006.8	2 395.2	22.7%	5.5%
Property and Construction Industry Policy Regulation	34.4	26.9	36.7	41.5	43.4	45.9	-2.1%	0.1%
Auxiliary and Associated Services	25.2	53.3	50.7	91.8	53.7	56.6	34.4%	-25.2%
Total	**7 061.4**	**7 203.9**	**6 025.3**	**6 121.3**	**6 545.3**	**7 139.2**	**-12.5%**	**2.8%**

- Five programmes on Department of Public Works (DPW) budget
- Allocation reduced significantly in 2013/14, due to phasing out of Devolution of Property Rates Fund Grant to provinces and non-completion of various projects. As result of underspending, Cabinet approved reductions were effected
  - Following poor spending performance and audit outcomes, DPW implementing a Turnaround Project
- DPW budget projected to recover to just over R7.1 billion by end of 2014 medium term expenditure framework (MTEF) period
  - 2014 MTEF growth driven by additional allocation of R159 million in 2016/17 for Expanded Public Works Programme (EPWP)

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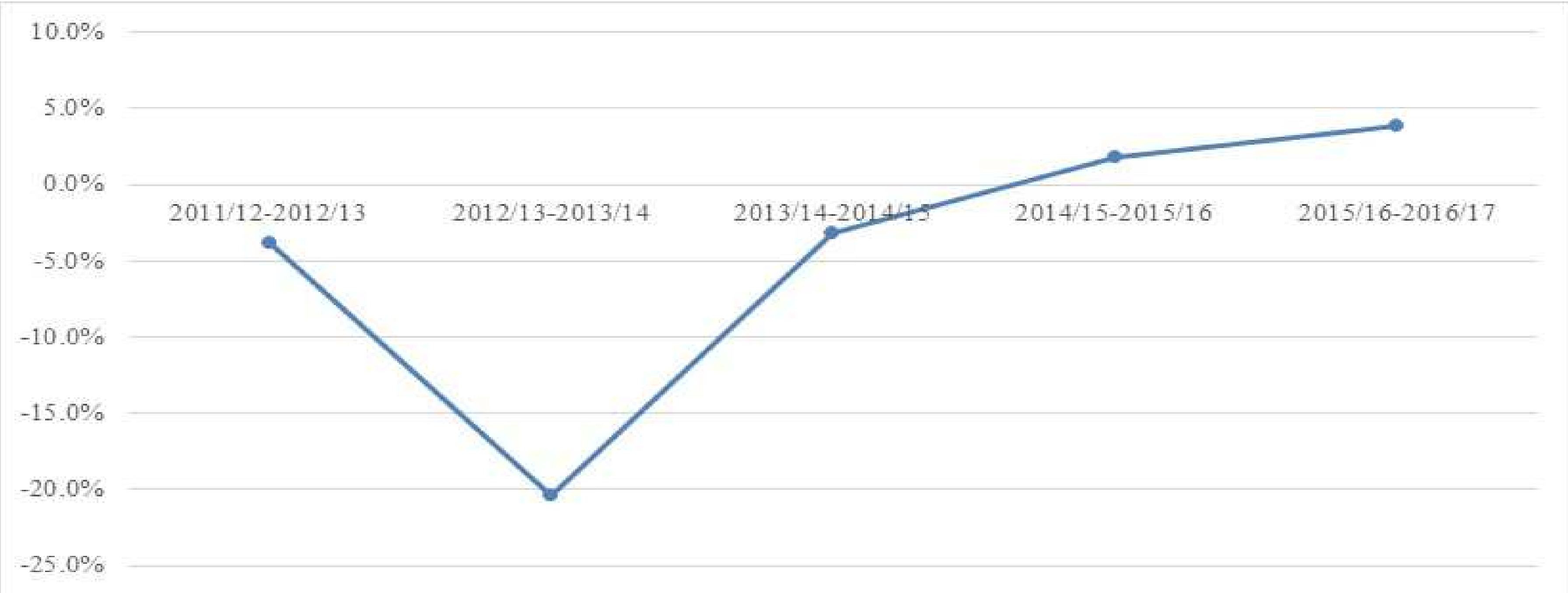
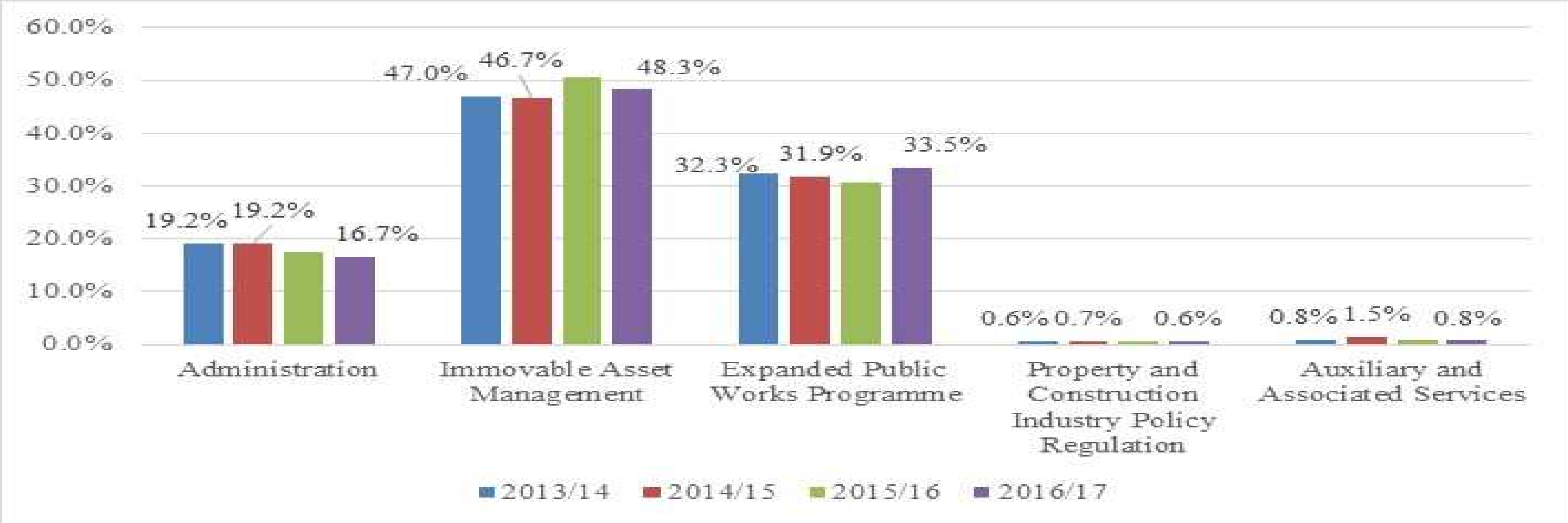
Real Year on Year Growth of Public Works Budget

- Significant decline in year on year growth in 2013/14
  - Though still declining in real terms in 2014/15, there is some improvement
- Over rest of 2014 MTEF period, positive growth projected
  - Focus will be on rehabilitating 34 state owned buildings, and ensuring that at least 100 buildings are made accessible to people with disabilities in each year of MTEF



BUDGET COMPOSITION ACROSS PROGRAMMES



- Immovable Asset Management Programme consumes largest share of DPW budget – by end of 2014 MTEF period this programme is projected to consume just under half of DPW budget
- Share allocated to Administration Programme consumers about one fifth of departmental budget – funding for Turnaround Project fall under Administration
  - Turnaround Project will support activities relating to the Special Investigating Unit, a technical support unit, a clean audit project, irregular expenditure management, internal audit support

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Economic Classification

Item (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Compensation of Employees	1 269.6	1 374.6	1 473.5	1 659.9	1 753.5	1 870.5
Goods and Services	1 032.9	977.0	1 379.6	1 302.1	1 202.9	1 269.0
Transfers and Subsidies	3 656.2	4 092.4	2 543.9	2 563.4	2 654.2	3 017.9
Payments for Capital Assets	1 099.1	756.8	628.4	595.9	934.8	981.7
Real Year on Year Growth (%)						
Compensation of Employees		2.1%	2.1%	7.3%	0.6%	1.6%
Goods and Services		-10.8%	34.5%	-10.1%	-12.0%	0.5%
Transfers and Subsidies		5.6%	-40.8%	-4.0%	-1.4%	8.3%
Payments for Capital Assets		-35.1%	-20.9%	-9.7%	49.4%	-0.003%

- Transfers and subsidies is the largest item
  - the decrease in 2013/14 due to phasing out of the Devolution of Property Rates Fund Grant to Provinces, hence reduction in transfers to provinces
- The increase in spending on Goods and Services in 2013/14 driven by spending on consultants – due to shortage of technical skills in property/project management and specialists as required for the DPW’s turnaround project
- Payments for capital assets very erratic
- Relative to strong annual average growth between 2011/12 and 2013/14, growth in Goods and Service set to decline over the 2014 MTEF period

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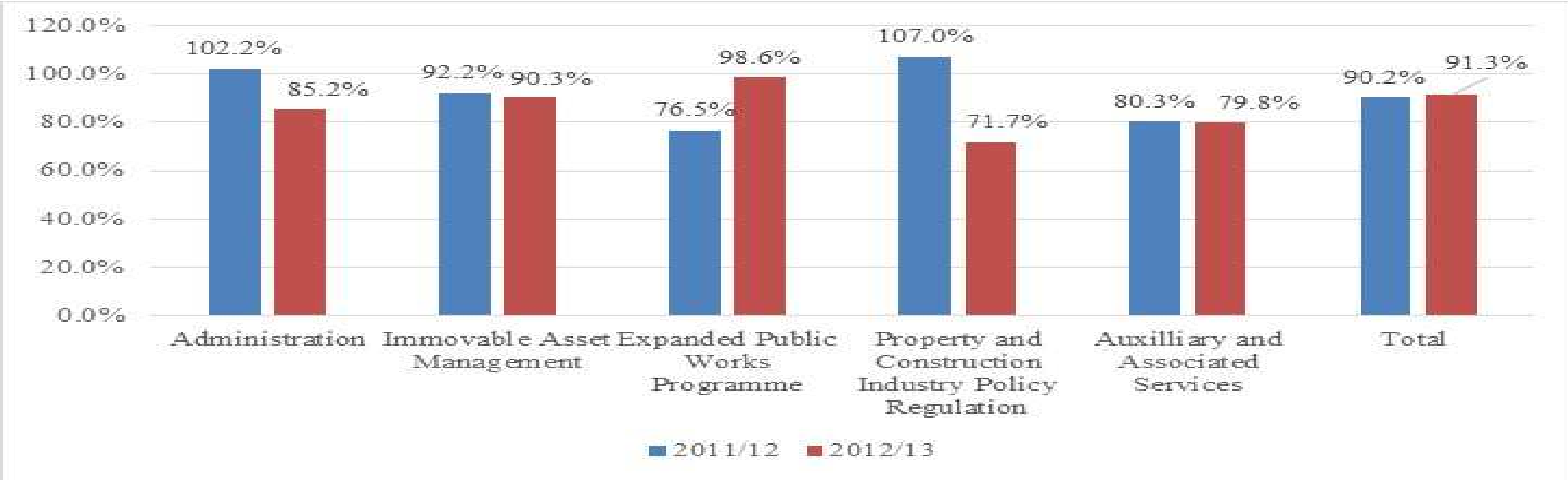
SPENDING PERFORMANCE (FISCAL DISCIPLINE)



- DPW underspent in 2011/12 and 2012/13
- In 2011 underspending on EPWP and Auxilliary and Associated Services Programme
- In 2012, underspending is as a result of poor spending in Property and Construction Industry Policy Regulation Programme and again Auxilliary and Associated Services Programme
- Due to persistent underspending on capital, baseline reductions of R1.3 billion effected over 2014 MTEF period

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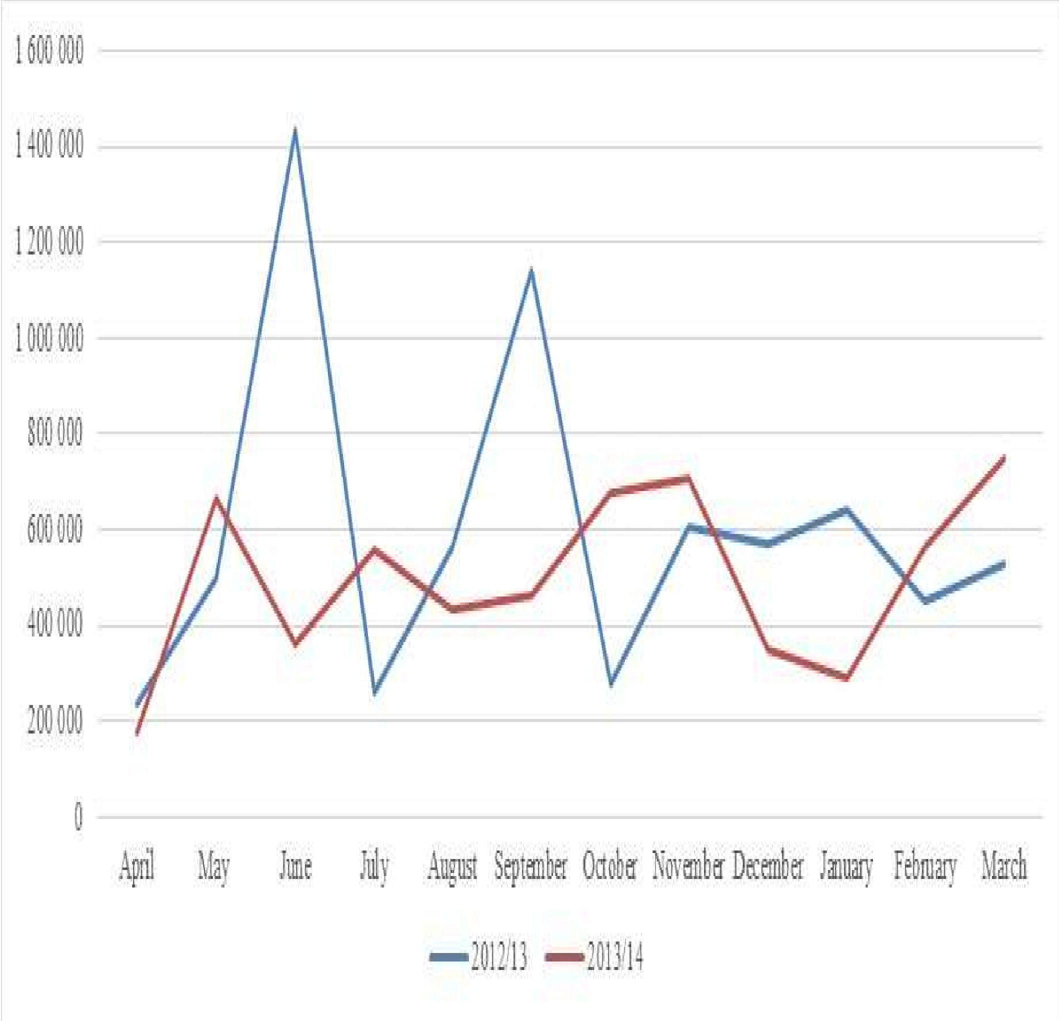
In-Year Expenditure

- 2012/13 in-year spending erratic
- Appears to be improving in 2013/14 – variances in monthly spending not as large as during 2012/13
- Concern with poor in-year spending is that it hints at unstable cash flow and disbursements



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Selected Sub-Programme Analysis: Immovable Asset Management Programme

Real Year on Year Growth	2011/12-2012/13	2012/13-2013/14	2013/14-2014/15	2014/15-2015/16	2015/16-2016/17
Infrastructure (Public Works)	-33.5%	-9.7%	-28.1%	57.5%	-0.1%
Strategic Asset Investment Analysis	-67.7%	149.1%	10.4%	0.2%	1.0%
Operation Management	1.6%	-0.3%	0.5%	-0.4%	2.7%
Prestige Management	-51.5%	44.0%	-27.0%	-1.0%	-28.5%
Special Projects	4.0%	47.6%	-24.7%	1.8%	0.4%
Construction Industry Development Board	-3.4%	2.0%	1.6%	0.4%	0.2%
Council for the Built Environment	-7.7%	28.8%	4.3%	1.4%	0.2%
Parliamentary Village Management Board	-0.6%	0.1%	1.1%	-0.4%	0.5%
Augmentation of the Property Management Trading Entity	-3.2%	0.5%	-6.0%	-0.1%	0.6%
Independent Development Trust	-68.1%	-6.3%	-4.7%	-4.8%	-100.0%
Total	**-14.0%**	**-37.8%**	**-8.6%**	**10.1%**	**-0.7%**

- Total programme growth declines over most of the period reviewed
  - Decline in 2012 and 2013 is due to phasing out of devolution of property rates fund grant to provinces, non-completion of projects and Cabinet approved reductions due to underspending
- Generally sub-programme trends are erratic, brings into question soundness of planning in DPW
- Lack of capacity a challenge in this programme – 10% vacancy rate

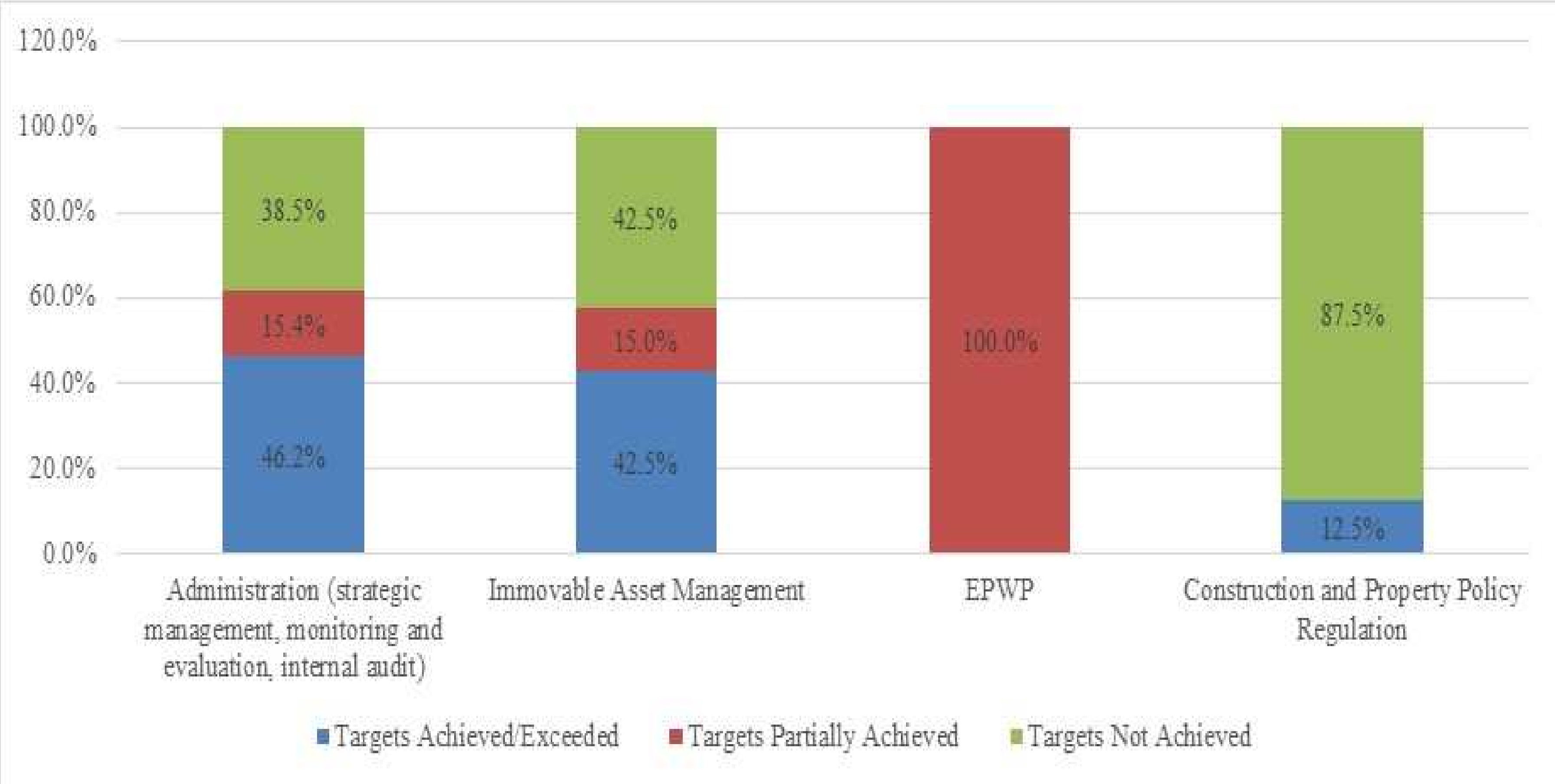
SELECTED SUB-PROGRAMME ANALYSIS: EXPANDED PUBLIC WORKS PROGRAMME

R million	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**
Expanded Public Works Programme	209.7	236.8	273.8	261.5	267.7	290.6
Performance Based Incentive Allocations	953.3	1 467.3	1 674.2	1 689.8	1 739.2	2 104.6
Total	**1 163.0**	**1 704.1**	**1 948.0**	**1 951.3**	**2 006.8**	**2 395.2**
Real Year on Year Growth		**2011/12-2012/13**	**2012/13-2013/14**	**2013/14-2014/15**	**2014/15-2015/16**	**2015/16-2016/17**
Expanded Public Works Programme		12.9%	15.6%	-4.5%	2.4%	8.6%
Performance Based Incentive Allocations		53.9%	14.1%	0.9%	2.9%	21.0%
Total		**46.5%**	**14.3%**	**0.2%**	**2.8%**	**19.4%**

- EPWP promotes use of government expenditure to create additional employment opportunities through the use of labour-intensive delivery methods
  - Increases in 2012/2013 due to appointment of service providers to support provinces and municipalities in design of infrastructure projects and reporting methods
- Performance Based Incentive Allocations is the largest sub-programme
  - Focus: disburses funds to provinces/municipalities and NGOs to ensure creation of work opportunities in infrastructure, environment, social sectors
  - Increases between 2012 and 2013 are due to additional funding allocated. However to give effect to Cabinet-approved reductions, growth in this sub programme slows in 2014 and 2015
- Overall between 2009/10 and 2012/13, just over 3 million jobs created (68% of target of 4.5 million jobs)

DEPARTMENTAL PERFORMANCE

- Department not adequately meeting targets set.
  - Number of targets partially met and totally unmet exceptionally high



Departmental Performance [cont.]

Programme	Explanation for Unmet Targets
Administration	Delays due to lack of capacity/high vacancy rate, unrealistic targets given financial resources, lengthy procurement processes that delay appointment of service providers
Immovable Asset Management	Appropriate supply chain management process not followed, unrealistic target setting, inadequate data collection to verify extent to which target was met
EPWP	Delays in project implementation, lack of technical capacity to implement projects, poor performance on part of municipalities/provinces to carry out projects
Construction and Property Policy Regulation	• Legislative framework for Built Environment Professionals: delays in internal consultation • Establish Agrement SA as public entity: delay in the approval of business case • Provide immovable asset lifecycle management guidelines to national and provincial custodians of immovable assets: delay in internal consultation prevented finalisation

Aspects Highlighted by the Auditor-General

- DPW audit outcomes:
  - 2009/10: qualified with findings
  - 2010/11:disclaimer
  - 2011/12: disclaimer
  - 2012/13: qualified with findings
- Key issues highlighted by Auditor-General that need to be addressed:
  - Inadequate internal controls in areas of leadership, financial management, performance management and governance
  - Areas that were identified for specific attention through the turnaround project include: lack of controls in supply chain management, poor lease management, inadequate immovable asset register, lack of built environment and property management skills

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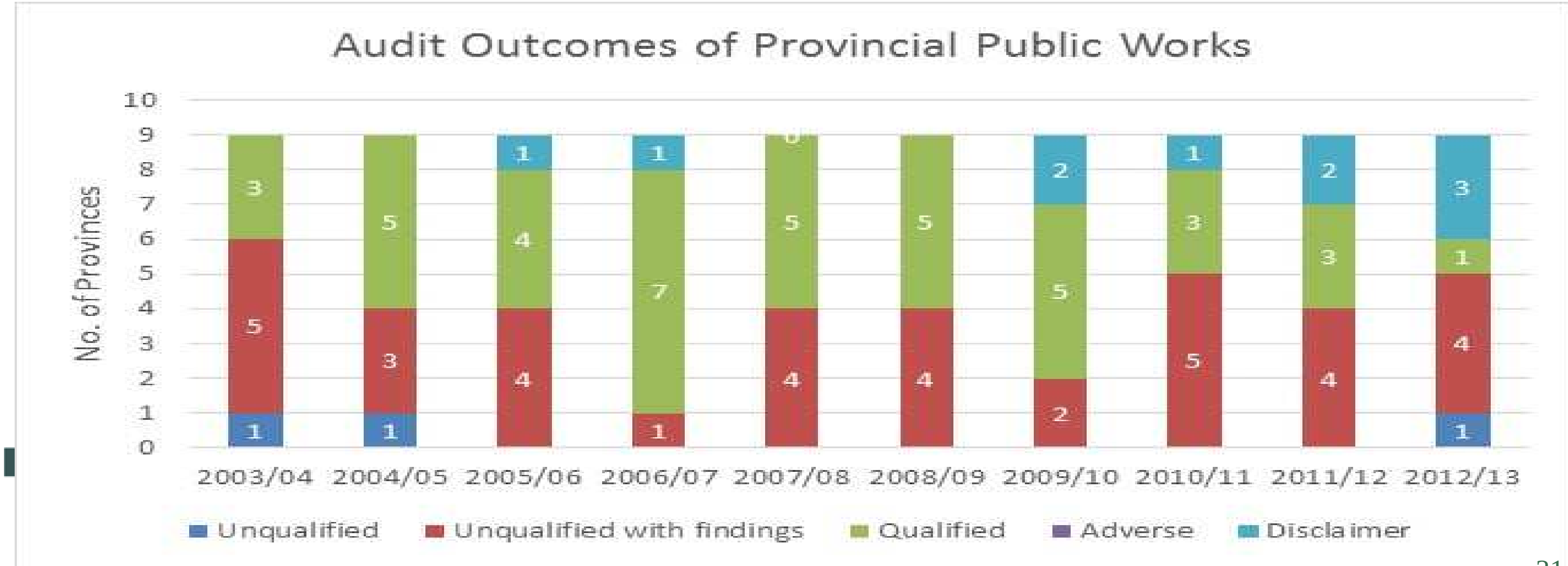
PUBLIC WORKS IN THE PROVINCES

PROVINCIAL AUDIT OUTCOMES

- Audit outcomes for provincial departments of public works have not considerably improved in since 2003/04
  - Four out of the nine provinces received a qualified opinion or disclaimer in 2012/13
  - Over a period of 10 years (i.e. 2003/4 – 2012/13), only 3 provincial departments of public works received an unqualified audit opinion



PROVINCIAL AUDIT OUTCOMES [CONT.]

- The Auditor-General raised a number of matters that prevented provincial departments from achieving clean audits such as:
  - Instability in leadership and lack of human resources
  - Internal controls are ineffective
  - Action plans to implement improvement in audit outcomes are not timeously implemented
  - Inaccurate and incomplete fixed asset registers
  - Incomplete disclosures on unauthorized, irregular and fruitless, irregular and wasteful expenditure
  - Commitments by the national sector department to intervene and/or provide support were not honoured
- The Commission's view is that DPW should play a more active role, through the various intergovernmental forums, in providing the necessary support to provincial departments of public works

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Spending Performance by Provinces on EPWP Conditional Grants

- The National Department of Public Works is the transferring agent for two EPWP conditional grants to provinces
- As the transferring agent, the responsibilities of the DPW are prescribed in the conditional grant framework contained in the Division of Revenue Act. These include (among others):
  - Determine eligibility of grant, monitor and provide support to provinces, audit provincial performance and report to national treasury on provincial progress

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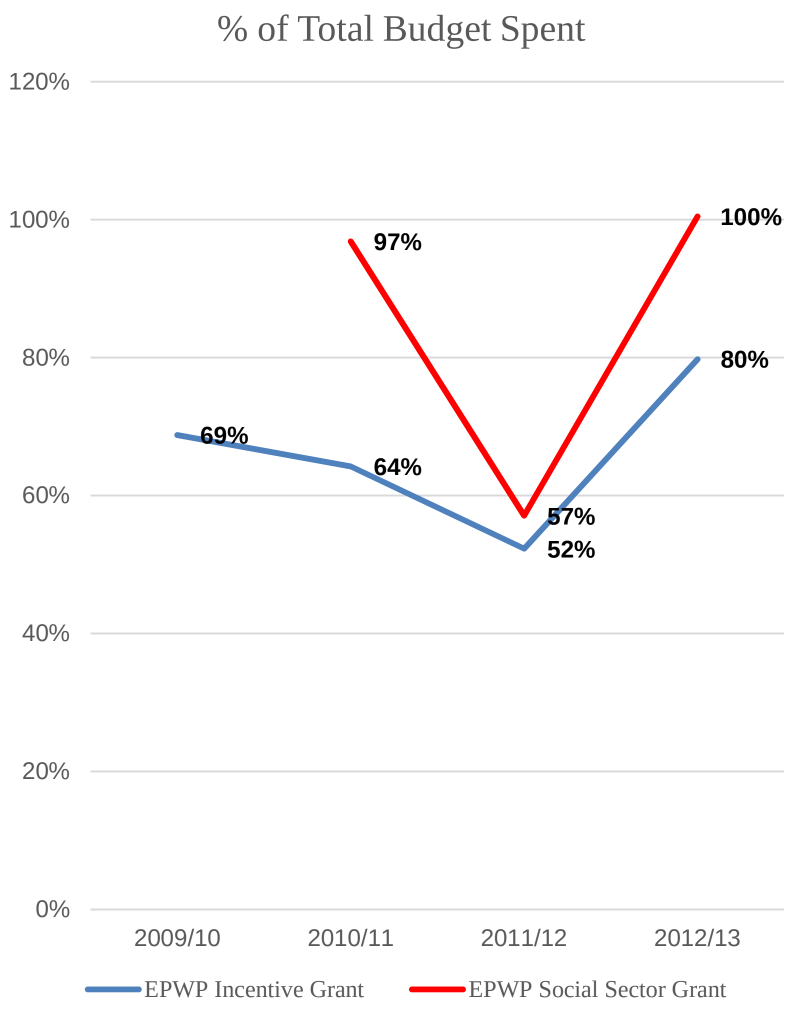
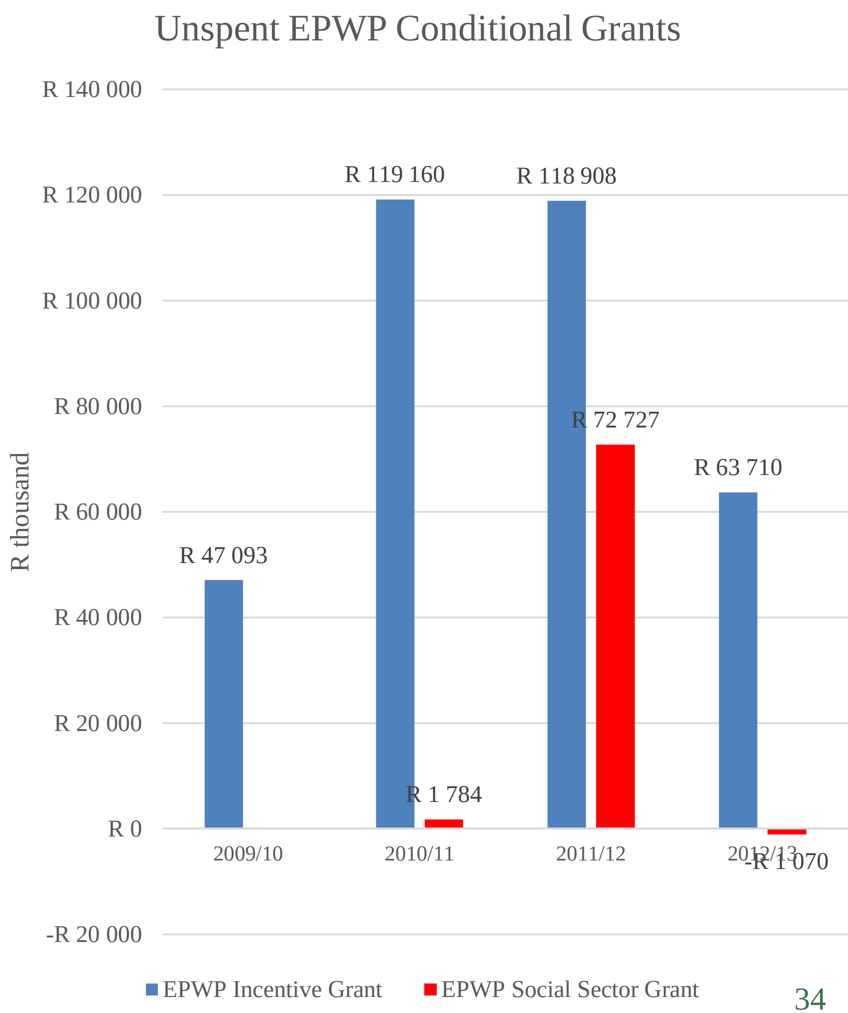
EPWP Conditional Grants to Provinces





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Financial and Fiscal Commission
Intergovernmental Fiscal Relations Conference
11 - 13 August 2014
International Convention Centre, Cape Town, South Africa

2015/16 Submission | Housing Financing | Child Welfare Services | 2012/2013 Annual report

2015/16 SUBMISSION FOR THE DIVISION OF REVENUE

SUBMISSION FOR THE DIVISION OF REVENUE 2015/16

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

NEW!!!

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

UPCOMING EVENTS

PORTFOLIO COMMITTEE ON PUBLIC WORKS

Financial and Fiscal Commission

25 September 2014

For an Equitable Sharing of National Revenue

PRESENTATION OUTLINE

1. Role and Function of the Financial and Fiscal Commission
2. Recommendations of the Commission that relate to Public Works
3. Departmental Analysis

FINANCIAL AND FISCAL COMMISSION

1. Role and Function of the Financial and Fiscal Commission

ROLE AND FUNCTION OF THE FFC

- The Financial and Fiscal Commission (FFC)
  - Is an independent, permanent, statutory institution established in terms of Section 220 of Constitution
  - Must function in terms of the FFC Act
- Mandate of Commission
  - To make recommendations, envisaged in Chapter 13 of the Constitution or in national legislation to Parliament, Provincial Legislatures, and any other organ of state determined by national legislation
- The Commission's focus is primarily on the equitable division of nationally collected revenue among the three spheres of government and any other financial and fiscal matters
  - Legislative provisions or executive decisions that affect either provincial or local government from a financial and/or fiscal perspective
  - Includes regulations associated with legislation that may amend or extend such legislation
  - Commission must be consulted in terms of the FFC Act
  - Current research strategy focuses on developmental impacts of IGFR

FINANCIAL AND FISCAL COMMISSION

How FFC Supports Policy

- Identify weakness within the IGFR system
- Propose evidence-based policy proposals
- Interact and participate with/in forums and institutions responsible for IGFR policy – TCF, Budget Council, Budget Forum
- Information dissemination – invitations from nine provincial legislatures and SALGA
- Interact with various committees within parliament

FINANCIAL AND FISCAL COMMISSION

PROCESSING OF RECOMMENDATIONS

- Recommendations of the Commission
  - Recommendations are made to Parliament so that the legislature can examine the financial and fiscal decisions of government against them and understand why they have been accepted or rejected
  - Section 4(4)(c) of the Money Bills Amendment Procedures and Related Matters Act (MBAPMA) requires Parliament to consider the recommendations of the Commission when deliberating on Money Bills
- Government is obligated through an Act of Parliament to explain how it has taken the FFC recommendations in arriving at the division of revenue for any particular year
  - The response is tabled in Annexure W1 of the DoR Bill and of the Budget Review

FINANCIAL AND FISCAL COMMISSION

How FFC can Support Parliament

DIRECT TRAINING AND INTERVENTION

- Training of members of parliamentary committees and councillors on request (e.g. in Bushbuckridge)
- Advice to municipalities (e.g. Tshwane merger)
- Inputs in various fora (e.g. SALGA)

NON TRAINING SUPPORT AND INTERVENTION

- Member of review committees (LES, Infrastructure Grants, Metro's Own Revenue)
- Public hearings (local government fiscal framework, housing and welfare)
- Inputs in benchmarking exercises
- Recommendations through Annual Submission on DoR, MTBPS, FF and Appropriations

VALUE ADD OF THE FFC

- FFC can provide advice, analysis and training to assist the work of the Committee
  - Specialised IGFR training to committee members and/or parliamentary researchers
  - Provision of recommendations that are founded on evidence based research
  - Technical support with respect to parliamentary fiscal oversight activities

FINANCIAL AND FISCAL COMMISSION

2. Recommendations that Relate to Public Works

FFC Work Related to DPW [cont.]

Response to Division of Revenue Bill (DoRB) 2010	The Commission welcomed introduction of the *EPWP Incentive Grant for the Social Sector*. The Commission noted that there was a need to standardise the employment framework for the sector including conditions, wages and progression across provinces and municipalities. The Commission also raised concern regarding difficulties that were being experienced with the transfer of the EPWP Incentive Grant to Local and Provincial Governments. In the 2009/10 certain provinces (e.g. Western Cape) raised concern that they received transfers outside the ambit of the DoR and couldn't spend the money because it was not properly appropriated through various legislatures. At that point the general challenge with the grant was that provinces and municipalities found it difficult to integrate it through their infrastructure programmes. This problem persists because labour intensive infrastructure projects need to be planned, costed and scheduled properly. Not all projects yield the same labour intensity, so targets must be set by project type and category. Some projects will better lend themselves to labour intensive methods than others. This must be factored into the budget allocations and monitoring of the grant. *Current Commission analysis is that provinces continue to have challenges relating to labour intensive infrastructure, which affects the spending of the Incentive grant. In 2012/13 DPW appointed service providers to support provinces and municipalities in design of infrastructure projects and reporting methods.*

FFC Work Related to DPW [cont.]

Response to MTBPS 2011	In terms of the EPWP Incentive grant framework, provinces and municipalities must spend their budgets on EPWP projects and after that the grant will be paid by DPW quarterly as an incentive (after employment has been created). There has been general under-spending against budget since inception of the grant. Projected under-spending in financial year 2011 was 28.4%. In 2010, the actual under-spend was 38.4%. Despite poor spending performance, the annual growth of the budget was high. Expenditure reports on the grant performance at local government were inaccessible. DPW should explain how transfers are reconciled with actual expenditure. The grant should be streamlined to the Division of Revenue Act (DORA) requirements in terms of allocation and disbursements of funds. Punitive and incentive elements of the grant should be made transparent to all the stakeholders. *Current FFC analysis indicates that underspending persists. Between 2009/10 and 2012/13, provinces have been unable to spend more than 80% of their allocation*
Response to DoRB 2012	The Commission reiterated concerns raised in its Response to DoRB 2010 and Response to 2011 MTBPS regarding the challenges with the EPWP Incentive grant. The Commission maintained its view that the grant had not succeeded in achieving the intended goals within the specified time. There had also not been a formal assessment of the achievement of this grant both in terms of expenditure and service delivery outputs including how many direct and full times jobs had been created against the allocated funds. The Commission recommended that an independent review of the grant be undertaken, so that lessons can be drawn from past experience to avoid a replication of past mistakes. Government has since set up a team consisting of National Treasury, DPW, DCoG and SALGA that has been working on this. *This review is ongoing*

FFC Work Related to DPW [cont.]

Submission for the 2009/10 DoR	FFC found a need for reporting on EPWP outcomes to be more specific. In accordance with the requirements of the EPWP, job creation for target groups such as women, youth and people with disabilities should be included in the reporting requirements for all infrastructure conditional grants to provinces and municipalities GOVT. RESPONSE: The recommendation for reporting on targets is supported. Some of these indicators can possibly be reported on as part of the conditional grant frameworks prescribed in terms of the Division of Revenue Act
Submission for the 2007/08 DoR	The World Cup funding was crafted on the basis of requirements to meet FIFA standards of hosting cities, and that the major challenge faced by government was sustainability of built infrastructure. On the funding for the FIFA World Cup, FFC, examined the sustainability of built infrastructure, taking the escalation of construction costs into account. FFC's findings included that the escalation of construction costs be budgeted for, and that collaboration with the private sector should be encouraged. Also that a 2010 World Cup "Legacy Management Policy" should be introduced and prudent fiscal policy should be maintained leading to the World Cup GOVT. RESPONSE: Government is of the view that the costs relating to maintenance of constructed 2010 FIFA World Cup facilities should be provided by municipalities

FINANCIAL
AND FISCAL
COMMISSION

3. DEPARTMENTAL ANALYSIS

CONTEXTUALISING THE DEPARTMENT OF PUBLIC WORKS

- Aim of Department of Public Works (DPW):
  - provide for and manage accommodation, housing, land and infrastructure needs of national departments
  - Lead and direct implementation of the national expanded public works programme (EPWP)
  - Promote growth, job creation and transformation in the construction and property industries
- Public works is a concurrent function between national and provincial spheres of government
- DPW contribution to National Development Plan (NDP) achieved through:
  - Implementation of job creation initiatives
  - Transition to low cost carbon economy
  - Development of an inclusive and integrated rural economy
  - Fight against corruption

FINANCIAL AND FISCAL COMMISSION

KEY CHALLENGES CONFRONTING DPW

- Due to consistent trend of poor audit outcomes and generally poor performance, DPW implemented a turnaround project in November 2012
- Areas that were identified for specific attention through the turnaround project include:
  - Lack of controls in supply chain management (SCM)
    - Identified as major risk area by Auditor-General – DPW capacity to process tenders eroded and has led to numerous instances of fraud/corruption. SCM has been major focus of the Special Investigating Unit (SIU). SCM is the key focus of turnaround project in DPW. A service provider appointed to assist with fundamental review of SCM
      - Irregular expenditure, R171 million in 2011/12; R874 million in 2012/13
  - Poor lease management
    - Numerous irregularities with respect to lease agreements – gives rise to legal risks. DPW reviewing all lease agreements

FINANCIAL AND FISCAL COMMISSION

Key Challenges Confronting DPW [cont.]

- Inadequate immovable asset register
  - Lack of compliant immovable asset register resulted in negative audit opinions. DPW now in process of rebuilding immovable asset register and building a model to revalue immovable assets
- Lack of built environment and property management skills
  - Lack of technical capacity to undertake direct construction/maintenance functions. Cooperating with DPSA and Higher Education and Training to address challenge

FINANCIAL AND FISCAL COMMISSION

STARTING POINT FOR BUDGET ANALYSIS

- By vote
  - Compare different votes with each other
- By vote programme
  - Compare different programmes within a vote
- By sub-programme
- Compare different sub-programmes within a programme
- By province
- Compare different provinces with each other
- Use Outputs, Targets and Indicators to measure performance
- Use policy documents as a benchmark

FINANCIAL AND FISCAL COMMISSION

USEFUL TOOLS

- Percentage Share of Total Budget
- Growth in the Budget
  - Percentage Change
    - Reflecting increases/decreases in percentage form
  - Annual Growth Rate
    - How does the allocation change year on year
  - Real Percentage Change
    - Takes inflation into consideration
  - Variances and explanations
    - Investigating the reasons/drivers of change
  - Spending by economic classification
    - Distinguishes between various categories of current (goods and services, transfers and subsidies) and capital expenditure (acquisition of fixed capital assets, purchase of land)

Budget and Programmes of Public Works

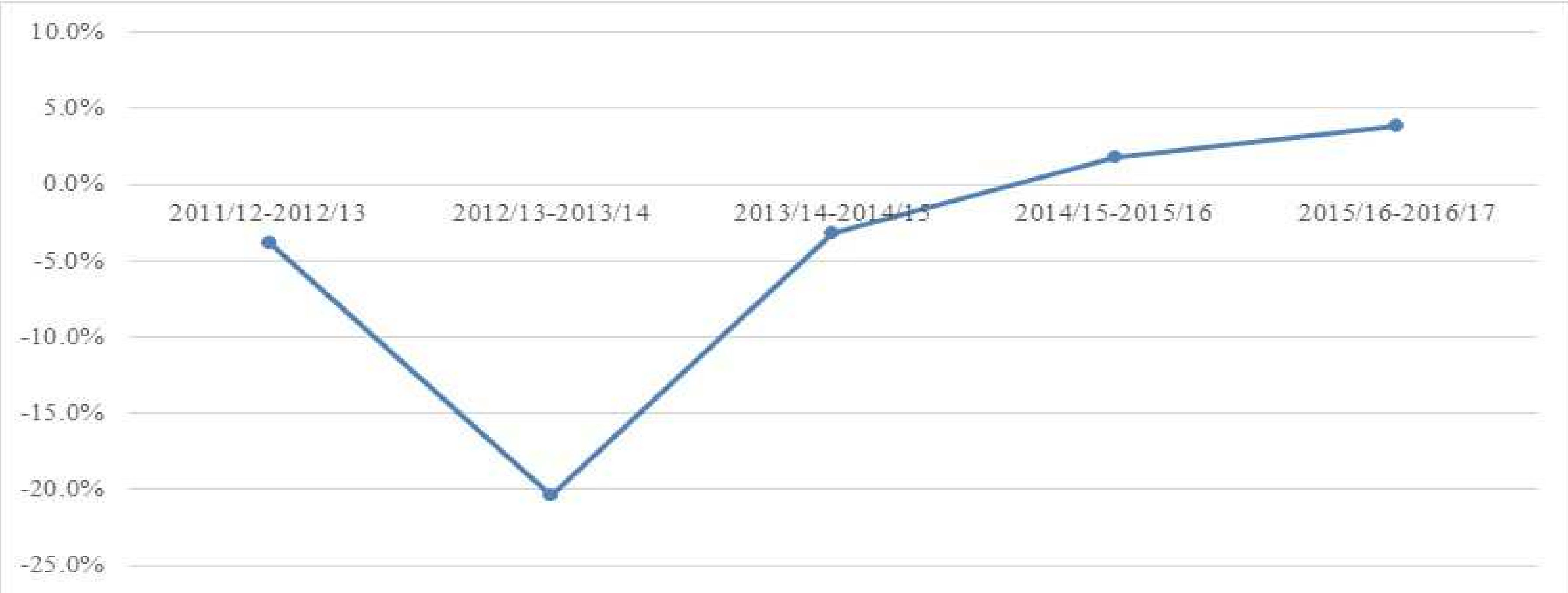
Nominal (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Real Annual Average Growth 2011/12-2013/14	Real Annual Average Growth 2014/15-2016/17
Administration	837.1	856.2	1 158.2	1 175.3	1 133.3	1 191.5	11.5%	-4.1%
Immovable Asset Management	5 001.7	4 563.5	2 831.8	2 861.4	3 308.1	3 450.0	-28.7%	4.6%
Expanded Public Works Programme	1 163.0	1 704.1	1 948.0	1 951.3	2 006.8	2 395.2	22.7%	5.5%
Property and Construction Industry Policy Regulation	34.4	26.9	36.7	41.5	43.4	45.9	-2.1%	0.1%
Auxiliary and Associated Services	25.2	53.3	50.7	91.8	53.7	56.6	34.4%	-25.2%
Total	**7 061.4**	**7 203.9**	**6 025.3**	**6 121.3**	**6 545.3**	**7 139.2**	**-12.5%**	**2.8%**

- Five programmes on Department of Public Works (DPW) budget
- Allocation reduced significantly in 2013/14, due to phasing out of Devolution of Property Rates Fund Grant to provinces and non-completion of various projects. As result of underspending, Cabinet approved reductions were effected
  - Following poor spending performance and audit outcomes, DPW implementing a Turnaround Project
- DPW budget projected to recover to just over R7.1 billion by end of 2014 medium term expenditure framework (MTEF) period
  - 2014 MTEF growth driven by additional allocation of R159 million in 2016/17 for Expanded Public Works Programme (EPWP)

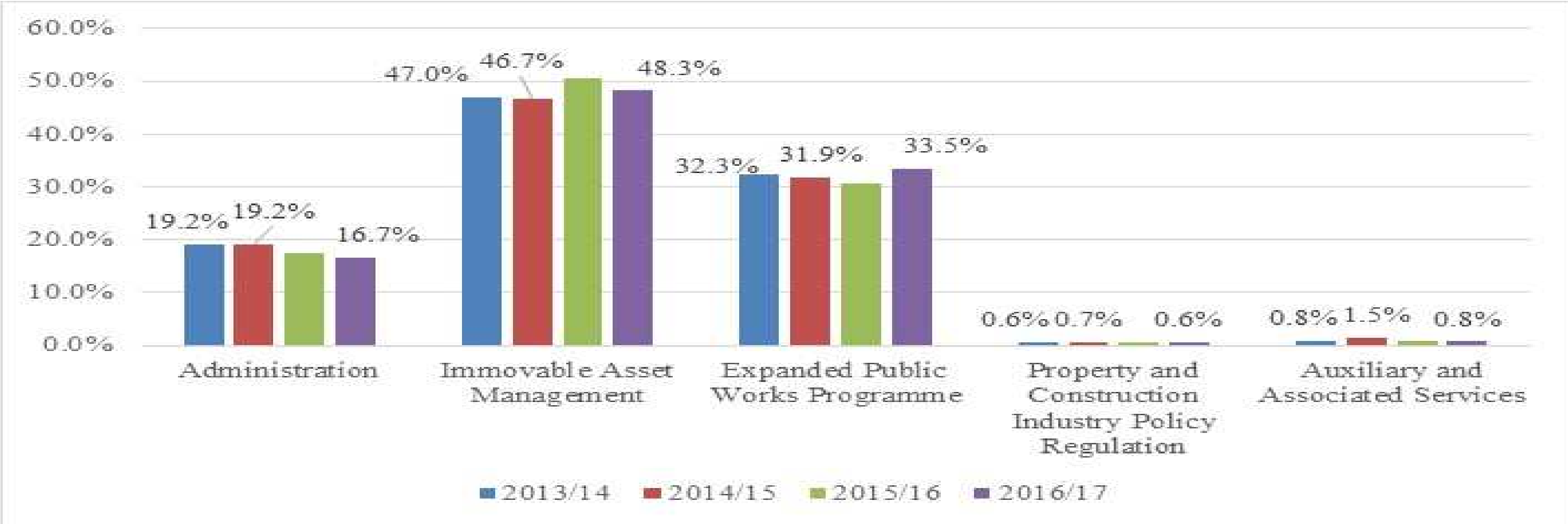
FINANCIAL AND FISCAL COMMISSION

REAL YEAR ON YEAR GROWTH OF PUBLIC WORKS BUDGET

- Significant decline in year on year growth in 2013/14
  - Though still declining in real terms in 2014/15, there is some improvement
- Over rest of 2014 MTEF period, positive growth projected
  - Focus will be on rehabilitating 34 state owned buildings, and ensuring that at least 100 buildings are made accessible to people with disabilities in each year of MTEF



BUDGET COMPOSITION ACROSS PROGRAMMES



- Immovable Asset Management Programme consumes largest share of DPW budget – by end of 2014 MTEF period this programme is projected to consume just under half of DPW budget
- Share allocated to Administration Programme consumers about one fifth of departmental budget – funding for Turnaround Project fall under Administration
  – Turnaround Project will support activities relating to the Special Investigating Unit, a technical support unit, a clean audit project, irregular expenditure management, internal audit support

FINANCIAL AND FISCAL COMMISSION

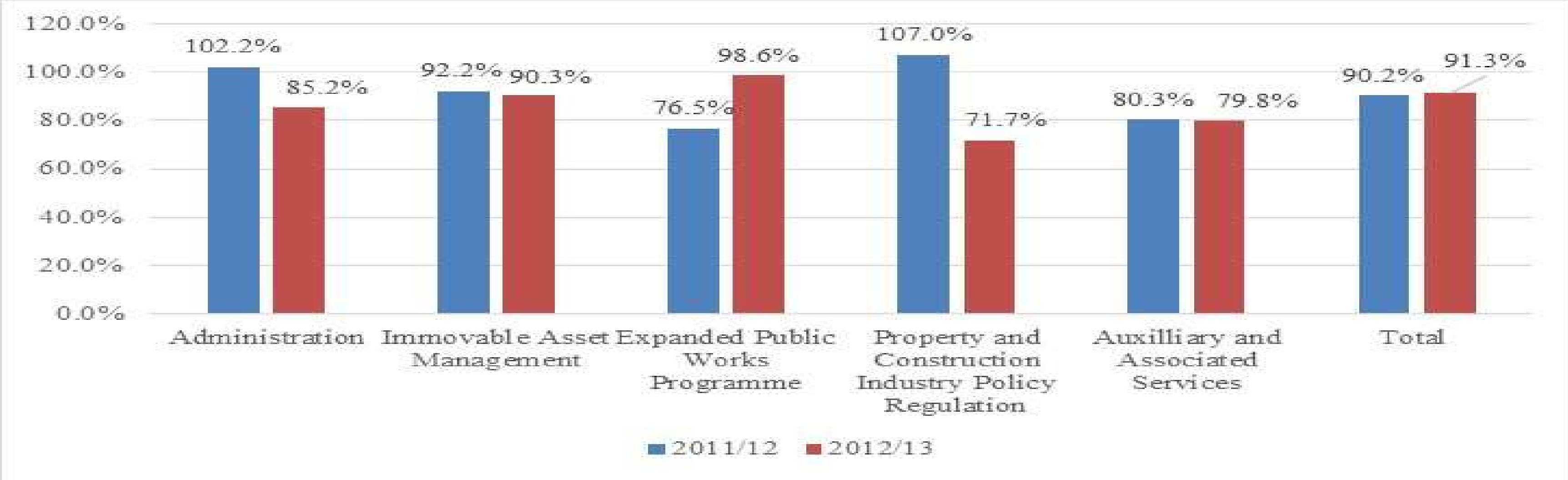
ECONOMIC CLASSIFICATION

Item (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Compensation of Employees	1 269.6	1 374.6	1 473.5	1 659.9	1 753.5	1 870.5
Goods and Services	1 032.9	977.0	1 379.6	1 302.1	1 202.9	1 269.0
Transfers and Subsidies	3 656.2	4 092.4	2 543.9	2 563.4	2 654.2	3 017.9
Payments for Capital Assets	1 099.1	756.8	628.4	595.9	934.8	981.7
Real Year on Year Growth (%)						
Compensation of Employees		2.1%	2.1%	7.3%	0.6%	1.6%
Goods and Services		-10.8%	34.5%	-10.1%	-12.0%	0.5%
Transfers and Subsidies		5.6%	-40.8%	-4.0%	-1.4%	8.3%
Payments for Capital Assets		-35.1%	-20.9%	-9.7%	49.4%	-0.003%

- Transfers and subsidies is the largest item
  - the decrease in 2013/14 due to phasing out of the Devolution of Property Rates Fund Grant to Provinces, hence reduction in transfers to provinces
- The increase in spending on Goods and Services in 2013/14 driven by spending on consultants – due to shortage of technical skills in property/project management and specialists as required for the DPW’s turnaround project
- Payments for capital assets very erratic
- Relative to strong annual average growth between 2011/12 and 2013/14, growth in Goods and Service set to decline over the 2014 MTEF period

FINANCIAL AND FISCAL COMMISSION

SPENDING PERFORMANCE (FISCAL DISCIPLINE)

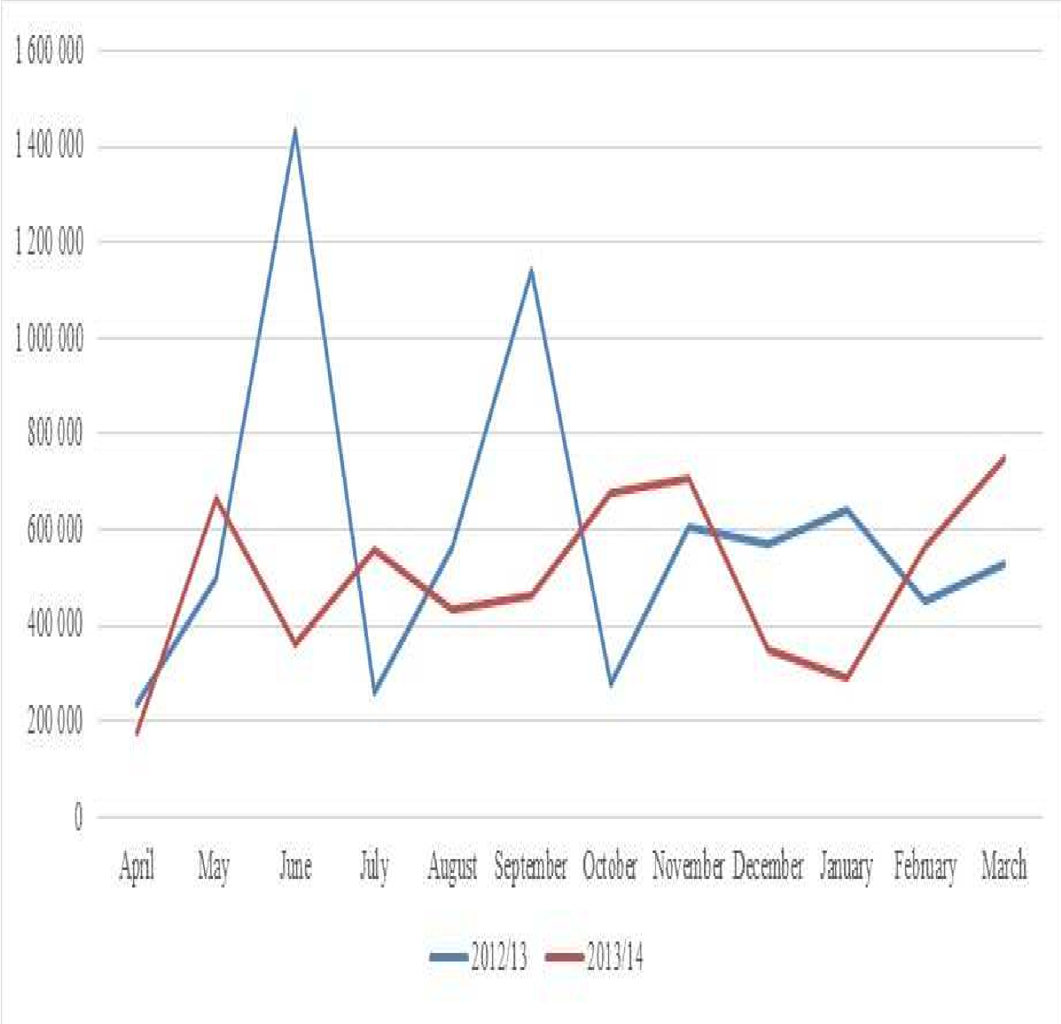


- DPW underspent in 2011/12 and 2012/13
- In 2011 underspending on EPWP and Auxilliary and Associated Services Programme
- In 2012, underspending is as a result of poor spending in Property and Construction Industry Policy Regulation Programme and again Auxilliary and Associated Services Programme
- Due to persistent underspending on capital, baseline reductions of R1.3 billion effected over 2014 MTEF period

FINANCIAL AND FISCAL COMMISSION

IN-YEAR EXPENDITURE

- 2012/13 in-year spending erratic
- Appears to be improving in 2013/14 – variances in monthly spending not as large as during 2012/13
- Concern with poor in-year spending is that it hints at unstable cash flow and disbursements



Selected Sub-Programme Analysis: Immovable Asset Management Programme

Real Year on Year Growth	2011/12-2012/13	2012/13-2013/14	2013/14-2014/15	2014/15-2015/16	2015/16-2016/17
Infrastructure (Public Works)	-33.5%	-9.7%	-28.1%	57.5%	-0.1%
Strategic Asset Investment Analysis	-67.7%	149.1%	10.4%	0.2%	1.0%
Operation Management	1.6%	-0.3%	0.5%	-0.4%	2.7%
Prestige Management	-51.5%	44.0%	-27.0%	-1.0%	-28.5%
Special Projects	4.0%	47.6%	-24.7%	1.8%	0.4%
Construction Industry Development Board	-3.4%	2.0%	1.6%	0.4%	0.2%
Council for the Built Environment	-7.7%	28.8%	4.3%	1.4%	0.2%
Parliamentary Village Management Board	-0.6%	0.1%	1.1%	-0.4%	0.5%
Augmentation of the Property Management Trading Entity	-3.2%	0.5%	-6.0%	-0.1%	0.6%
Independent Development Trust	-68.1%	-6.3%	-4.7%	-4.8%	-100.0%
Total	**-14.0%**	**-37.8%**	**-8.6%**	**10.1%**	**-0.7%**

- Total programme growth declines over most of the period reviewed
  - Decline in 2012 and 2013 is due to phasing out of devolution of property rates fund grant to provinces, non-completion of projects and Cabinet approved reductions due to underspending
- Generally sub-programme trends are erratic, brings into question soundness of planning in DPW
- Lack of capacity a challenge in this programme – 10% vacancy rate

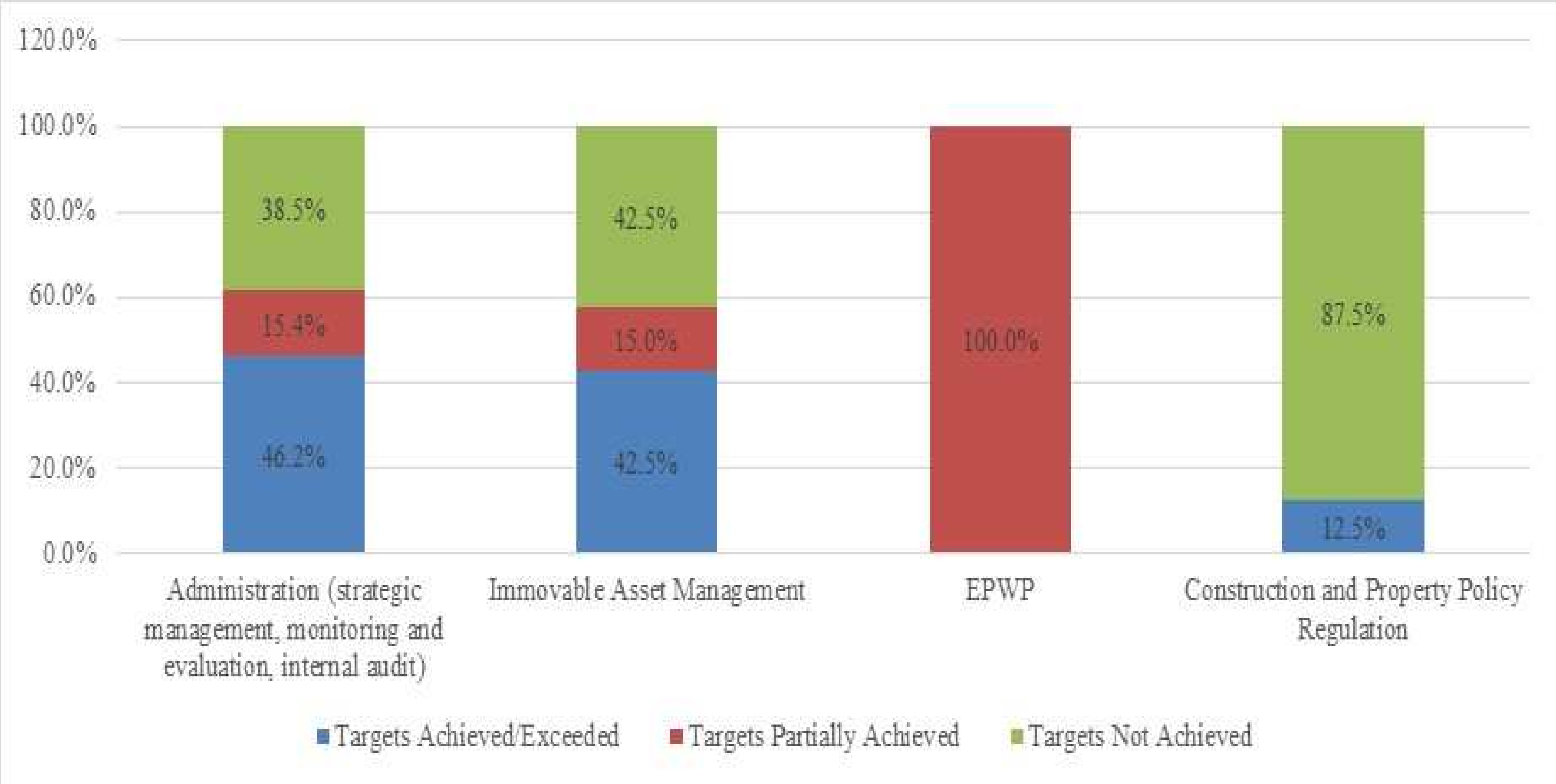
Selected Sub-Programme Analysis: Expanded Public Works Programme

R million	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**
Expanded Public Works Programme	209.7	236.8	273.8	261.5	267.7	290.6
Performance Based Incentive Allocations	953.3	1 467.3	1 674.2	1 689.8	1 739.2	2 104.6
Total	**1 163.0**	**1 704.1**	**1 948.0**	**1 951.3**	**2 006.8**	**2 395.2**
Real Year on Year Growth		**2011/12-2012/13**	**2012/13-2013/14**	**2013/14-2014/15**	**2014/15-2015/16**	**2015/16-2016/17**
Expanded Public Works Programme		12.9%	15.6%	-4.5%	2.4%	8.6%
Performance Based Incentive Allocations		53.9%	14.1%	0.9%	2.9%	21.0%
Total		**46.5%**	**14.3%**	**0.2%**	**2.8%**	**19.4%**

- EPWP promotes use of government expenditure to create additional employment opportunities through the use of labour-intensive delivery methods
  - Increases in 2012/2013 due to appointment of service providers to support provinces and municipalities in design of infrastructure projects and reporting methods
- Performance Based Incentive Allocations is the largest sub-programme
  - Focus: disburses funds to provinces/municipalities and NGOs to ensure creation of work opportunities in infrastructure, environment, social sectors
  - Increases between 2012 and 2013 are due to additional funding allocated. However to give effect to Cabinet-approved reductions, growth in this sub programme slows in 2014 and 2015
- Overall between 2009/10 and 2012/13, just over 3 million jobs created (68% of target of 4.5 million jobs)

DEPARTMENTAL PERFORMANCE

- Department not adequately meeting targets set.
  - Number of targets partially met and totally unmet exceptionally high



DEPARTMENTAL PERFORMANCE [CONT.]

Programme	Explanation for Unmet Targets
Administration	Delays due to lack of capacity/high vacancy rate, unrealistic targets given financial resources, lengthy procurement processes that delay appointment of service providers
Immovable Asset Management	Appropriate supply chain management process not followed, unrealistic target setting, inadequate data collection to verify extent to which target was met
EPWP	Delays in project implementation, lack of technical capacity to implement projects, poor performance on part of municipalities/provinces to carry out projects
Construction and Property Policy Regulation	• Legislative framework for Built Environment Professionals: delays in internal consultation • Establish Agrement SA as public entity: delay in the approval of business case • Provide immovable asset lifecycle management guidelines to national and provincial custodians of immovable assets: delay in internal consultation prevented finalisation

Aspects Highlighted by the Auditor-General

- DPW audit outcomes:
  - 2009/10: qualified with findings
  - 2010/11:disclaimer
  - 2011/12: disclaimer
  - 2012/13: qualified with findings
- Key issues highlighted by Auditor-General that need to be addressed:
  - Inadequate internal controls in areas of leadership, financial management, performance management and governance
  - Areas that were identified for specific attention through the turnaround project include: lack of controls in supply chain management, poor lease management, inadequate immovable asset register, lack of built environment and property management skills

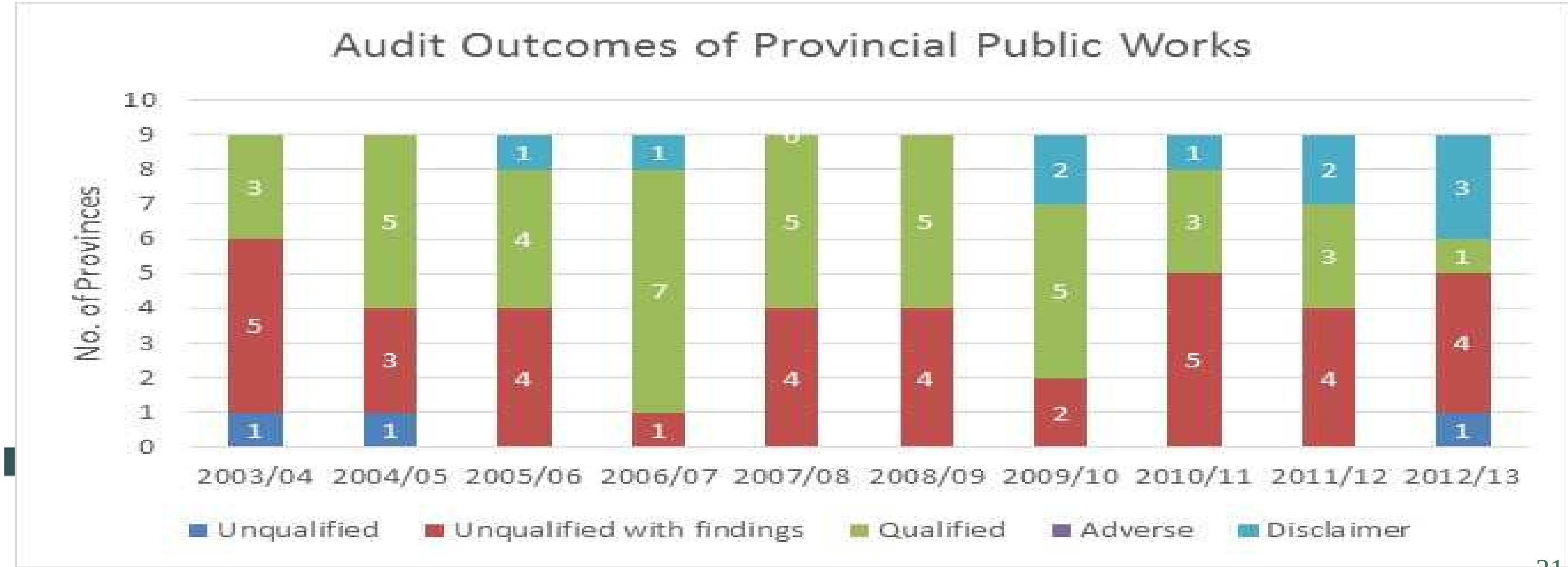
FINANCIAL AND FISCAL COMMISSION

FINANCIAL AND FISCAL COMMISSION

PUBLIC WORKS IN THE PROVINCES

PROVINCIAL AUDIT OUTCOMES

- Audit outcomes for provincial departments of public works have not considerably improved in since 2003/04
  - Four out of the nine provinces received a qualified opinion or disclaimer in 2012/13
  - Over a period of 10 years (i.e. 2003/4 – 2012/13), only 3 provincial departments of public works received an unqualified audit opinion



PROVINCIAL AUDIT OUTCOMES [CONT.]

- The Auditor-General raised a number of matters that prevented provincial departments from achieving clean audits such as:
  - Instability in leadership and lack of human resources
  - Internal controls are ineffective
  - Action plans to implement improvement in audit outcomes are not timeously implemented
  - Inaccurate and incomplete fixed asset registers
  - Incomplete disclosures on unauthorized, irregular and fruitless, irregular and wasteful expenditure
  - Commitments by the national sector department to intervene and/or provide support were not honoured
- The Commission's view is that DPW should play a more active role, through the various intergovernmental forums, in providing the necessary support to provincial departments of public works

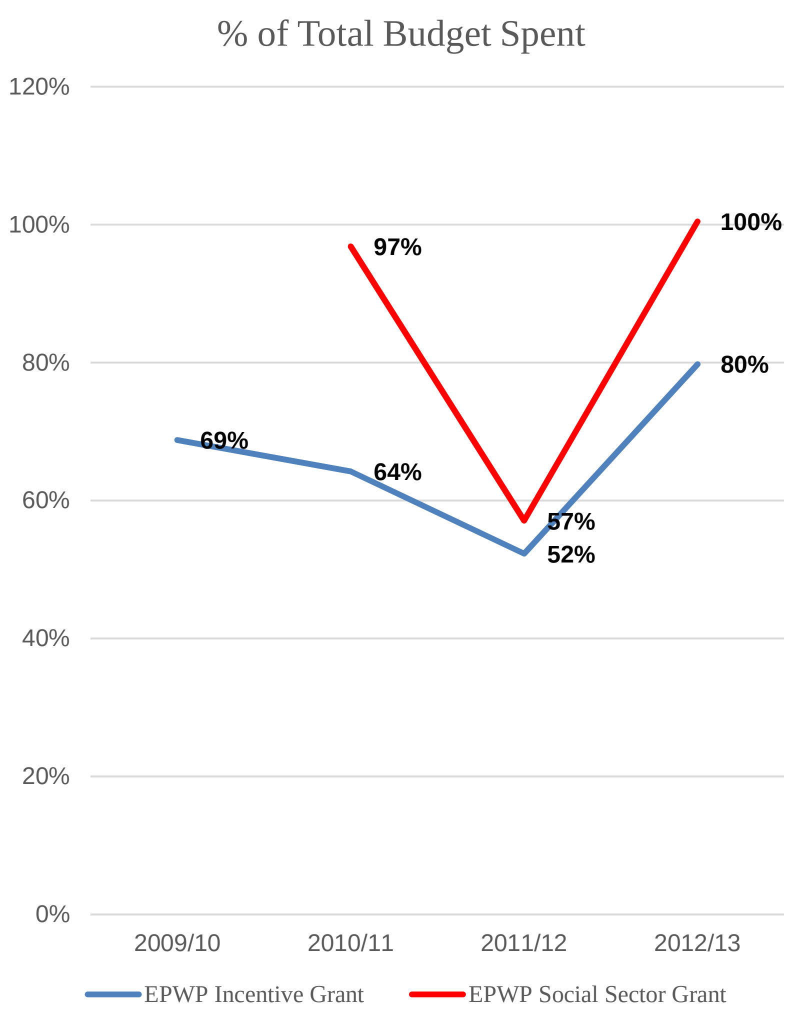
FINANCIAL AND FISCAL COMMISSION

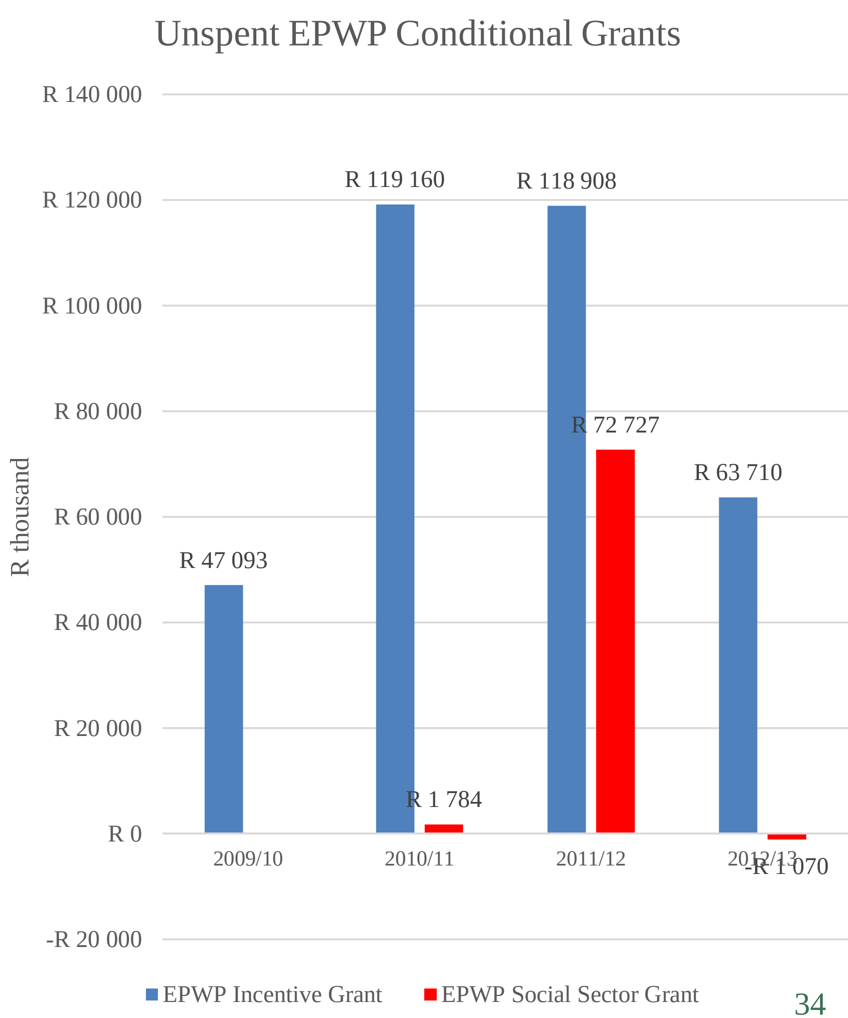
SPENDING PERFORMANCE BY PROVINCES ON EPWP CONDITIONAL GRANTS

- The National Department of Public Works is the transferring agent for two EPWP conditional grants to provinces
- As the transferring agent, the responsibilities of the DPW are prescribed in the conditional grant framework contained in the Division of Revenue Act. These include (among others):
  - Determine eligibility of grant, monitor and provide support to provinces, audit provincial performance and report to national treasury on provincial progress

FINANCIAL AND FISCAL COMMISSION

EPWP Conditional Grants to Provinces





Summary of Performance on EPWP Grants to Provinces

- Over a four year period (2009/10 – 2012/13), provinces have been unable to spend more than 80% of its allocation to the EPWP Incentive Grant in any given year
- Except in 2011/12 where spending on both EPWP grants were below 60% of total, the EPWP Social Sector grant in general, performed better than the Incentive grant
  - Provinces have challenges relating to infrastructure, which affects the spending performance on the Incentive grant
- In many instances, provinces fail to comply with grant conditions stipulated in DORA, resulting in funds being withheld, thereby leaving funds unspent at the end of the year

FINANCIAL AND FISCAL COMMISSION

Concluding Remarks

- Key issues emanating from analysis of DPW
  - Underspending of budget
  - Not meeting set targets
- For the sector to turnaround, the DPW should play a leadership role by providing the necessary support to the provinces and establishing minimum norms and standards to facilitate improvement in service delivery in the provinces
- Department to put in place proper systems to guide expenditure management, setting of appropriate key performance indicators and a plan to attract/retain skilled staff
  - Outcome of the Turnaround Project is key in facilitating progress – some improvements noted but far to go in putting DPW on stable footing

FINANCIAL AND FISCAL COMMISSION

FFC's Website: www.ffc.co.za

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NON TRAINING SUPPORT AND INTERVENTION

Member of review committees (LES, Infrastructure Grants, Metro's Own Revenue)

Public hearings (local government fiscal framework, housing and welfare)

Inputs in benchmarking exercises

Recommendations through Annual Submission on DoR, MTBPS, FF and Appropriations

VALUE ADD OF THE FFC

- FFC can provide advice, analysis and training to assist the work of the Committee
  - Specialised IGFR training to committee members and/or parliamentary researchers
  - Provision of recommendations that are founded on evidence based research
  - Technical support with respect to parliamentary fiscal oversight activities

FINANCIAL AND FISCAL COMMISSION

2. Recommendations that Relate to Public Works

FFC Work Related to DPW [cont.]

Response to Division of Revenue Bill (DoRB) 2010	The Commission welcomed introduction of the *EPWP Incentive Grant for the Social Sector*. The Commission noted that there was a need to standardise the employment framework for the sector including conditions, wages and progression across provinces and municipalities. The Commission also raised concern regarding difficulties that were being experienced with the transfer of the EPWP Incentive Grant to Local and Provincial Governments. In the 2009/10 certain provinces (e.g. Western Cape) raised concern that they received transfers outside the ambit of the DoR and couldn't spend the money because it was not properly appropriated through various legislatures. At that point the general challenge with the grant was that provinces and municipalities found it difficult to integrate it through their infrastructure programmes. This problem persists because labour intensive infrastructure projects need to be planned, costed and scheduled properly. Not all projects yield the same labour intensity, so targets must be set by project type and category. Some projects will better lend themselves to labour intensive methods than others. This must be factored into the budget allocations and monitoring of the grant. *Current Commission analysis is that provinces continue to have challenges relating to labour intensive infrastructure, which affects the spending of the Incentive grant. In 2012/13 DPW appointed service providers to support provinces and municipalities in design of infrastructure projects and reporting methods.*

FFC Work Related to DPW [cont.]

Response to MTBPS 2011	In terms of the EPWP Incentive grant framework, provinces and municipalities must spend their budgets on EPWP projects and after that the grant will be paid by DPW quarterly as an incentive (after employment has been created). There has been general under-spending against budget since inception of the grant. Projected under-spending in financial year 2011 was 28.4%. In 2010, the actual under-spend was 38.4%. Despite poor spending performance, the annual growth of the budget was high. Expenditure reports on the grant performance at local government were inaccessible. DPW should explain how transfers are reconciled with actual expenditure. The grant should be streamlined to the Division of Revenue Act (DORA) requirements in terms of allocation and disbursements of funds. Punitive and incentive elements of the grant should be made transparent to all the stakeholders. *Current FFC analysis indicates that underspending persists. Between 2009/10 and 2012/13, provinces have been unable to spend more than 80% of their allocation*
Response to DoRB 2012	The Commission reiterated concerns raised in its Response to DoRB 2010 and Response to 2011 MTBPS regarding the challenges with the EPWP Incentive grant. The Commission maintained its view that the grant had not succeeded in achieving the intended goals within the specified time. There had also not been a formal assessment of the achievement of this grant both in terms of expenditure and service delivery outputs including how many direct and full times jobs had been created against the allocated funds. The Commission recommended that an independent review of the grant be undertaken, so that lessons can be drawn from past experience to avoid a replication of past mistakes. Government has since set up a team consisting of National Treasury, DPW, DCoG and SALGA that has been working on this. *This review is ongoing*

FFC Work Related to DPW [cont.]

Submission for the 2009/10 DoR	FFC found a need for reporting on EPWP outcomes to be more specific. In accordance with the requirements of the EPWP, job creation for target groups such as women, youth and people with disabilities should be included in the reporting requirements for all infrastructure conditional grants to provinces and municipalities GOVT. RESPONSE: The recommendation for reporting on targets is supported. Some of these indicators can possibly be reported on as part of the conditional grant frameworks prescribed in terms of the Division of Revenue Act
Submission for the 2007/08 DoR	The World Cup funding was crafted on the basis of requirements to meet FIFA standards of hosting cities, and that the major challenge faced by government was sustainability of built infrastructure. On the funding for the FIFA World Cup, FFC, examined the sustainability of built infrastructure, taking the escalation of construction costs into account. FFC's findings included that the escalation of construction costs be budgeted for, and that collaboration with the private sector should be encouraged. Also that a 2010 World Cup "Legacy Management Policy" should be introduced and prudent fiscal policy should be maintained leading to the World Cup GOVT. RESPONSE: Government is of the view that the costs relating to maintenance of constructed 2010 FIFA World Cup facilities should be provided by municipalities

3. Departmental Analysis

CONTEXTUALISING THE DEPARTMENT OF PUBLIC WORKS

- Aim of Department of Public Works (DPW):
  - provide for and manage accommodation, housing, land and infrastructure needs of national departments
  - Lead and direct implementation of the national expanded public works programme (EPWP)
  - Promote growth, job creation and transformation in the construction and property industries
- Public works is a concurrent function between national and provincial spheres of government
- DPW contribution to National Development Plan (NDP) achieved through:
  - Implementation of job creation initiatives
  - Transition to low cost carbon economy
  - Development of an inclusive and integrated rural economy
  - Fight against corruption

FINANCIAL AND FISCAL COMMISSION

KEY CHALLENGES CONFRONTING DPW

- Due to consistent trend of poor audit outcomes and generally poor performance, DPW implemented a turnaround project in November 2012
- Areas that were identified for specific attention through the turnaround project include:
  - Lack of controls in supply chain management (SCM)
    - Identified as major risk area by Auditor-General – DPW capacity to process tenders eroded and has led to numerous instances of fraud/corruption. SCM has been major focus of the Special Investigating Unit (SIU). SCM is the key focus of turnaround project in DPW. A service provider appointed to assist with fundamental review of SCM
      - Irregular expenditure, R171 million in 2011/12; R874 million in 2012/13
  - Poor lease management
    - Numerous irregularities with respect to lease agreements – gives rise to legal risks. DPW reviewing all lease agreements

FINANCIAL AND FISCAL COMMISSION

KEY CHALLENGES CONFRONTING DPW [CONT.]

- Inadequate immovable asset register
  - Lack of compliant immovable asset register resulted in negative audit opinions. DPW now in process of rebuilding immovable asset register and building a model to revalue immovable assets
- Lack of built environment and property management skills
  - Lack of technical capacity to undertake direct construction/maintenance functions. Cooperating with DPSA and Higher Education and Training to address challenge

FINANCIAL AND FISCAL COMMISSION

Starting Point for Budget Analysis

- By vote
  - Compare different votes with each other
- By vote programme
  - Compare different programmes within a vote
- By sub-programme
- Compare different sub-programmes within a programme
- By province
- Compare different provinces with each other
- Use Outputs, Targets and Indicators to measure performance
- Use policy documents as a benchmark

FINANCIAL AND FISCAL COMMISSION

USEFUL TOOLS

- Percentage Share of Total Budget
- Growth in the Budget
  - Percentage Change
    - Reflecting increases/decreases in percentage form
  - Annual Growth Rate
    - How does the allocation change year on year
  - Real Percentage Change
    - Takes inflation into consideration
  - Variances and explanations
    - Investigating the reasons/drivers of change
  - Spending by economic classification
    - Distinguishes between various categories of current (goods and services, transfers and subsidies) and capital expenditure (acquisition of fixed capital assets, purchase of land)

FINANCIAL AND FISCAL COMMISSION

Budget and Programmes of Public Works

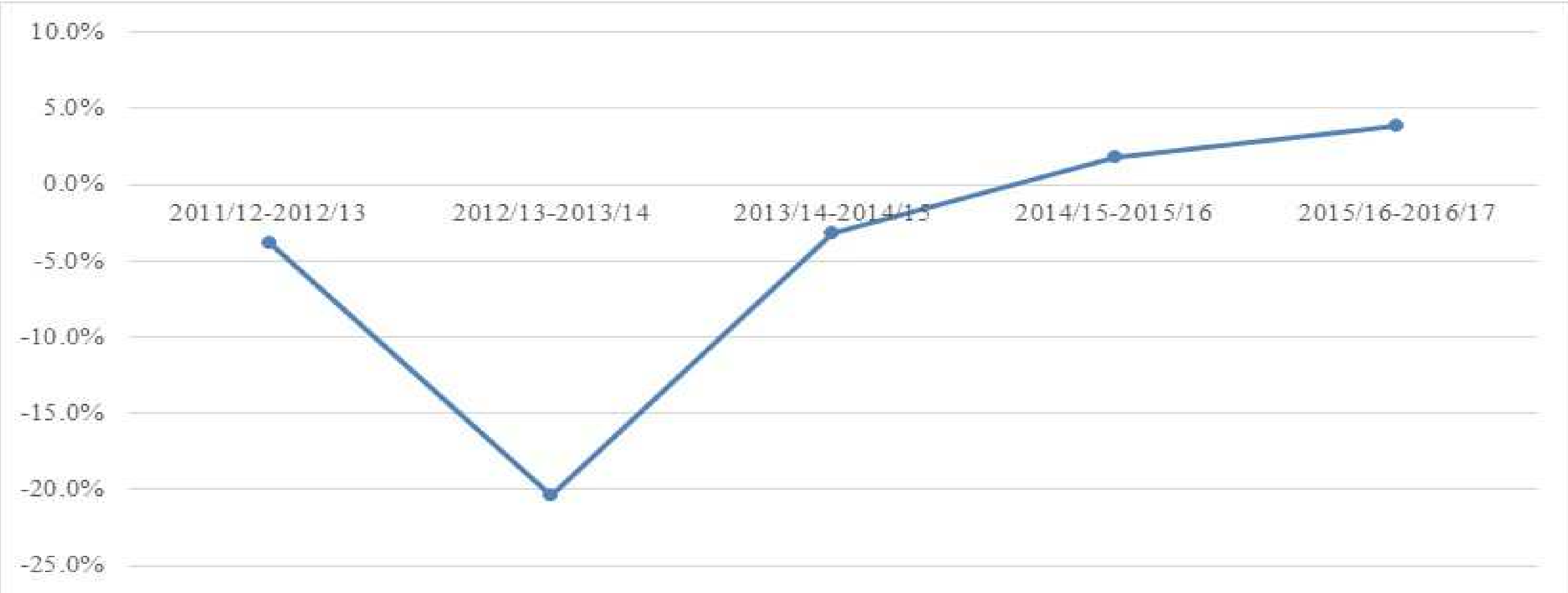
Nominal (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Real Annual Average Growth 2011/12-2013/14	Real Annual Average Growth 2014/15-2016/17
Administration	837.1	856.2	1 158.2	1 175.3	1 133.3	1 191.5	11.5%	-4.1%
Immovable Asset Management	5 001.7	4 563.5	2 831.8	2 861.4	3 308.1	3 450.0	-28.7%	4.6%
Expanded Public Works Programme	1 163.0	1 704.1	1 948.0	1 951.3	2 006.8	2 395.2	22.7%	5.5%
Property and Construction Industry Policy Regulation	34.4	26.9	36.7	41.5	43.4	45.9	-2.1%	0.1%
Auxiliary and Associated Services	25.2	53.3	50.7	91.8	53.7	56.6	34.4%	-25.2%
Total	**7 061.4**	**7 203.9**	**6 025.3**	**6 121.3**	**6 545.3**	**7 139.2**	**-12.5%**	**2.8%**

- Five programmes on Department of Public Works (DPW) budget
- Allocation reduced significantly in 2013/14, due to phasing out of Devolution of Property Rates Fund Grant to provinces and non-completion of various projects. As result of underspending, Cabinet approved reductions were effected
  - Following poor spending performance and audit outcomes, DPW implementing a Turnaround Project
- DPW budget projected to recover to just over R7.1 billion by end of 2014 medium term expenditure framework (MTEF) period
  - 2014 MTEF growth driven by additional allocation of R159 million in 2016/17 for Expanded Public Works Programme (EPWP)

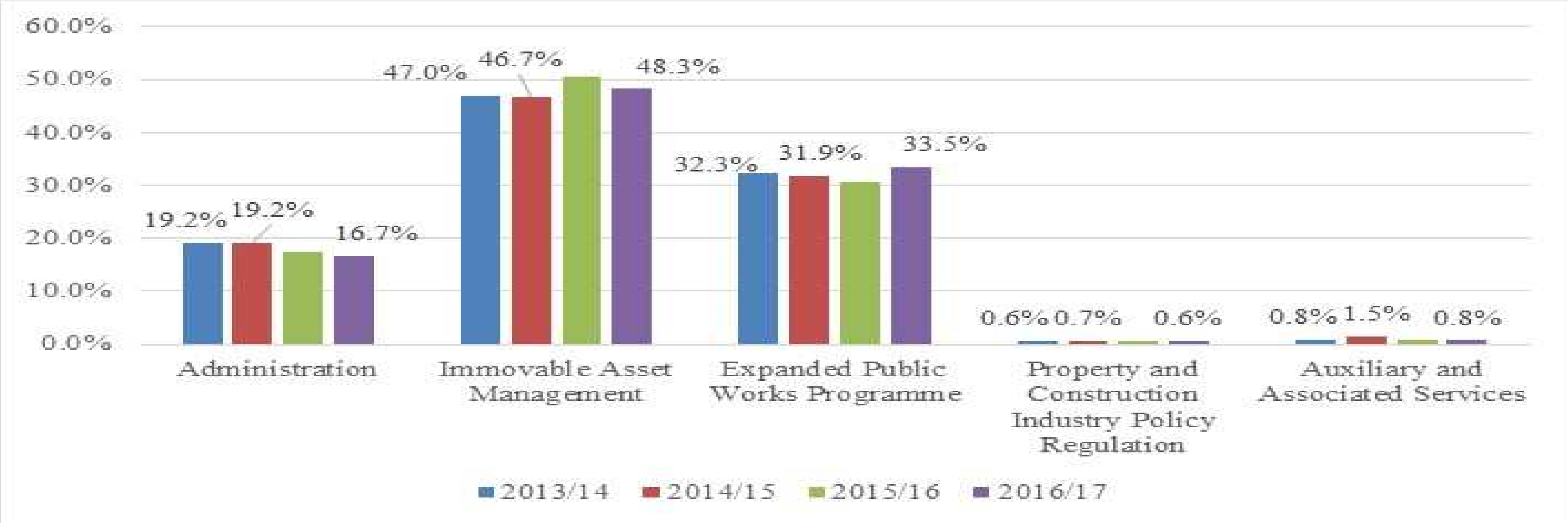
FINANCIAL AND FISCAL COMMISSION

REAL YEAR ON YEAR GROWTH OF PUBLIC WORKS BUDGET

- Significant decline in year on year growth in 2013/14
  - Though still declining in real terms in 2014/15, there is some improvement
- Over rest of 2014 MTEF period, positive growth projected
  - Focus will be on rehabilitating 34 state owned buildings, and ensuring that at least 100 buildings are made accessible to people with disabilities in each year of MTEF



Budget Composition across Programmes



- Immovable Asset Management Programme consumes largest share of DPW budget – by end of 2014 MTEF period this programme is projected to consume just under half of DPW budget
- Share allocated to Administration Programme consumers about one fifth of departmental budget – funding for Turnaround Project fall under Administration
  - Turnaround Project will support activities relating to the Special Investigating Unit, a technical support unit, a clean audit project, irregular expenditure management, internal audit support

FINANCIAL AND FISCAL COMMISSION

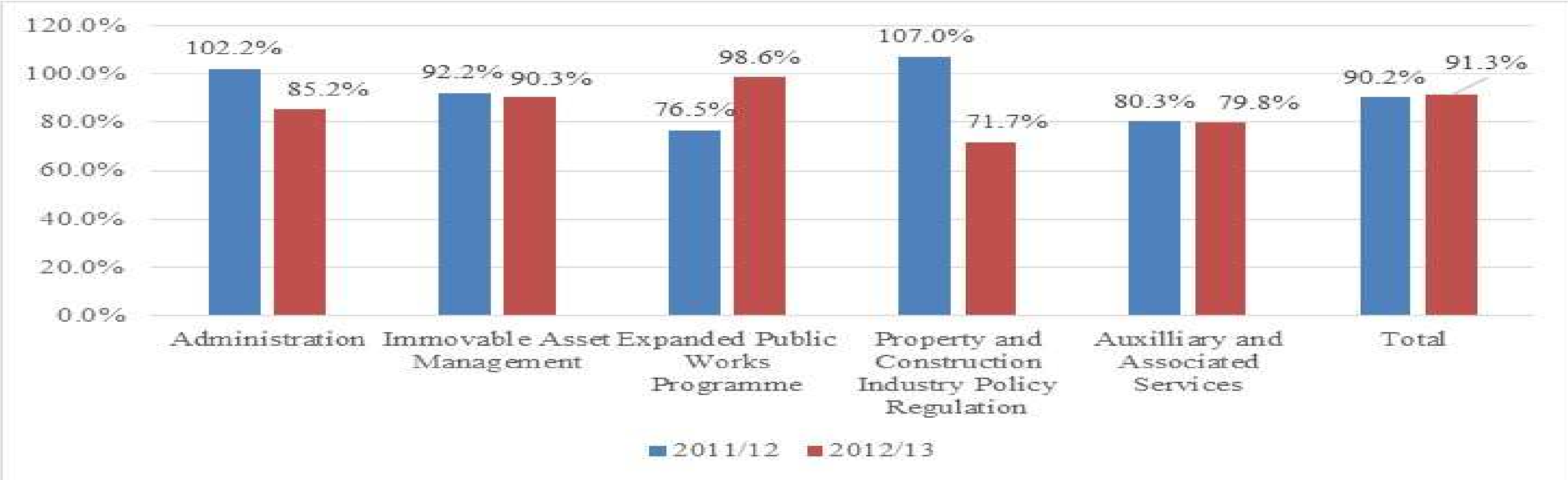
Economic Classification

Item (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Compensation of Employees	1 269.6	1 374.6	1 473.5	1 659.9	1 753.5	1 870.5
Goods and Services	1 032.9	977.0	1 379.6	1 302.1	1 202.9	1 269.0
Transfers and Subsidies	3 656.2	4 092.4	2 543.9	2 563.4	2 654.2	3 017.9
Payments for Capital Assets	1 099.1	756.8	628.4	595.9	934.8	981.7
Real Year on Year Growth (%)						
Compensation of Employees		2.1%	2.1%	7.3%	0.6%	1.6%
Goods and Services		-10.8%	34.5%	-10.1%	-12.0%	0.5%
Transfers and Subsidies		5.6%	-40.8%	-4.0%	-1.4%	8.3%
Payments for Capital Assets		-35.1%	-20.9%	-9.7%	49.4%	-0.003%

- Transfers and subsidies is the largest item
  - the decrease in 2013/14 due to phasing out of the Devolution of Property Rates Fund Grant to Provinces, hence reduction in transfers to provinces
- The increase in spending on Goods and Services in 2013/14 driven by spending on consultants – due to shortage of technical skills in property/project management and specialists as required for the DPW's turnaround project
- Payments for capital assets very erratic
- Relative to strong annual average growth between 2011/12 and 2013/14, growth in Goods and Service set to decline over the 2014 MTEF period

FINANCIAL AND FISCAL COMMISSION

SPENDING PERFORMANCE (FISCAL DISCIPLINE)

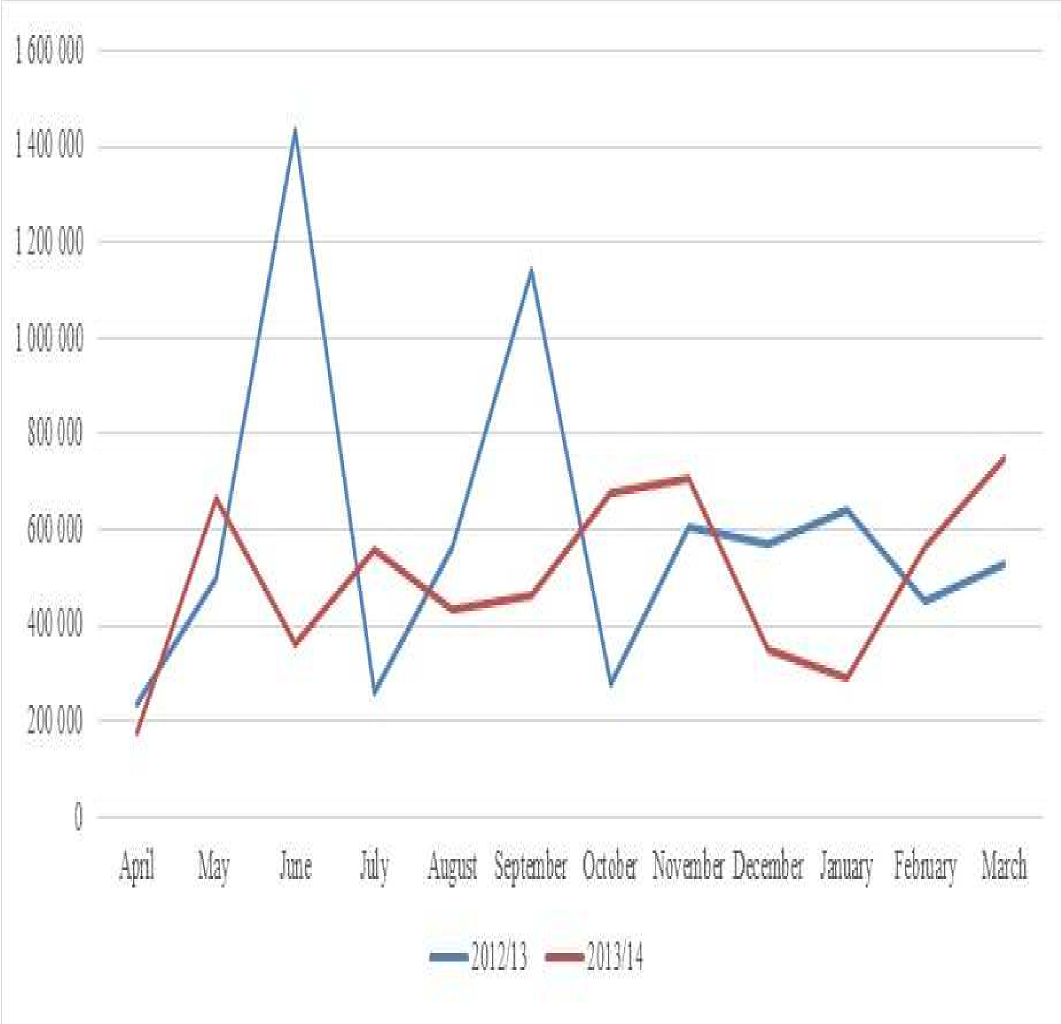


- DPW underspent in 2011/12 and 2012/13
- In 2011 underspending on EPWP and Auxilliary and Associated Services Programme
- In 2012, underspending is as a result of poor spending in Property and Construction Industry Policy Regulation Programme and again Auxilliary and Associated Services Programme
- Due to persistent underspending on capital, baseline reductions of R1.3 billion effected over 2014 MTEF period

FINANCIAL AND FISCAL COMMISSION

IN-YEAR EXPENDITURE

- 2012/13 in-year spending erratic
- Appears to be improving in 2013/14 – variances in monthly spending not as large as during 2012/13
- Concern with poor in-year spending is that it hints at unstable cash flow and disbursements



FINANCIAL AND FISCAL COMMISSION

Selected Sub-Programme Analysis: Immovable Asset Management Programme

Real Year on Year Growth	2011/12-2012/13	2012/13-2013/14	2013/14-2014/15	2014/15-2015/16	2015/16-2016/17
Infrastructure (Public Works)	-33.5%	-9.7%	-28.1%	57.5%	-0.1%
Strategic Asset Investment Analysis	-67.7%	149.1%	10.4%	0.2%	1.0%
Operation Management	1.6%	-0.3%	0.5%	-0.4%	2.7%
Prestige Management	-51.5%	44.0%	-27.0%	-1.0%	-28.5%
Special Projects	4.0%	47.6%	-24.7%	1.8%	0.4%
Construction Industry Development Board	-3.4%	2.0%	1.6%	0.4%	0.2%
Council for the Built Environment	-7.7%	28.8%	4.3%	1.4%	0.2%
Parliamentary Village Management Board	-0.6%	0.1%	1.1%	-0.4%	0.5%
Augmentation of the Property Management Trading Entity	-3.2%	0.5%	-6.0%	-0.1%	0.6%
Independent Development Trust	-68.1%	-6.3%	-4.7%	-4.8%	-100.0%
Total	**-14.0%**	**-37.8%**	**-8.6%**	**10.1%**	**-0.7%**

- Total programme growth declines over most of the period reviewed
  - Decline in 2012 and 2013 is due to phasing out of devolution of property rates fund grant to provinces, non-completion of projects and Cabinet approved reductions due to underspending
- Generally sub-programme trends are erratic, brings into question soundness of planning in DPW
- Lack of capacity a challenge in this programme – 10% vacancy rate

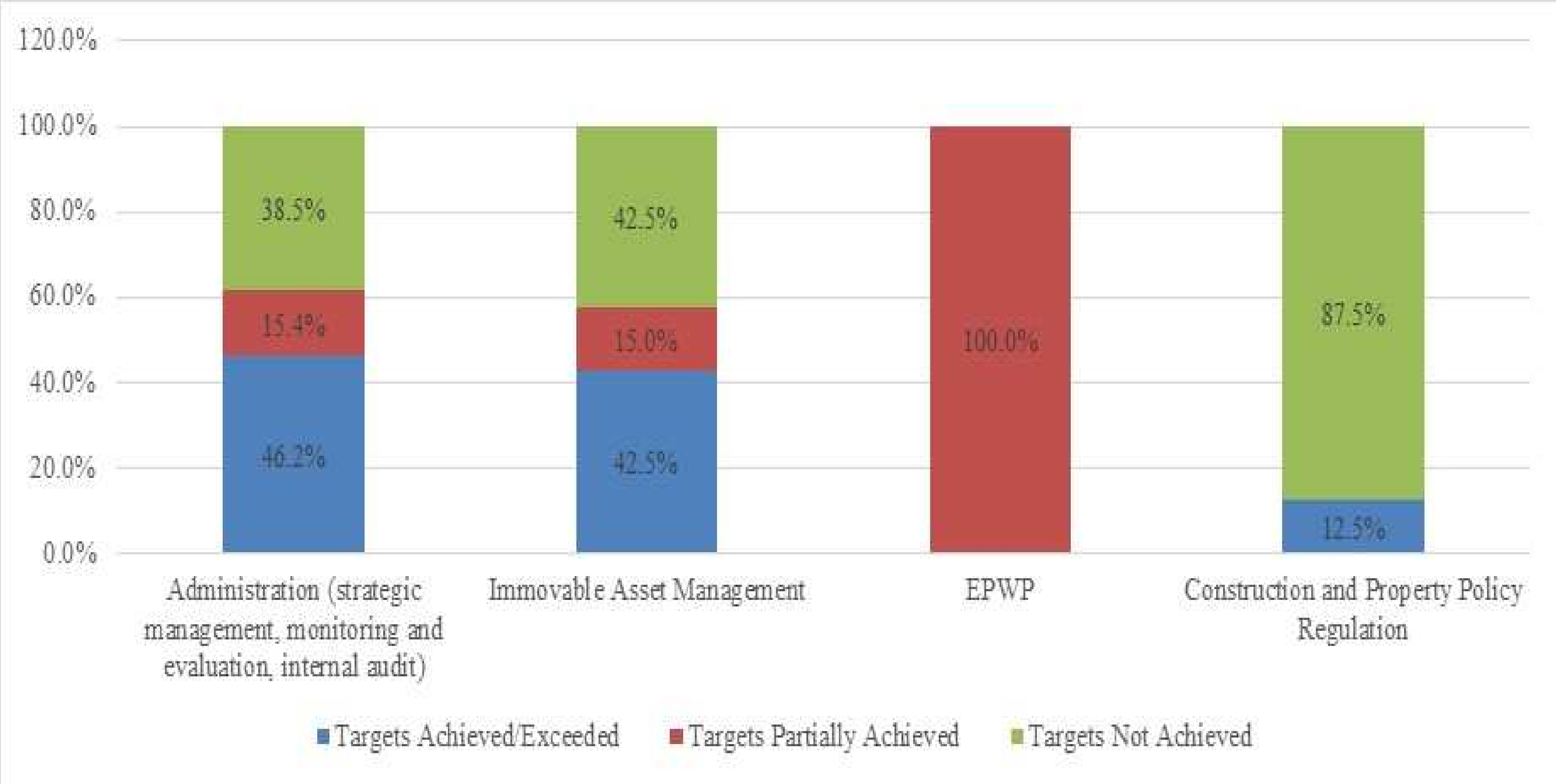
SELECTED SUB-PROGRAMME ANALYSIS: EXPANDED PUBLIC WORKS PROGRAMME

R million	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**
Expanded Public Works Programme	209.7	236.8	273.8	261.5	267.7	290.6
Performance Based Incentive Allocations	953.3	1 467.3	1 674.2	1 689.8	1 739.2	2 104.6
Total	**1 163.0**	**1 704.1**	**1 948.0**	**1 951.3**	**2 006.8**	**2 395.2**
Real Year on Year Growth		**2011/12-2012/13**	**2012/13-2013/14**	**2013/14-2014/15**	**2014/15-2015/16**	**2015/16-2016/17**
Expanded Public Works Programme		12.9%	15.6%	-4.5%	2.4%	8.6%
Performance Based Incentive Allocations		53.9%	14.1%	0.9%	2.9%	21.0%
Total		**46.5%**	**14.3%**	**0.2%**	**2.8%**	**19.4%**

- EPWP promotes use of government expenditure to create additional employment opportunities through the use of labour-intensive delivery methods
  - Increases in 2012/2013 due to appointment of service providers to support provinces and municipalities in design of infrastructure projects and reporting methods
- Performance Based Incentive Allocations is the largest sub-programme
  - Focus: disburses funds to provinces/municipalities and NGOs to ensure creation of work opportunities in infrastructure, environment, social sectors
  - Increases between 2012 and 2013 are due to additional funding allocated. However to give effect to Cabinet-approved reductions, growth in this sub programme slows in 2014 and 2015
- Overall between 2009/10 and 2012/13, just over 3 million jobs created (68% of target of 4.5 million jobs)

DEPARTMENTAL PERFORMANCE

- Department not adequately meeting targets set.
  - Number of targets partially met and totally unmet exceptionally high



DEPARTMENTAL PERFORMANCE [CONT.]

Programme	Explanation for Unmet Targets
Administration	Delays due to lack of capacity/high vacancy rate, unrealistic targets given financial resources, lengthy procurement processes that delay appointment of service providers
Immovable Asset Management	Appropriate supply chain management process not followed, unrealistic target setting, inadequate data collection to verify extent to which target was met
EPWP	Delays in project implementation, lack of technical capacity to implement projects, poor performance on part of municipalities/provinces to carry out projects
Construction and Property Policy Regulation	• Legislative framework for Built Environment Professionals: delays in internal consultation • Establish Agrement SA as public entity: delay in the approval of business case • Provide immovable asset lifecycle management guidelines to national and provincial custodians of immovable assets: delay in internal consultation prevented finalisation

Aspects Highlighted by the Auditor-General

- DPW audit outcomes:
  - 2009/10: qualified with findings
  - 2010/11:disclaimer
  - 2011/12: disclaimer
  - 2012/13: qualified with findings
- Key issues highlighted by Auditor-General that need to be addressed:
  - Inadequate internal controls in areas of leadership, financial management, performance management and governance
  - Areas that were identified for specific attention through the turnaround project include: lack of controls in supply chain management, poor lease management, inadequate immovable asset register, lack of built environment and property management skills

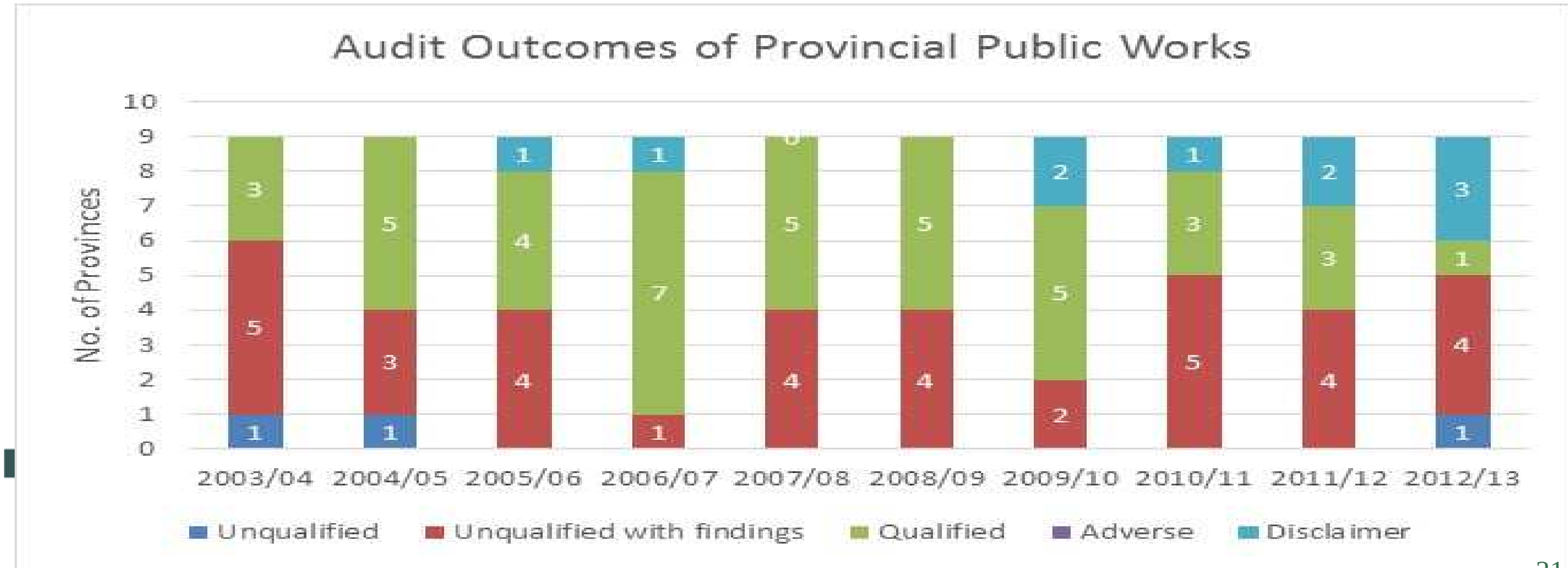
FINANCIAL AND FISCAL COMMISSION

FINANCIAL AND FISCAL COMMISSION

PUBLIC WORKS IN THE PROVINCES

PROVINCIAL AUDIT OUTCOMES

- Audit outcomes for provincial departments of public works have not considerably improved in since 2003/04
  - Four out of the nine provinces received a qualified opinion or disclaimer in 2012/13
  - Over a period of 10 years (i.e. 2003/4 – 2012/13), only 3 provincial departments of public works received an unqualified audit opinion



Provincial Audit Outcomes [cont.]

- The Auditor-General raised a number of matters that prevented provincial departments from achieving clean audits such as:
  - Instability in leadership and lack of human resources
  - Internal controls are ineffective
  - Action plans to implement improvement in audit outcomes are not timeously implemented
  - Inaccurate and incomplete fixed asset registers
  - Incomplete disclosures on unauthorized, irregular and fruitless, irregular and wasteful expenditure
  - Commitments by the national sector department to intervene and/or provide support were not honoured
- The Commission's view is that DPW should play a more active role, through the various intergovernmental forums, in providing the necessary support to provincial departments of public works

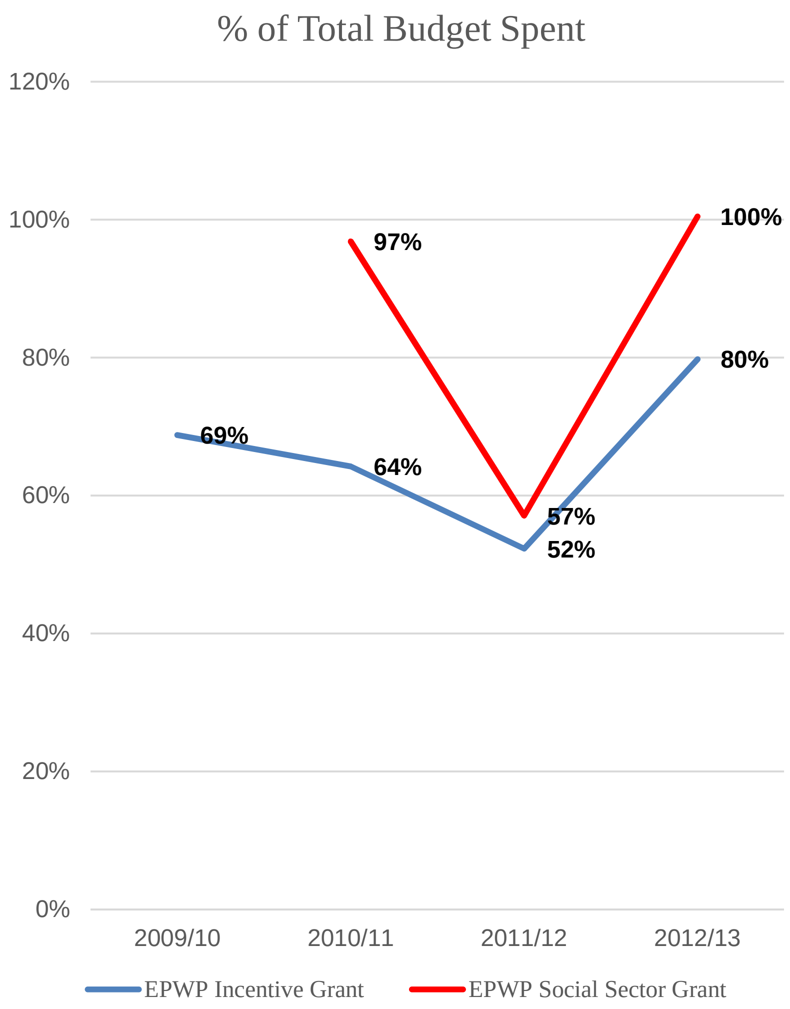
FINANCIAL AND FISCAL COMMISSION

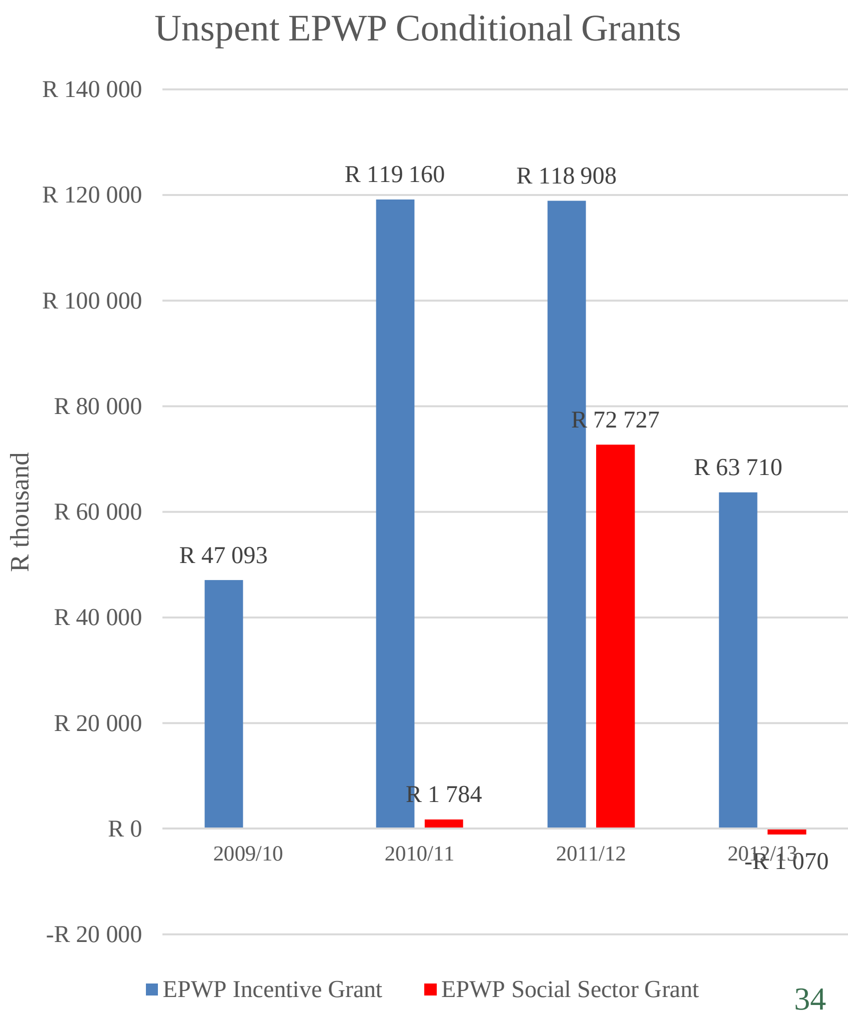
Spending Performance by Provinces on EPWP Conditional Grants

- The National Department of Public Works is the transferring agent for two EPWP conditional grants to provinces
- As the transferring agent, the responsibilities of the DPW are prescribed in the conditional grant framework contained in the Division of Revenue Act. These include (among others):
  - Determine eligibility of grant, monitor and provide support to provinces, audit provincial performance and report to national treasury on provincial progress

FINANCIAL AND FISCAL COMMISSION

EPWP CONDITIONAL GRANTS TO PROVINCES





SUMMARY OF PERFORMANCE ON EPWP GRANTS TO PROVINCES

- Over a four year period (2009/10 – 2012/13), provinces have been unable to spend more than 80% of its allocation to the EPWP Incentive Grant in any given year
- Except in 2011/12 where spending on both EPWP grants were below 60% of total, the EPWP Social Sector grant in general, performed better than the Incentive grant
  - Provinces have challenges relating to infrastructure, which affects the spending performance on the Incentive grant
- In many instances, provinces fail to comply with grant conditions stipulated in DORA, resulting in funds being withheld, thereby leaving funds unspent at the end of the year

FINANCIAL AND FISCAL COMMISSION

CONCLUDING REMARKS

- Key issues emanating from analysis of DPW
  - Underspending of budget
  - Not meeting set targets
- For the sector to turnaround, the DPW should play a leadership role by providing the necessary support to the provinces and establishing minimum norms and standards to facilitate improvement in service delivery in the provinces
- Department to put in place proper systems to guide expenditure management, setting of appropriate key performance indicators and a plan to attract/retain skilled staff
  - Outcome of the Turnaround Project is key in facilitating progress – some improvements noted but far to go in putting DPW on stable footing

FINANCIAL AND FISCAL COMMISSION

FFC's Website: www.ffc.co.za

PORTFOLIO COMMITTEE ON PUBLIC WORKS

Financial and Fiscal Commission

25 September 2014

For an Equitable Sharing of National Revenue

PRESENTATION OUTLINE

1. Role and Function of the Financial and Fiscal Commission
2. Recommendations of the Commission that relate to Public Works
3. Departmental Analysis

FINANCIAL AND FISCAL COMMISSION

FINANCIAL
AND FISCAL
COMMISSION

1. Role and Function of the Financial and Fiscal Commission

ROLE AND FUNCTION OF THE FFC

- The Financial and Fiscal Commission (FFC)
  - Is an independent, permanent, statutory institution established in terms of Section 220 of Constitution
  - Must function in terms of the FFC Act
- Mandate of Commission
  - To make recommendations, envisaged in Chapter 13 of the Constitution or in national legislation to Parliament, Provincial Legislatures, and any other organ of state determined by national legislation
- The Commission's focus is primarily on the equitable division of nationally collected revenue among the three spheres of government and any other financial and fiscal matters
  - Legislative provisions or executive decisions that affect either provincial or local government from a financial and/or fiscal perspective
  - Includes regulations associated with legislation that may amend or extend such legislation
  - Commission must be consulted in terms of the FFC Act
  - Current research strategy focuses on developmental impacts of IGFR

FINANCIAL AND FISCAL COMMISSION

How FFC Supports Policy

- Identify weakness within the IGFR system
- Propose evidence-based policy proposals
- Interact and participate with/in forums and institutions responsible for IGFR policy – TCF, Budget Council, Budget Forum
- Information dissemination – invitations from nine provincial legislatures and SALGA
- Interact with various committees within parliament

FINANCIAL AND FISCAL COMMISSION

PROCESSING OF RECOMMENDATIONS

- Recommendations of the Commission
  - Recommendations are made to Parliament so that the legislature can examine the financial and fiscal decisions of government against them and understand why they have been accepted or rejected
  - Section 4(4)(c) of the Money Bills Amendment Procedures and Related Matters Act (MBAPMA) requires Parliament to consider the recommendations of the Commission when deliberating on Money Bills
- Government is obligated through an Act of Parliament to explain how it has taken the FFC recommendations in arriving at the division of revenue for any particular year
  - The response is tabled in Annexure W1 of the DoR Bill and of the Budget Review

FINANCIAL AND FISCAL COMMISSION

How FFC can Support Parliament

DIRECT TRAINING AND INTERVENTION

- Training of members of parliamentary committees and councillors on request (e.g. in Bushbuckridge)
- Advice to municipalities (e.g. Tshwane merger)
- Inputs in various fora (e.g. SALGA)

NON TRAINING SUPPORT AND INTERVENTION

- Member of review committees (LES, Infrastructure Grants, Metro's Own Revenue)
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FINANCIAL AND FISCAL COMMISSION

FINANCIAL AND FISCAL COMMISSION

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FINANCIAL AND FISCAL COMMISSION

3. Departmental Analysis

Contextualising the Department of Public works

- Aim of Department of Public Works (DPW):
  - provide for and manage accommodation, housing, land and infrastructure needs of national departments
  - Lead and direct implementation of the national expanded public works programme (EPWP)
  - Promote growth, job creation and transformation in the construction and property industries
- Public works is a concurrent function between national and provincial spheres of government
- DPW contribution to National Development Plan (NDP) achieved through:
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  - Transition to low cost carbon economy
  - Development of an inclusive and integrated rural economy
  - Fight against corruption

FINANCIAL AND FISCAL COMMISSION

KEY CHALLENGES CONFRONTING DPW

- Due to consistent trend of poor audit outcomes and generally poor performance, DPW implemented a turnaround project in November 2012
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    - Identified as major risk area by Auditor-General – DPW capacity to process tenders eroded and has led to numerous instances of fraud/corruption. SCM has been major focus of the Special Investigating Unit (SIU). SCM is the key focus of turnaround project in DPW. A service provider appointed to assist with fundamental review of SCM
      - Irregular expenditure, R171 million in 2011/12; R874 million in 2012/13
  - Poor lease management
    - Numerous irregularities with respect to lease agreements – gives rise to legal risks. DPW reviewing all lease agreements

FINANCIAL AND FISCAL COMMISSION

KEY CHALLENGES CONFRONTING DPW [CONT.]

- Inadequate immovable asset register
  - Lack of compliant immovable asset register resulted in negative audit opinions. DPW now in process of rebuilding immovable asset register and building a model to revalue immovable assets
- Lack of built environment and property management skills
  - Lack of technical capacity to undertake direct construction/maintenance functions. Cooperating with DPSA and Higher Education and Training to address challenge

FINANCIAL AND FISCAL COMMISSION

STARTING POINT FOR BUDGET ANALYSIS

- By vote
  - Compare different votes with each other
- By vote programme
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FINANCIAL AND FISCAL COMMISSION

USEFUL TOOLS

- Percentage Share of Total Budget
- Growth in the Budget
  - Percentage Change
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  - Annual Growth Rate
    - How does the allocation change year on year
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    - Takes inflation into consideration
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    - Investigating the reasons/drivers of change
  - Spending by economic classification
    - Distinguishes between various categories of current (goods and services, transfers and subsidies) and capital expenditure (acquisition of fixed capital assets, purchase of land)

FINANCIAL AND FISCAL COMMISSION

Budget and Programmes of Public Works

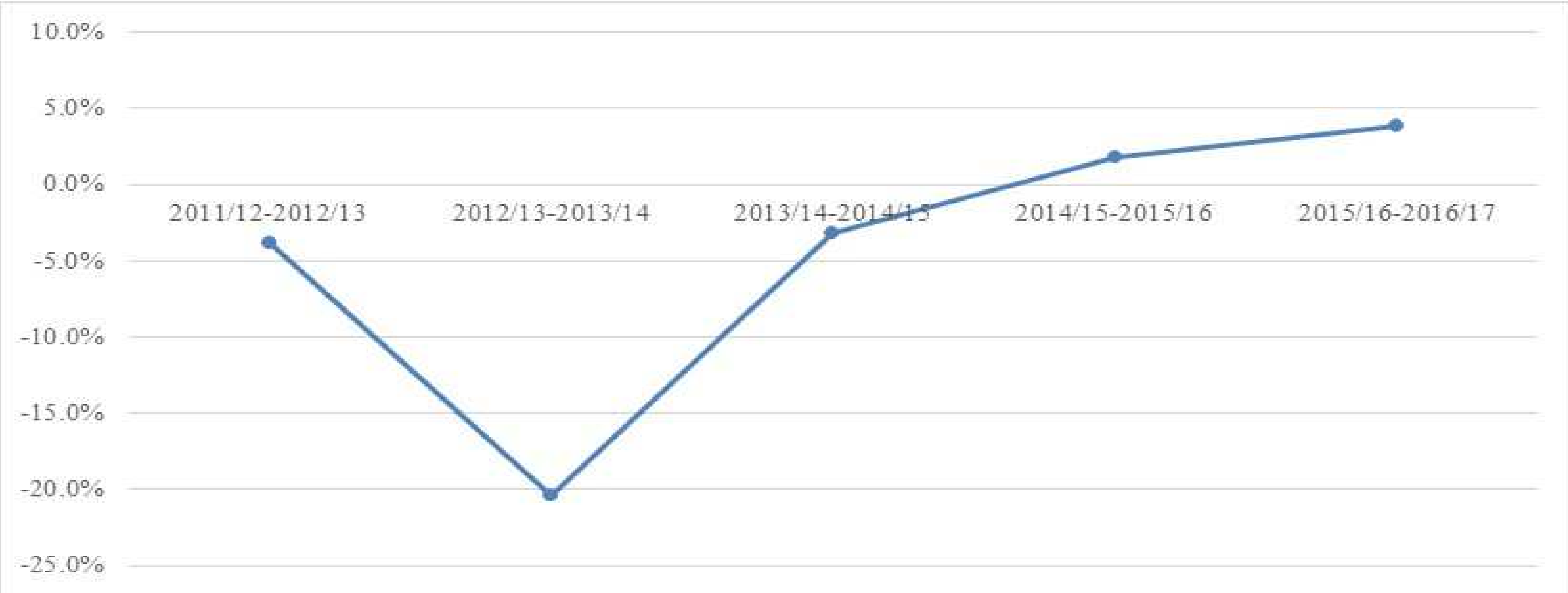
Nominal (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Real Annual Average Growth 2011/12-2013/14	Real Annual Average Growth 2014/15-2016/17
Administration	837.1	856.2	1 158.2	1 175.3	1 133.3	1 191.5	11.5%	-4.1%
Immovable Asset Management	5 001.7	4 563.5	2 831.8	2 861.4	3 308.1	3 450.0	-28.7%	4.6%
Expanded Public Works Programme	1 163.0	1 704.1	1 948.0	1 951.3	2 006.8	2 395.2	22.7%	5.5%
Property and Construction Industry Policy Regulation	34.4	26.9	36.7	41.5	43.4	45.9	-2.1%	0.1%
Auxiliary and Associated Services	25.2	53.3	50.7	91.8	53.7	56.6	34.4%	-25.2%
Total	**7 061.4**	**7 203.9**	**6 025.3**	**6 121.3**	**6 545.3**	**7 139.2**	**-12.5%**	**2.8%**

- Five programmes on Department of Public Works (DPW) budget
- Allocation reduced significantly in 2013/14, due to phasing out of Devolution of Property Rates Fund Grant to provinces and non-completion of various projects. As result of underspending, Cabinet approved reductions were effected
  - Following poor spending performance and audit outcomes, DPW implementing a Turnaround Project
- DPW budget projected to recover to just over R7.1 billion by end of 2014 medium term expenditure framework (MTEF) period
  - 2014 MTEF growth driven by additional allocation of R159 million in 2016/17 for Expanded Public Works Programme (EPWP)

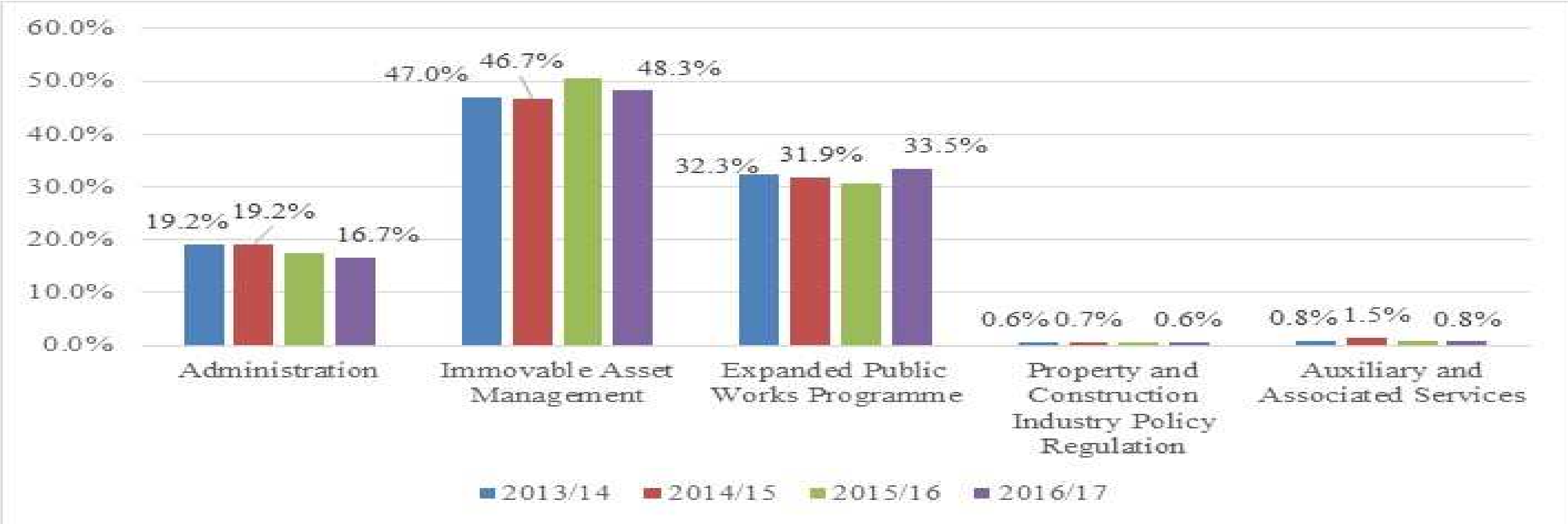
FINANCIAL AND FISCAL COMMISSION

Real Year on Year Growth of Public Works Budget

- Significant decline in year on year growth in 2013/14
  - Though still declining in real terms in 2014/15, there is some improvement
- Over rest of 2014 MTEF period, positive growth projected
  - Focus will be on rehabilitating 34 state owned buildings, and ensuring that at least 100 buildings are made accessible to people with disabilities in each year of MTEF



BUDGET COMPOSITION ACROSS PROGRAMMES



- Immovable Asset Management Programme consumes largest share of DPW budget – by end of 2014 MTEF period this programme is projected to consume just under half of DPW budget
- Share allocated to Administration Programme consumers about one fifth of departmental budget – funding for Turnaround Project fall under Administration
  - Turnaround Project will support activities relating to the Special Investigating Unit, a technical support unit, a clean audit project, irregular expenditure management, internal audit support

FINANCIAL AND FISCAL COMMISSION

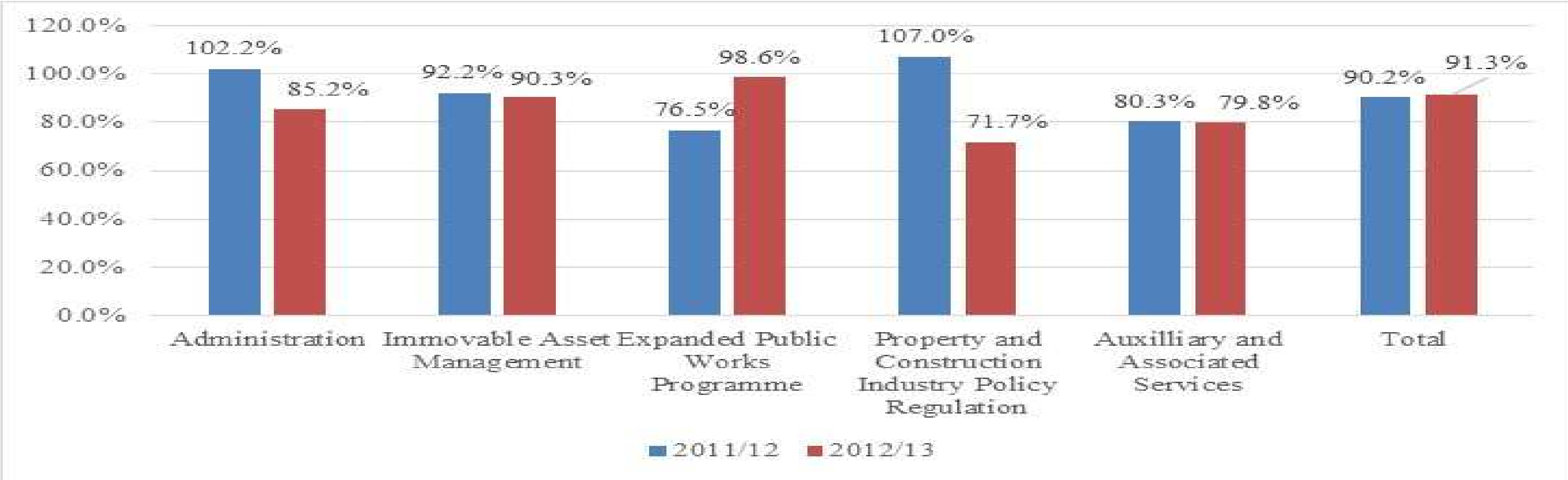
Economic Classification

Item (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Compensation of Employees	1 269.6	1 374.6	1 473.5	1 659.9	1 753.5	1 870.5
Goods and Services	1 032.9	977.0	1 379.6	1 302.1	1 202.9	1 269.0
Transfers and Subsidies	3 656.2	4 092.4	2 543.9	2 563.4	2 654.2	3 017.9
Payments for Capital Assets	1 099.1	756.8	628.4	595.9	934.8	981.7
Real Year on Year Growth (%)						
Compensation of Employees		2.1%	2.1%	7.3%	0.6%	1.6%
Goods and Services		-10.8%	34.5%	-10.1%	-12.0%	0.5%
Transfers and Subsidies		5.6%	-40.8%	-4.0%	-1.4%	8.3%
Payments for Capital Assets		-35.1%	-20.9%	-9.7%	49.4%	-0.003%

- Transfers and subsidies is the largest item
  - the decrease in 2013/14 due to phasing out of the Devolution of Property Rates Fund Grant to Provinces, hence reduction in transfers to provinces
- The increase in spending on Goods and Services in 2013/14 driven by spending on consultants – due to shortage of technical skills in property/project management and specialists as required for the DPW’s turnaround project
- Payments for capital assets very erratic
- Relative to strong annual average growth between 2011/12 and 2013/14, growth in Goods and Service set to decline over the 2014 MTEF period

FINANCIAL AND FISCAL COMMISSION

SPENDING PERFORMANCE (FISCAL DISCIPLINE)



- DPW underspent in 2011/12 and 2012/13
- In 2011 underspending on EPWP and Auxilliary and Associated Services Programme
- In 2012, underspending is as a result of poor spending in Property and Construction Industry Policy Regulation Programme and again Auxilliary and Associated Services Programme
- Due to persistent underspending on capital, baseline reductions of R1.3 billion effected over 2014 MTEF period

FINANCIAL AND FISCAL COMMISSION

In-Year Expenditure

- 2012/13 in-year spending erratic
- Appears to be improving in 2013/14 – variances in monthly spending not as large as during 2012/13
- Concern with poor in-year spending is that it hints at unstable cash flow and disbursements

FINANCIAL AND FISCAL COMMISSION

SELECTED SUB-PROGRAMME ANALYSIS: IMMOVABLE ASSET MANAGEMENT PROGRAMME

Real Year on Year Growth	2011/12-2012/13	2012/13-2013/14	2013/14-2014/15	2014/15-2015/16	2015/16-2016/17
Infrastructure (Public Works)	-33.5%	-9.7%	-28.1%	57.5%	-0.1%
Strategic Asset Investment Analysis	-67.7%	149.1%	10.4%	0.2%	1.0%
Operation Management	1.6%	-0.3%	0.5%	-0.4%	2.7%
Prestige Management	-51.5%	44.0%	-27.0%	-1.0%	-28.5%
Special Projects	4.0%	47.6%	-24.7%	1.8%	0.4%
Construction Industry Development Board	-3.4%	2.0%	1.6%	0.4%	0.2%
Council for the Built Environment	-7.7%	28.8%	4.3%	1.4%	0.2%
Parliamentary Village Management Board	-0.6%	0.1%	1.1%	-0.4%	0.5%
Augmentation of the Property Management Trading Entity	-3.2%	0.5%	-6.0%	-0.1%	0.6%
Independent Development Trust	-68.1%	-6.3%	-4.7%	-4.8%	-100.0%
Total	**-14.0%**	**-37.8%**	**-8.6%**	**10.1%**	**-0.7%**

- Total programme growth declines over most of the period reviewed
  - Decline in 2012 and 2013 is due to phasing out of devolution of property rates fund grant to provinces, non-completion of projects and Cabinet approved reductions due to underspending
- Generally sub-programme trends are erratic, brings into question soundness of planning in DPW
- Lack of capacity a challenge in this programme – 10% vacancy rate

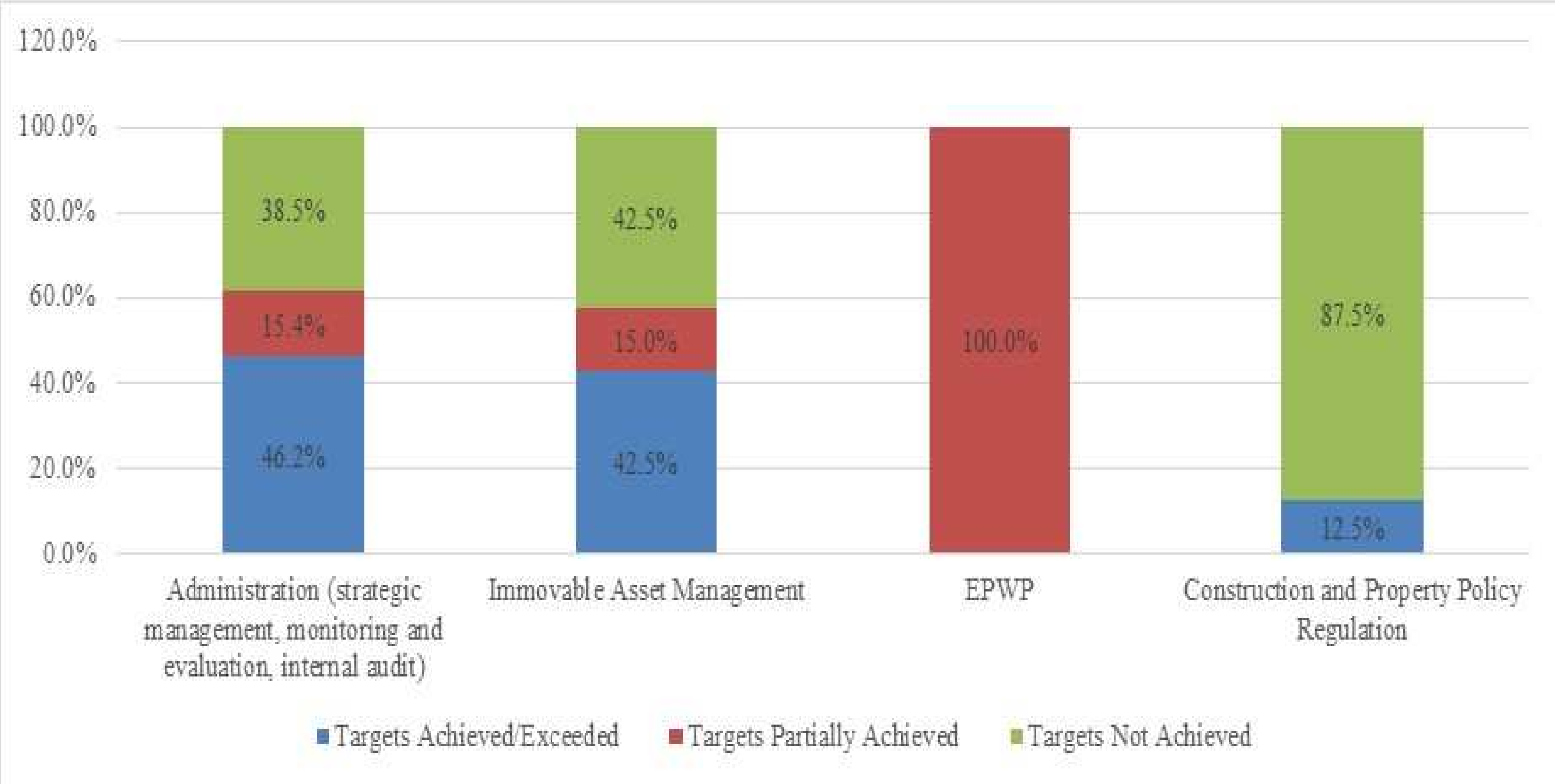
SELECTED SUB-PROGRAMME ANALYSIS: EXPANDED PUBLIC WORKS PROGRAMME

R million	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Expanded Public Works Programme	209.7	236.8	273.8	261.5	267.7	290.6
Performance Based Incentive Allocations	953.3	1 467.3	1 674.2	1 689.8	1 739.2	2 104.6
Total	**1 163.0**	**1 704.1**	**1 948.0**	**1 951.3**	**2 006.8**	**2 395.2**
Real Year on Year Growth		**2011/12-2012/13**	**2012/13-2013/14**	**2013/14-2014/15**	**2014/15-2015/16**	**2015/16-2016/17**
Expanded Public Works Programme		12.9%	15.6%	-4.5%	2.4%	8.6%
Performance Based Incentive Allocations		53.9%	14.1%	0.9%	2.9%	21.0%
Total		**46.5%**	**14.3%**	**0.2%**	**2.8%**	**19.4%**

- EPWP promotes use of government expenditure to create additional employment opportunities through the use of labour-intensive delivery methods
  - Increases in 2012/2013 due to appointment of service providers to support provinces and municipalities in design of infrastructure projects and reporting methods
- Performance Based Incentive Allocations is the largest sub-programme
  - Focus: disburses funds to provinces/municipalities and NGOs to ensure creation of work opportunities in infrastructure, environment, social sectors
  - Increases between 2012 and 2013 are due to additional funding allocated. However to give effect to Cabinet-approved reductions, growth in this sub programme slows in 2014 and 2015
- Overall between 2009/10 and 2012/13, just over 3 million jobs created (68% of target of 4.5 million jobs)

DEPARTMENTAL PERFORMANCE

- Department not adequately meeting targets set.
  - Number of targets partially met and totally unmet exceptionally high



Departmental Performance [cont.]

Programme	Explanation for Unmet Targets
Administration	Delays due to lack of capacity/high vacancy rate, unrealistic targets given financial resources, lengthy procurement processes that delay appointment of service providers
Immovable Asset Management	Appropriate supply chain management process not followed, unrealistic target setting, inadequate data collection to verify extent to which target was met
EPWP	Delays in project implementation, lack of technical capacity to implement projects, poor performance on part of municipalities/provinces to carry out projects
Construction and Property Policy Regulation	• Legislative framework for Built Environment Professionals: delays in internal consultation • Establish Agrement SA as public entity: delay in the approval of business case • Provide immovable asset lifecycle management guidelines to national and provincial custodians of immovable assets: delay in internal consultation prevented finalisation

Aspects Highlighted by the Auditor-General

- DPW audit outcomes:
  - 2009/10: qualified with findings
  - 2010/11:disclaimer
  - 2011/12: disclaimer
  - 2012/13: qualified with findings
- Key issues highlighted by Auditor-General that need to be addressed:
  - Inadequate internal controls in areas of leadership, financial management, performance management and governance
  - Areas that were identified for specific attention through the turnaround project include: lack of controls in supply chain management, poor lease management, inadequate immovable asset register, lack of built environment and property management skills

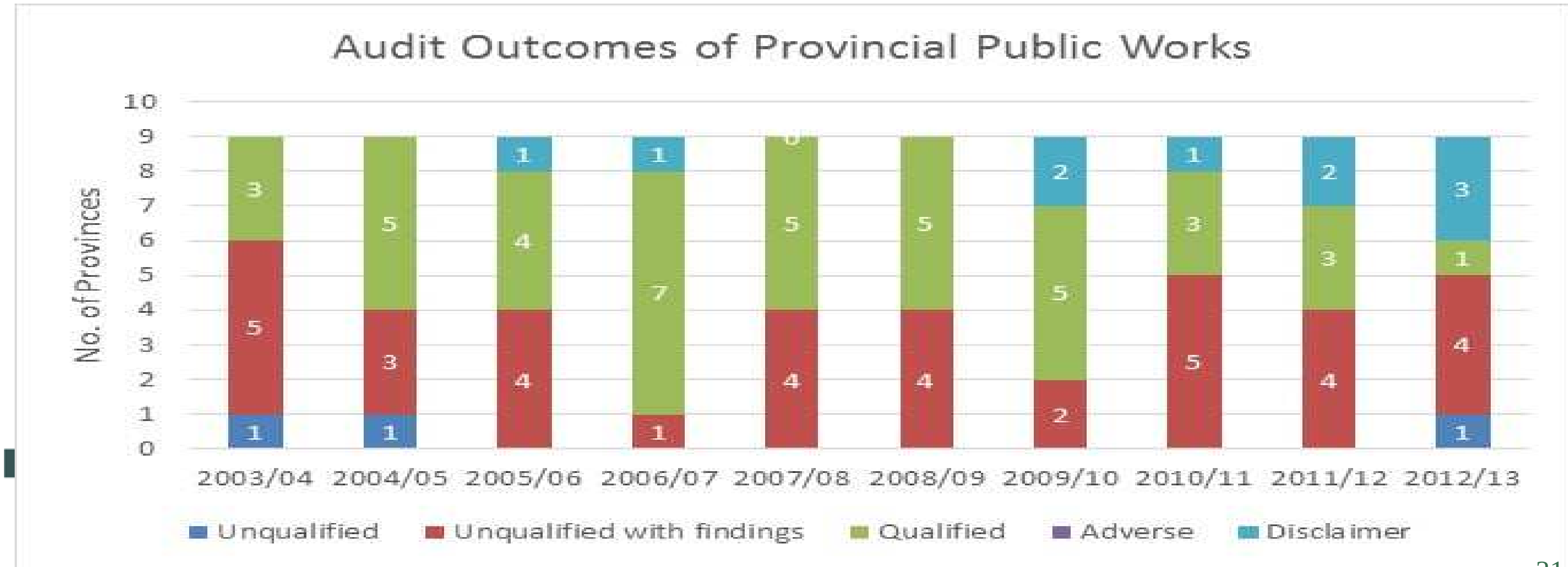
FINANCIAL AND FISCAL COMMISSION

FINANCIAL AND FISCAL COMMISSION

PUBLIC WORKS IN THE PROVINCES

PROVINCIAL AUDIT OUTCOMES

- Audit outcomes for provincial departments of public works have not considerably improved in since 2003/04
  - Four out of the nine provinces received a qualified opinion or disclaimer in 2012/13
  - Over a period of 10 years (i.e. 2003/4 – 2012/13), only 3 provincial departments of public works received an unqualified audit opinion



PROVINCIAL AUDIT OUTCOMES [CONT.]

- The Auditor-General raised a number of matters that prevented provincial departments from achieving clean audits such as:
  - Instability in leadership and lack of human resources
  - Internal controls are ineffective
  - Action plans to implement improvement in audit outcomes are not timeously implemented
  - Inaccurate and incomplete fixed asset registers
  - Incomplete disclosures on unauthorized, irregular and fruitless, irregular and wasteful expenditure
  - Commitments by the national sector department to intervene and/or provide support were not honoured
- The Commission's view is that DPW should play a more active role, through the various intergovernmental forums, in providing the necessary support to provincial departments of public works

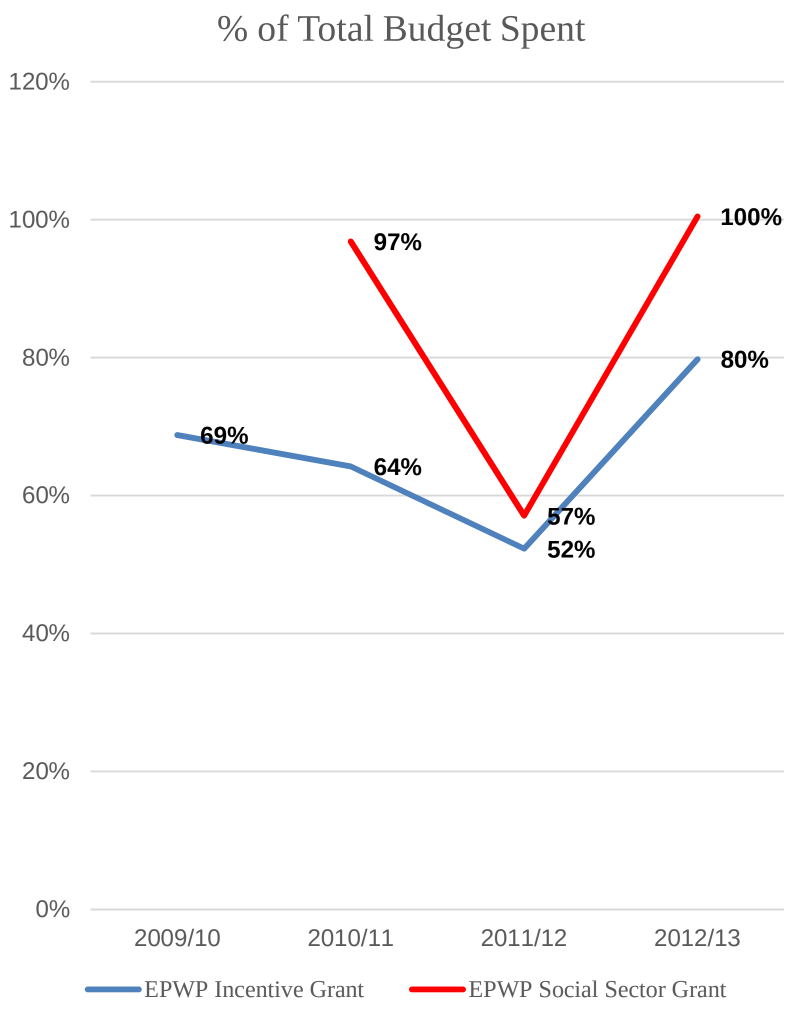
FINANCIAL AND FISCAL COMMISSION

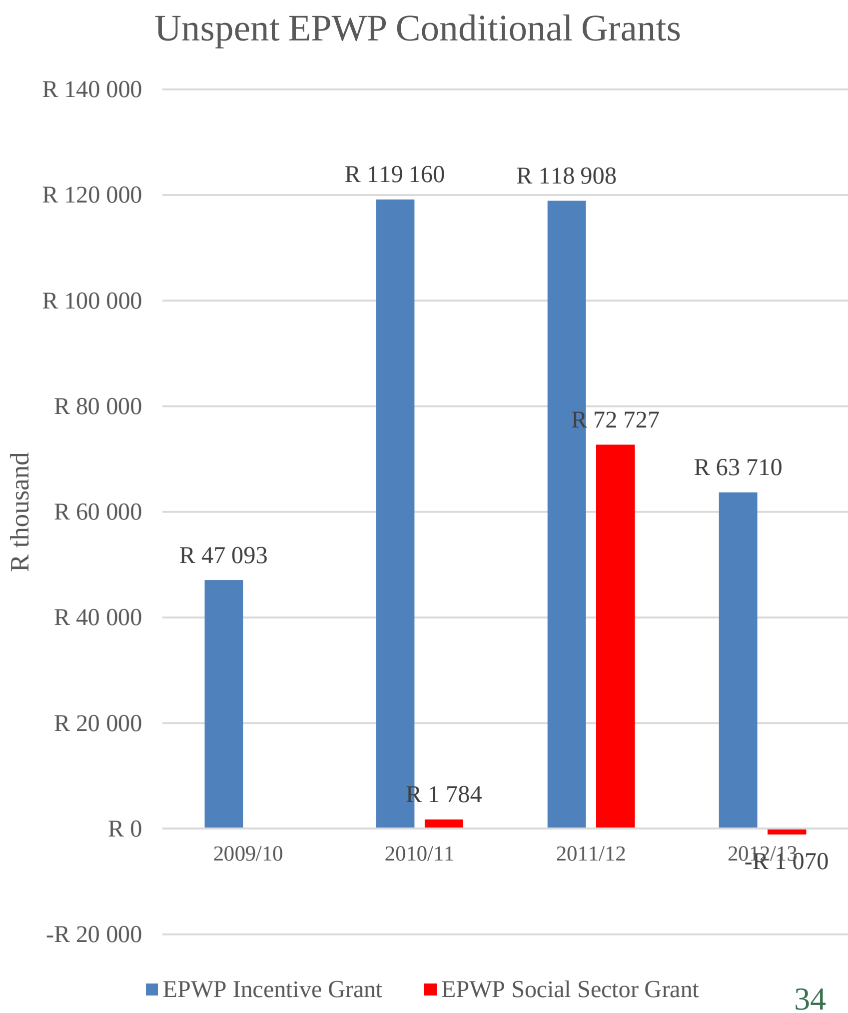
Spending Performance by Provinces on EPWP Conditional Grants

- The National Department of Public Works is the transferring agent for two EPWP conditional grants to provinces
- As the transferring agent, the responsibilities of the DPW are prescribed in the conditional grant framework contained in the Division of Revenue Act. These include (among others):
  - Determine eligibility of grant, monitor and provide support to provinces, audit provincial performance and report to national treasury on provincial progress

FINANCIAL AND FISCAL COMMISSION

EPWP Conditional Grants to Provinces





SUMMARY OF PERFORMANCE ON EPWP GRANTS TO PROVINCES

- Over a four year period (2009/10 – 2012/13), provinces have been unable to spend more than 80% of its allocation to the EPWP Incentive Grant in any given year
- Except in 2011/12 where spending on both EPWP grants were below 60% of total, the EPWP Social Sector grant in general, performed better than the Incentive grant
  - Provinces have challenges relating to infrastructure, which affects the spending performance on the Incentive grant
- In many instances, provinces fail to comply with grant conditions stipulated in DORA, resulting in funds being withheld, thereby leaving funds unspent at the end of the year

FINANCIAL AND FISCAL COMMISSION

CONCLUDING REMARKS

- Key issues emanating from analysis of DPW
  - Underspending of budget
  - Not meeting set targets
- For the sector to turnaround, the DPW should play a leadership role by providing the necessary support to the provinces and establishing minimum norms and standards to facilitate improvement in service delivery in the provinces
- Department to put in place proper systems to guide expenditure management, setting of appropriate key performance indicators and a plan to attract/retain skilled staff
  - Outcome of the Turnaround Project is key in facilitating progress – some improvements noted but far to go in putting DPW on stable footing

FINANCIAL AND FISCAL COMMISSION

FFC'S WEBSITE: WWW.FFC.CO.ZA

PORTFOLIO COMMITTEE ON PUBLIC WORKS

Financial and Fiscal Commission

25 September 2014

For an Equitable Sharing of National Revenue

PRESENTATION OUTLINE

1. Role and Function of the Financial and Fiscal Commission
2. Recommendations of the Commission that relate to Public Works
3. Departmental Analysis

FINANCIAL AND FISCAL COMMISSION

1. Role and Function of the Financial and Fiscal Commission

Role and Function of the FFC

- The Financial and Fiscal Commission (FFC)
  - Is an independent, permanent, statutory institution established in terms of Section 220 of Constitution
  - Must function in terms of the FFC Act
- Mandate of Commission
  - To make recommendations, envisaged in Chapter 13 of the Constitution or in national legislation to Parliament, Provincial Legislatures, and any other organ of state determined by national legislation
- The Commission's focus is primarily on the equitable division of nationally collected revenue among the three spheres of government and any other financial and fiscal matters
  - Legislative provisions or executive decisions that affect either provincial or local government from a financial and/or fiscal perspective
  - Includes regulations associated with legislation that may amend or extend such legislation
  - Commission must be consulted in terms of the FFC Act
  - Current research strategy focuses on developmental impacts of IGFR

FINANCIAL AND FISCAL COMMISSION

How FFC Supports Policy

- Identify weakness within the IGFR system
- Propose evidence-based policy proposals
- Interact and participate with/in forums and institutions responsible for IGFR policy – TCF, Budget Council, Budget Forum
- Information dissemination – invitations from nine provincial legislatures and SALGA
- Interact with various committees within parliament

FINANCIAL AND FISCAL COMMISSION

Processing of Recommendations

- Recommendations of the Commission
  - Recommendations are made to Parliament so that the legislature can examine the financial and fiscal decisions of government against them and understand why they have been accepted or rejected
  - Section 4(4)(c) of the Money Bills Amendment Procedures and Related Matters Act (MBAPMA) requires Parliament to consider the recommendations of the Commission when deliberating on Money Bills
- Government is obligated through an Act of Parliament to explain how it has taken the FFC recommendations in arriving at the division of revenue for any particular year
  - The response is tabled in Annexure W1 of the DoR Bill and of the Budget Review

FINANCIAL AND FISCAL COMMISSION

How FFC can Support Parliament

DIRECT TRAINING AND INTERVENTION

- Training of members of parliamentary committees and councillors on request (e.g. in Bushbuckridge)
- Advice to municipalities (e.g. Tshwane merger)
- Inputs in various fora (e.g. SALGA)

NON TRAINING SUPPORT AND INTERVENTION

- Member of review committees (LES, Infrastructure Grants, Metro's Own Revenue)
- Public hearings (local government fiscal framework, housing and welfare)
- Inputs in benchmarking exercises
- Recommendations through Annual Submission on DoR, MTBPS, FF and Appropriations

VALUE ADD OF THE FFC

- FFC can provide advice, analysis and training to assist the work of the Committee
  - Specialised IGFR training to committee members and/or parliamentary researchers
  - Provision of recommendations that are founded on evidence based research
  - Technical support with respect to parliamentary fiscal oversight activities

FINANCIAL AND FISCAL COMMISSION

FINANCIAL AND FISCAL COMMISSION

2. Recommendations that Relate to Public Works

FFC Work Related to DPW [cont.]

Response to Division of Revenue Bill (DoRB) 2010	The Commission welcomed introduction of the *EPWP Incentive Grant for the Social Sector*. The Commission noted that there was a need to standardise the employment framework for the sector including conditions, wages and progression across provinces and municipalities. The Commission also raised concern regarding difficulties that were being experienced with the transfer of the EPWP Incentive Grant to Local and Provincial Governments. In the 2009/10 certain provinces (e.g. Western Cape) raised concern that they received transfers outside the ambit of the DoR and couldn't spend the money because it was not properly appropriated through various legislatures. At that point the general challenge with the grant was that provinces and municipalities found it difficult to integrate it through their infrastructure programmes. This problem persists because labour intensive infrastructure projects need to be planned, costed and scheduled properly. Not all projects yield the same labour intensity, so targets must be set by project type and category. Some projects will better lend themselves to labour intensive methods than others. This must be factored into the budget allocations and monitoring of the grant. *Current Commission analysis is that provinces continue to have challenges relating to labour intensive infrastructure, which affects the spending of the Incentive grant. In 2012/13 DPW appointed service providers to support provinces and municipalities in design of infrastructure projects and reporting methods.*

FFC Work Related to DPW [cont.]

Response to MTBPS 2011	In terms of the EPWP Incentive grant framework, provinces and municipalities must spend their budgets on EPWP projects and after that the grant will be paid by DPW quarterly as an incentive (after employment has been created). There has been general under-spending against budget since inception of the grant. Projected under-spending in financial year 2011 was 28.4%. In 2010, the actual under-spend was 38.4%. Despite poor spending performance, the annual growth of the budget was high. Expenditure reports on the grant performance at local government were inaccessible. DPW should explain how transfers are reconciled with actual expenditure. The grant should be streamlined to the Division of Revenue Act (DORA) requirements in terms of allocation and disbursements of funds. Punitive and incentive elements of the grant should be made transparent to all the stakeholders. *Current FFC analysis indicates that underspending persists. Between 2009/10 and 2012/13, provinces have been unable to spend more than 80% of their allocation*
Response to DoRB 2012	The Commission reiterated concerns raised in its Response to DoRB 2010 and Response to 2011 MTBPS regarding the challenges with the EPWP Incentive grant. The Commission maintained its view that the grant had not succeeded in achieving the intended goals within the specified time. There had also not been a formal assessment of the achievement of this grant both in terms of expenditure and service delivery outputs including how many direct and full times jobs had been created against the allocated funds. The Commission recommended that an independent review of the grant be undertaken, so that lessons can be drawn from past experience to avoid a replication of past mistakes. Government has since set up a team consisting of National Treasury, DPW, DCoG and SALGA that has been working on this. *This review is ongoing*

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FINANCIAL AND FISCAL COMMISSION

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FINANCIAL AND FISCAL COMMISSION

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FINANCIAL AND FISCAL COMMISSION

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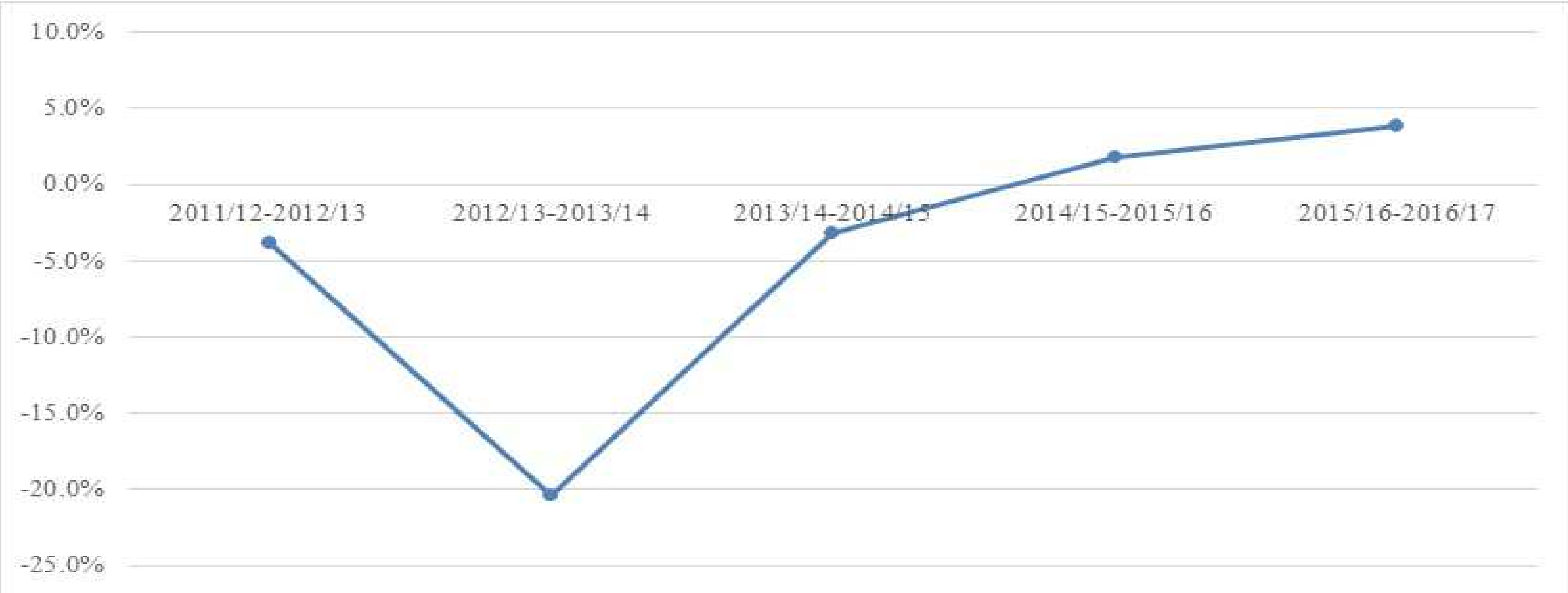
Immovable Asset Management	5 001.7	4 563.5	2 831.8	2 861.4	3 308.1	3 450.0	-28.7%	4.6%
Expanded Public Works Programme	1 163.0	1 704.1	1 948.0	1 951.3	2 006.8	2 395.2	22.7%	5.5%
Property and Construction Industry Policy Regulation	34.4	26.9	36.7	41.5	43.4	45.9	-2.1%	0.1%
Auxiliary and Associated Services	25.2	53.3	50.7	91.8	53.7	56.6	34.4%	-25.2%
Total	**7 061.4**	**7 203.9**	**6 025.3**	**6 121.3**	**6 545.3**	**7 139.2**	**-12.5%**	**2.8%**

- Five programmes on Department of Public Works (DPW) budget
- Allocation reduced significantly in 2013/14, due to phasing out of Devolution of Property Rates Fund Grant to provinces and non-completion of various projects. As result of underspending, Cabinet approved reductions were effected
  - Following poor spending performance and audit outcomes, DPW implementing a Turnaround Project
- DPW budget projected to recover to just over R7.1 billion by end of 2014 medium term expenditure framework (MTEF) period
  - 2014 MTEF growth driven by additional allocation of R159 million in 2016/17 for Expanded Public Works Programme (EPWP)

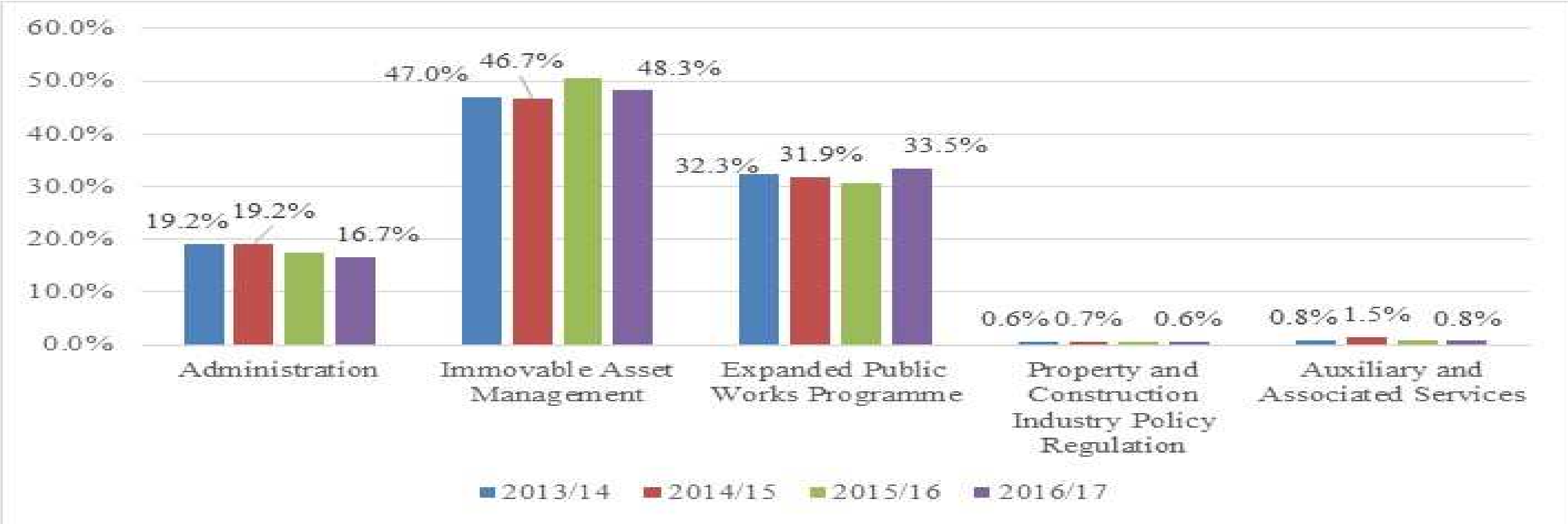
FINANCIAL AND FISCAL COMMISSION

REAL YEAR ON YEAR GROWTH OF PUBLIC WORKS BUDGET

- Significant decline in year on year growth in 2013/14
  - Though still declining in real terms in 2014/15, there is some improvement
- Over rest of 2014 MTEF period, positive growth projected
  - Focus will be on rehabilitating 34 state owned buildings, and ensuring that at least 100 buildings are made accessible to people with disabilities in each year of MTEF



BUDGET COMPOSITION ACROSS PROGRAMMES



- Immovable Asset Management Programme consumes largest share of DPW budget – by end of 2014 MTEF period this programme is projected to consume just under half of DPW budget
- Share allocated to Administration Programme consumers about one fifth of departmental budget – funding for Turnaround Project fall under Administration
  - Turnaround Project will support activities relating to the Special Investigating Unit, a technical support unit, a clean audit project, irregular expenditure management, internal audit support

FINANCIAL AND FISCAL COMMISSION

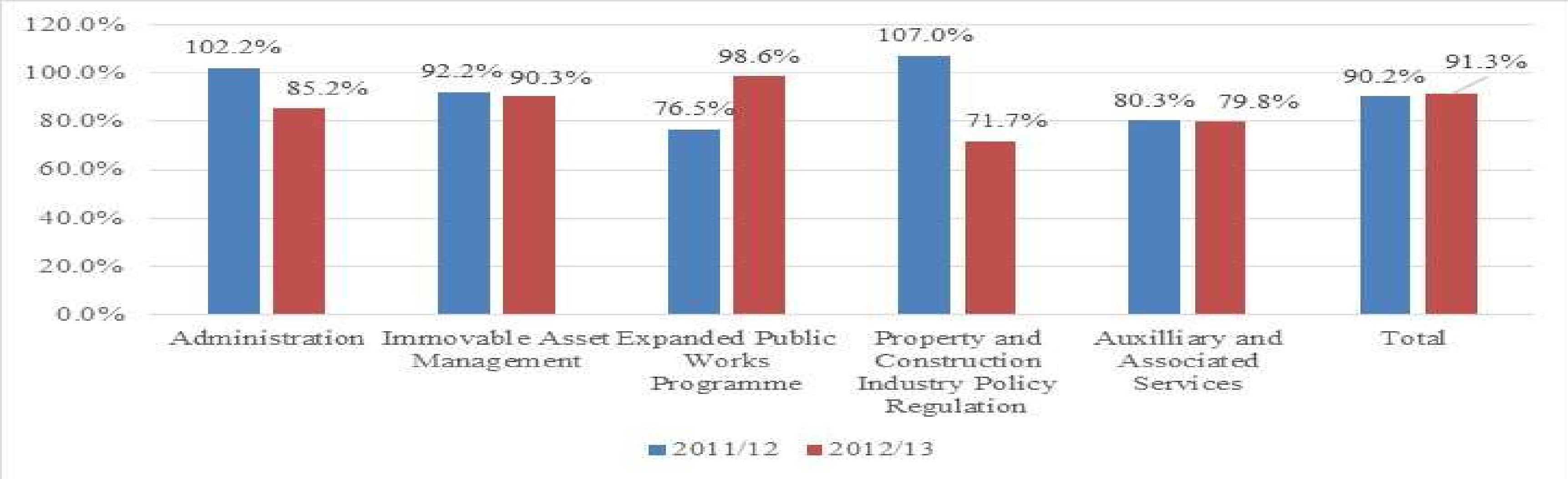
Economic Classification

Item (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Compensation of Employees	1 269.6	1 374.6	1 473.5	1 659.9	1 753.5	1 870.5
Goods and Services	1 032.9	977.0	1 379.6	1 302.1	1 202.9	1 269.0
Transfers and Subsidies	3 656.2	4 092.4	2 543.9	2 563.4	2 654.2	3 017.9
Payments for Capital Assets	1 099.1	756.8	628.4	595.9	934.8	981.7
Real Year on Year Growth (%)						
Compensation of Employees		2.1%	2.1%	7.3%	0.6%	1.6%
Goods and Services		-10.8%	34.5%	-10.1%	-12.0%	0.5%
Transfers and Subsidies		5.6%	-40.8%	-4.0%	-1.4%	8.3%
Payments for Capital Assets		-35.1%	-20.9%	-9.7%	49.4%	-0.003%

- Transfers and subsidies is the largest item
  - the decrease in 2013/14 due to phasing out of the Devolution of Property Rates Fund Grant to Provinces, hence reduction in transfers to provinces
- The increase in spending on Goods and Services in 2013/14 driven by spending on consultants – due to shortage of technical skills in property/project management and specialists as required for the DPW's turnaround project
- Payments for capital assets very erratic
- Relative to strong annual average growth between 2011/12 and 2013/14, growth in Goods and Service set to decline over the 2014 MTEF period

FINANCIAL AND FISCAL COMMISSION

SPENDING PERFORMANCE (FISCAL DISCIPLINE)

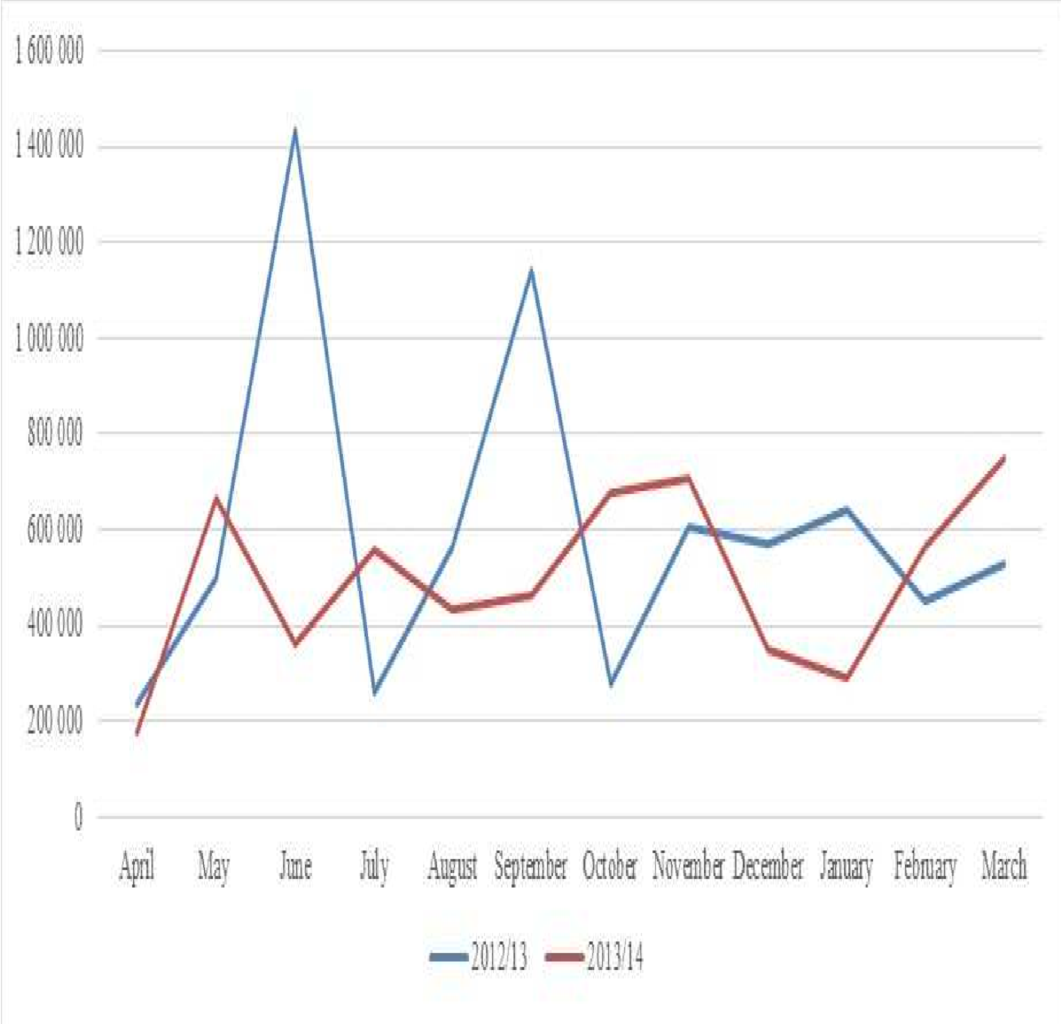


- DPW underspent in 2011/12 and 2012/13
- In 2011 underspending on EPWP and Auxilliary and Associated Services Programme
- In 2012, underspending is as a result of poor spending in Property and Construction Industry Policy Regulation Programme and again Auxilliary and Associated Services Programme
- Due to persistent underspending on capital, baseline reductions of R1.3 billion effected over 2014 MTEF period

FINANCIAL AND FISCAL COMMISSION

In-Year Expenditure

- 2012/13 in-year spending erratic
- Appears to be improving in 2013/14 – variances in monthly spending not as large as during 2012/13
- Concern with poor in-year spending is that it hints at unstable cash flow and disbursements



FINANCIAL AND FISCAL COMMISSION

Selected Sub-Programme Analysis: Immovable Asset Management Programme

Real Year on Year Growth	2011/12-2012/13	2012/13-2013/14	2013/14-2014/15	2014/15-2015/16	2015/16-2016/17
Infrastructure (Public Works)	-33.5%	-9.7%	-28.1%	57.5%	-0.1%
Strategic Asset Investment Analysis	-67.7%	149.1%	10.4%	0.2%	1.0%
Operation Management	1.6%	-0.3%	0.5%	-0.4%	2.7%
Prestige Management	-51.5%	44.0%	-27.0%	-1.0%	-28.5%
Special Projects	4.0%	47.6%	-24.7%	1.8%	0.4%
Construction Industry Development Board	-3.4%	2.0%	1.6%	0.4%	0.2%
Council for the Built Environment	-7.7%	28.8%	4.3%	1.4%	0.2%
Parliamentary Village Management Board	-0.6%	0.1%	1.1%	-0.4%	0.5%
Augmentation of the Property Management Trading Entity	-3.2%	0.5%	-6.0%	-0.1%	0.6%
Independent Development Trust	-68.1%	-6.3%	-4.7%	-4.8%	-100.0%
Total	**-14.0%**	**-37.8%**	**-8.6%**	**10.1%**	**-0.7%**

- Total programme growth declines over most of the period reviewed
  - Decline in 2012 and 2013 is due to phasing out of devolution of property rates fund grant to provinces, non-completion of projects and Cabinet approved reductions due to underspending
- Generally sub-programme trends are erratic, brings into question soundness of planning in DPW
- Lack of capacity a challenge in this programme – 10% vacancy rate

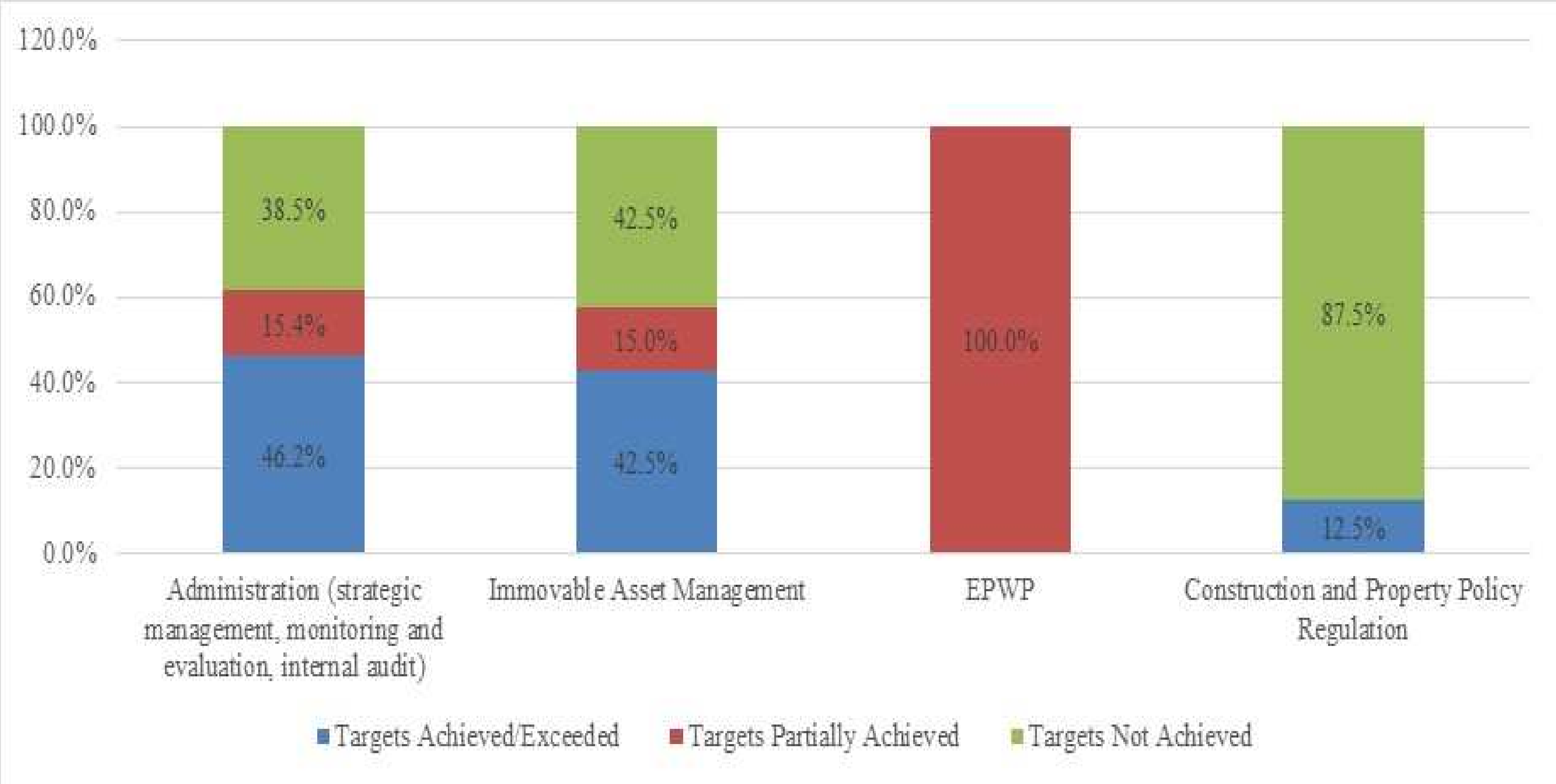
Selected Sub-Programme Analysis: Expanded Public Works Programme

R million	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Expanded Public Works Programme	209.7	236.8	273.8	261.5	267.7	290.6
Performance Based Incentive Allocations	953.3	1 467.3	1 674.2	1 689.8	1 739.2	2 104.6
Total	**1 163.0**	**1 704.1**	**1 948.0**	**1 951.3**	**2 006.8**	**2 395.2**
Real Year on Year Growth		**2011/12-2012/13**	**2012/13-2013/14**	**2013/14-2014/15**	**2014/15-2015/16**	**2015/16-2016/17**
Expanded Public Works Programme		12.9%	15.6%	-4.5%	2.4%	8.6%
Performance Based Incentive Allocations		53.9%	14.1%	0.9%	2.9%	21.0%
Total		**46.5%**	**14.3%**	**0.2%**	**2.8%**	**19.4%**

- EPWP promotes use of government expenditure to create additional employment opportunities through the use of labour-intensive delivery methods
  - Increases in 2012/2013 due to appointment of service providers to support provinces and municipalities in design of infrastructure projects and reporting methods
- Performance Based Incentive Allocations is the largest sub-programme
  - Focus: disburses funds to provinces/municipalities and NGOs to ensure creation of work opportunities in infrastructure, environment, social sectors
  - Increases between 2012 and 2013 are due to additional funding allocated. However to give effect to Cabinet-approved reductions, growth in this sub programme slows in 2014 and 2015
- Overall between 2009/10 and 2012/13, just over 3 million jobs created (68% of target of 4.5 million jobs)

DEPARTMENTAL PERFORMANCE

- Department not adequately meeting targets set.
  - Number of targets partially met and totally unmet exceptionally high



Departmental Performance [cont.]

Programme	Explanation for Unmet Targets
Administration	Delays due to lack of capacity/high vacancy rate, unrealistic targets given financial resources, lengthy procurement processes that delay appointment of service providers
Immovable Asset Management	Appropriate supply chain management process not followed, unrealistic target setting, inadequate data collection to verify extent to which target was met
EPWP	Delays in project implementation, lack of technical capacity to implement projects, poor performance on part of municipalities/provinces to carry out projects
Construction and Property Policy Regulation	• Legislative framework for Built Environment Professionals: delays in internal consultation • Establish Agrement SA as public entity: delay in the approval of business case • Provide immovable asset lifecycle management guidelines to national and provincial custodians of immovable assets: delay in internal consultation prevented finalisation

ASPECTS HIGHLIGHTED BY THE AUDITOR-GENERAL

- DPW audit outcomes:
  - 2009/10: qualified with findings
  - 2010/11:disclaimer
  - 2011/12: disclaimer
  - 2012/13: qualified with findings
- Key issues highlighted by Auditor-General that need to be addressed:
  - Inadequate internal controls in areas of leadership, financial management, performance management and governance
  - Areas that were identified for specific attention through the turnaround project include: lack of controls in supply chain management, poor lease management, inadequate immovable asset register, lack of built environment and property management skills

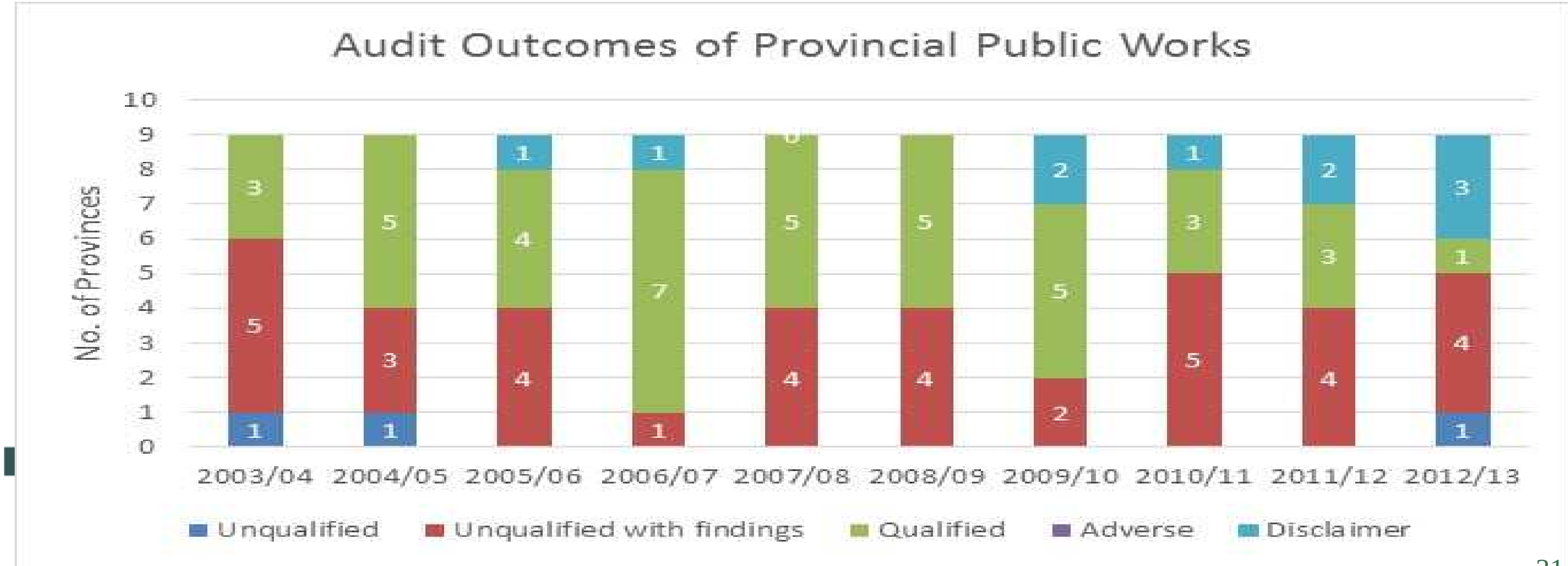
FINANCIAL AND FISCAL COMMISSION

FINANCIAL AND FISCAL COMMISSION

PUBLIC WORKS IN THE PROVINCES

PROVINCIAL AUDIT OUTCOMES

- Audit outcomes for provincial departments of public works have not considerably improved in since 2003/04
  - Four out of the nine provinces received a qualified opinion or disclaimer in 2012/13
  - Over a period of 10 years (i.e. 2003/4 – 2012/13), only 3 provincial departments of public works received an unqualified audit opinion



PROVINCIAL AUDIT OUTCOMES [CONT.]

- The Auditor-General raised a number of matters that prevented provincial departments from achieving clean audits such as:
  - Instability in leadership and lack of human resources
  - Internal controls are ineffective
  - Action plans to implement improvement in audit outcomes are not timeously implemented
  - Inaccurate and incomplete fixed asset registers
  - Incomplete disclosures on unauthorized, irregular and fruitless, irregular and wasteful expenditure
  - Commitments by the national sector department to intervene and/or provide support were not honoured
- The Commission's view is that DPW should play a more active role, through the various intergovernmental forums, in providing the necessary support to provincial departments of public works

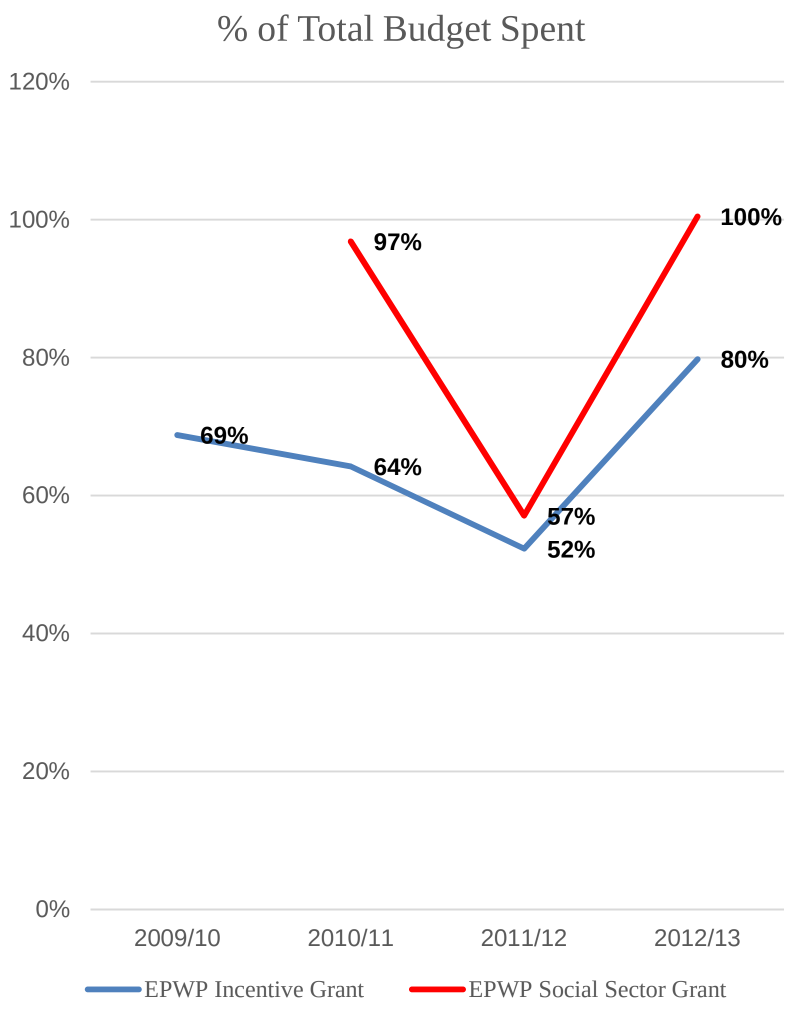
FINANCIAL AND FISCAL COMMISSION

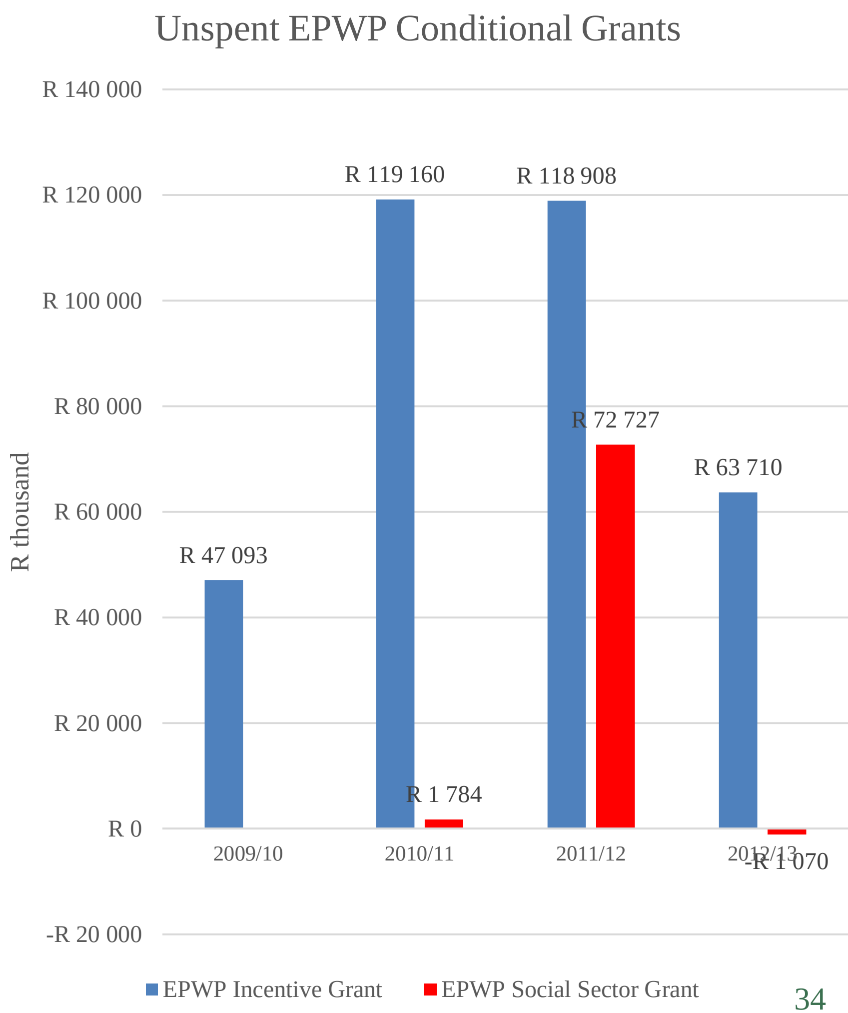
SPENDING PERFORMANCE BY PROVINCES ON EPWP CONDITIONAL GRANTS

- The National Department of Public Works is the transferring agent for two EPWP conditional grants to provinces
- As the transferring agent, the responsibilities of the DPW are prescribed in the conditional grant framework contained in the Division of Revenue Act. These include (among others):
  – Determine eligibility of grant, monitor and provide support to provinces, audit provincial performance and report to national treasury on provincial progress

FINANCIAL AND FISCAL COMMISSION

EPWP CONDITIONAL GRANTS TO PROVINCES





SUMMARY OF PERFORMANCE ON EPWP GRANTS TO PROVINCES

- Over a four year period (2009/10 – 2012/13), provinces have been unable to spend more than 80% of its allocation to the EPWP Incentive Grant in any given year
- Except in 2011/12 where spending on both EPWP grants were below 60% of total, the EPWP Social Sector grant in general, performed better than the Incentive grant
  - Provinces have challenges relating to infrastructure, which affects the spending performance on the Incentive grant
- In many instances, provinces fail to comply with grant conditions stipulated in DORA, resulting in funds being withheld, thereby leaving funds unspent at the end of the year

FINANCIAL AND FISCAL COMMISSION

CONCLUDING REMARKS

- Key issues emanating from analysis of DPW
  - Underspending of budget
  - Not meeting set targets
- For the sector to turnaround, the DPW should play a leadership role by providing the necessary support to the provinces and establishing minimum norms and standards to facilitate improvement in service delivery in the provinces
- Department to put in place proper systems to guide expenditure management, setting of appropriate key performance indicators and a plan to attract/retain skilled staff
  - Outcome of the Turnaround Project is key in facilitating progress – some improvements noted but far to go in putting DPW on stable footing

FINANCIAL AND FISCAL COMMISSION

FFC's Website: www.ffc.co.za

FINANCIAL
AND FISCAL
COMMISSION

PORTFOLIO COMMITTEE ON PUBLIC WORKS

Financial and Fiscal Commission

25 September 2014

For an Equitable Sharing of National Revenue

PRESENTATION OUTLINE

1. Role and Function of the Financial and Fiscal Commission
2. Recommendations of the Commission that relate to Public Works
3. Departmental Analysis

FINANCIAL AND FISCAL COMMISSION

1. Role and Function of the Financial and Fiscal Commission

ROLE AND FUNCTION OF THE FFC

- The Financial and Fiscal Commission (FFC)
  - Is an independent, permanent, statutory institution established in terms of Section 220 of Constitution
  - Must function in terms of the FFC Act
- Mandate of Commission
  - To make recommendations, envisaged in Chapter 13 of the Constitution or in national legislation to Parliament, Provincial Legislatures, and any other organ of state determined by national legislation
- The Commission's focus is primarily on the equitable division of nationally collected revenue among the three spheres of government and any other financial and fiscal matters
  - Legislative provisions or executive decisions that affect either provincial or local government from a financial and/or fiscal perspective
  - Includes regulations associated with legislation that may amend or extend such legislation
  - Commission must be consulted in terms of the FFC Act
  - Current research strategy focuses on developmental impacts of IGFR

FINANCIAL AND FISCAL COMMISSION

How FFC Supports Policy

- Identify weakness within the IGFR system
- Propose evidence-based policy proposals
- Interact and participate with/in forums and institutions responsible for IGFR policy – TCF, Budget Council, Budget Forum
- Information dissemination – invitations from nine provincial legislatures and SALGA
- Interact with various committees within parliament

FINANCIAL AND FISCAL COMMISSION

PROCESSING OF RECOMMENDATIONS

- Recommendations of the Commission
  - Recommendations are made to Parliament so that the legislature can examine the financial and fiscal decisions of government against them and understand why they have been accepted or rejected
  - Section 4(4)(c) of the Money Bills Amendment Procedures and Related Matters Act (MBAPMA) requires Parliament to consider the recommendations of the Commission when deliberating on Money Bills
- Government is obligated through an Act of Parliament to explain how it has taken the FFC recommendations in arriving at the division of revenue for any particular year
  - The response is tabled in Annexure W1 of the DoR Bill and of the Budget Review

FINANCIAL AND FISCAL COMMISSION

How FFC can Support Parliament

DIRECT TRAINING AND INTERVENTION

- Training of members of parliamentary committees and councillors on request (e.g. in Bushbuckridge)
- Advice to municipalities (e.g. Tshwane merger)
- Inputs in various fora (e.g. SALGA)

NON TRAINING SUPPORT AND INTERVENTION

- Member of review committees (LES, Infrastructure Grants, Metro's Own Revenue)
- Public hearings (local government fiscal framework, housing and welfare)
- Inputs in benchmarking exercises
- Recommendations through Annual Submission on DoR, MTBPS, FF and Appropriations

Value Add of the FFC

- FFC can provide advice, analysis and training to assist the work of the Committee
  - Specialised IGFR training to committee members and/or parliamentary researchers
  - Provision of recommendations that are founded on evidence based research
  - Technical support with respect to parliamentary fiscal oversight activities

FINANCIAL AND FISCAL COMMISSION

FINANCIAL
AND FISCAL
COMMISSION

2. Recommendations that Relate to Public Works

FFC Work Related to DPW [cont.]

Response to Division of Revenue Bill (DoRB) 2010	The Commission welcomed introduction of the *EPWP Incentive Grant for the Social Sector*. The Commission noted that there was a need to standardise the employment framework for the sector including conditions, wages and progression across provinces and municipalities. The Commission also raised concern regarding difficulties that were being experienced with the transfer of the EPWP Incentive Grant to Local and Provincial Governments. In the 2009/10 certain provinces (e.g. Western Cape) raised concern that they received transfers outside the ambit of the DoR and couldn't spend the money because it was not properly appropriated through various legislatures. At that point the general challenge with the grant was that provinces and municipalities found it difficult to integrate it through their infrastructure programmes. This problem persists because labour intensive infrastructure projects need to be planned, costed and scheduled properly. Not all projects yield the same labour intensity, so targets must be set by project type and category. Some projects will better lend themselves to labour intensive methods than others. This must be factored into the budget allocations and monitoring of the grant. *Current Commission analysis is that provinces continue to have challenges relating to labour intensive infrastructure, which affects the spending of the Incentive grant. In 2012/13 DPW appointed service providers to support provinces and municipalities in design of infrastructure projects and reporting methods.*

FFC Work Related to DPW [cont.]

Response to MTBPS 2011	In terms of the EPWP Incentive grant framework, provinces and municipalities must spend their budgets on EPWP projects and after that the grant will be paid by DPW quarterly as an incentive (after employment has been created). There has been general under-spending against budget since inception of the grant. Projected under-spending in financial year 2011 was 28.4%. In 2010, the actual under-spend was 38.4%. Despite poor spending performance, the annual growth of the budget was high. Expenditure reports on the grant performance at local government were inaccessible. DPW should explain how transfers are reconciled with actual expenditure. The grant should be streamlined to the Division of Revenue Act (DORA) requirements in terms of allocation and disbursements of funds. Punitive and incentive elements of the grant should be made transparent to all the stakeholders. *Current FFC analysis indicates that underspending persists. Between 2009/10 and 2012/13, provinces have been unable to spend more than 80% of their allocation*
Response to DoRB 2012	The Commission reiterated concerns raised in its Response to DoRB 2010 and Response to 2011 MTBPS regarding the challenges with the EPWP Incentive grant. The Commission maintained its view that the grant had not succeeded in achieving the intended goals within the specified time. There had also not been a formal assessment of the achievement of this grant both in terms of expenditure and service delivery outputs including how many direct and full times jobs had been created against the allocated funds. The Commission recommended that an independent review of the grant be undertaken, so that lessons can be drawn from past experience to avoid a replication of past mistakes. Government has since set up a team consisting of National Treasury, DPW, DCoG and SALGA that has been working on this. *This review is ongoing*

FFC Work Related to DPW [cont.]

Submission for the 2009/10 DoR	FFC found a need for reporting on EPWP outcomes to be more specific. In accordance with the requirements of the EPWP, job creation for target groups such as women, youth and people with disabilities should be included in the reporting requirements for all infrastructure conditional grants to provinces and municipalities GOVT. RESPONSE: The recommendation for reporting on targets is supported. Some of these indicators can possibly be reported on as part of the conditional grant frameworks prescribed in terms of the Division of Revenue Act
Submission for the 2007/08 DoR	The World Cup funding was crafted on the basis of requirements to meet FIFA standards of hosting cities, and that the major challenge faced by government was sustainability of built infrastructure. On the funding for the FIFA World Cup, FFC, examined the sustainability of built infrastructure, taking the escalation of construction costs into account. FFC's findings included that the escalation of construction costs be budgeted for, and that collaboration with the private sector should be encouraged. Also that a 2010 World Cup "Legacy Management Policy" should be introduced and prudent fiscal policy should be maintained leading to the World Cup GOVT. RESPONSE: Government is of the view that the costs relating to maintenance of constructed 2010 FIFA World Cup facilities should be provided by municipalities

FINANCIAL AND FISCAL COMMISSION

3. DEPARTMENTAL ANALYSIS

CONTEXTUALISING THE DEPARTMENT OF PUBLIC WORKS

- Aim of Department of Public Works (DPW):
  - provide for and manage accommodation, housing, land and infrastructure needs of national departments
  - Lead and direct implementation of the national expanded public works programme (EPWP)
  - Promote growth, job creation and transformation in the construction and property industries
- Public works is a concurrent function between national and provincial spheres of government
- DPW contribution to National Development Plan (NDP) achieved through:
  - Implementation of job creation initiatives
  - Transition to low cost carbon economy
  - Development of an inclusive and integrated rural economy
  - Fight against corruption

FINANCIAL AND FISCAL COMMISSION

KEY CHALLENGES CONFRONTING DPW

- Due to consistent trend of poor audit outcomes and generally poor performance, DPW implemented a turnaround project in November 2012
- Areas that were identified for specific attention through the turnaround project include:
  - Lack of controls in supply chain management (SCM)
    - Identified as major risk area by Auditor-General – DPW capacity to process tenders eroded and has led to numerous instances of fraud/corruption. SCM has been major focus of the Special Investigating Unit (SIU). SCM is the key focus of turnaround project in DPW. A service provider appointed to assist with fundamental review of SCM
      - Irregular expenditure, R171 million in 2011/12; R874 million in 2012/13
  - Poor lease management
    - Numerous irregularities with respect to lease agreements – gives rise to legal risks. DPW reviewing all lease agreements

KEY CHALLENGES CONFRONTING DPW [CONT.]

- Inadequate immovable asset register
  - Lack of compliant immovable asset register resulted in negative audit opinions. DPW now in process of rebuilding immovable asset register and building a model to revalue immovable assets
- Lack of built environment and property management skills
  - Lack of technical capacity to undertake direct construction/maintenance functions. Cooperating with DPSA and Higher Education and Training to address challenge

FINANCIAL AND FISCAL COMMISSION

STARTING POINT FOR BUDGET ANALYSIS

- By vote
  - Compare different votes with each other
- By vote programme
  - Compare different programmes within a vote
- By sub-programme
- Compare different sub-programmes within a programme
- By province
- Compare different provinces with each other
- Use Outputs, Targets and Indicators to measure performance
- Use policy documents as a benchmark

FINANCIAL AND FISCAL COMMISSION

USEFUL TOOLS

- Percentage Share of Total Budget
- Growth in the Budget
  - Percentage Change
    - Reflecting increases/decreases in percentage form
  - Annual Growth Rate
    - How does the allocation change year on year
  - Real Percentage Change
    - Takes inflation into consideration
  - Variances and explanations
    - Investigating the reasons/drivers of change
  - Spending by economic classification
    - Distinguishes between various categories of current (goods and services, transfers and subsidies) and capital expenditure (acquisition of fixed capital assets, purchase of land)

FINANCIAL AND FISCAL COMMISSION

Budget and Programmes of Public Works

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FINANCIAL AND FISCAL COMMISSION

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  - Though still declining in real terms in 2014/15, there is some improvement
- Over rest of 2014 MTEF period, positive growth projected
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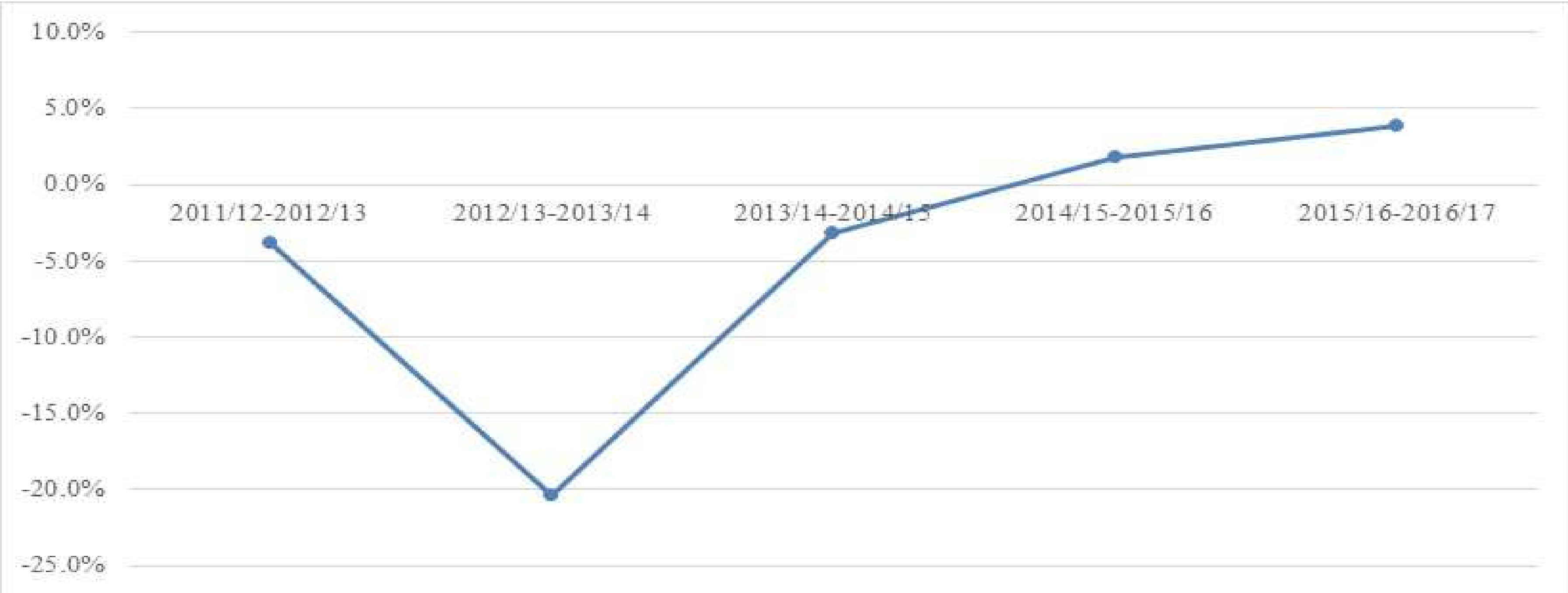
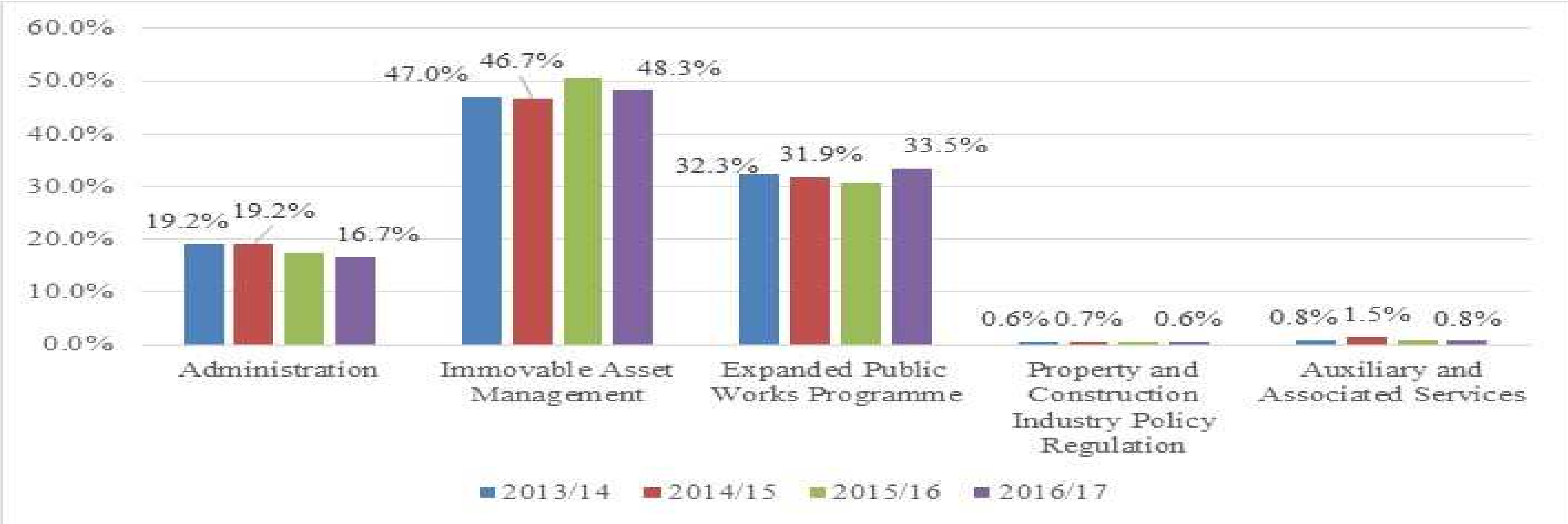


BUDGET COMPOSITION ACROSS PROGRAMMES



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FINANCIAL AND FISCAL COMMISSION

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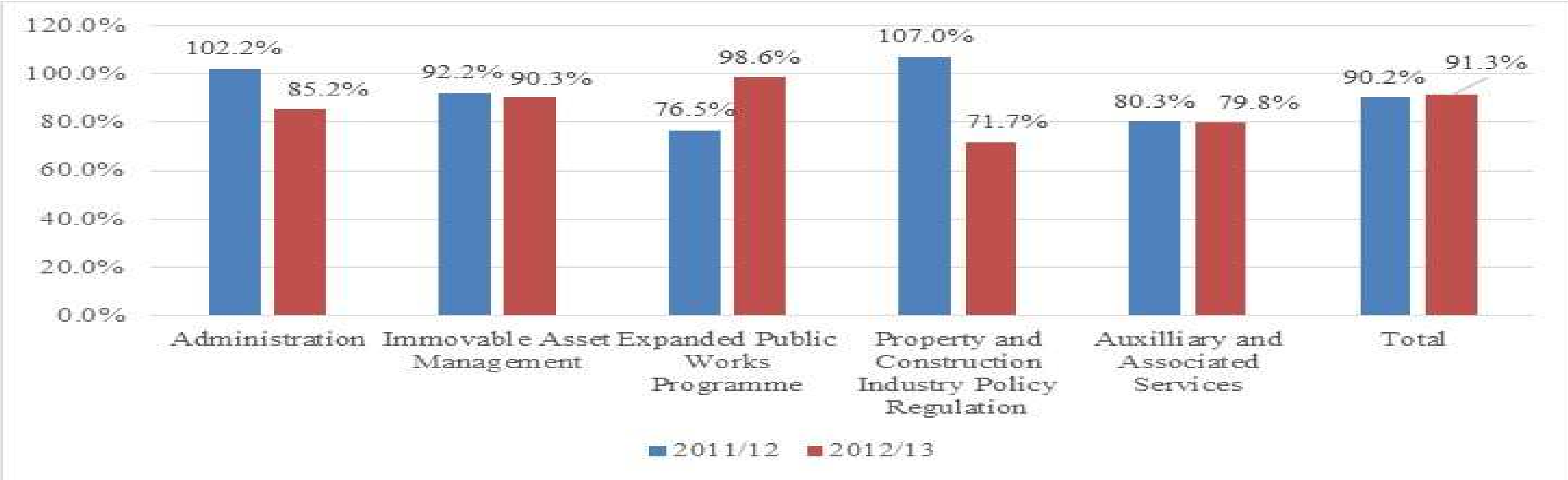
Payments for Capital Assets	1 099.1	756.8	628.4	595.9	934.8	981.7
Real Year on Year Growth (%)						
Compensation of Employees		2.1%	2.1%	7.3%	0.6%	1.6%
Goods and Services		-10.8%	34.5%	-10.1%	-12.0%	0.5%
Transfers and Subsidies		5.6%	-40.8%	-4.0%	-1.4%	8.3%
Payments for Capital Assets		-35.1%	-20.9%	-9.7%	49.4%	-0.003%

- Transfers and subsidies is the largest item
  - the decrease in 2013/14 due to phasing out of the Devolution of Property Rates Fund Grant to Provinces, hence reduction in transfers to provinces
- The increase in spending on Goods and Services in 2013/14 driven by spending on consultants – due to shortage of technical skills in property/project management and specialists as required for the DPW's turnaround project
- Payments for capital assets very erratic
- Relative to strong annual average growth between 2011/12 and 2013/14, growth in Goods and Service set to decline over the 2014 MTEF period

FINANCIAL AND FISCAL COMMISSION

SPENDING PERFORMANCE (FISCAL DISCIPLINE)



- DPW underspent in 2011/12 and 2012/13
- In 2011 underspending on EPWP and Auxilliary and Associated Services Programme
- In 2012, underspending is as a result of poor spending in Property and Construction Industry Policy Regulation Programme and again Auxilliary and Associated Services Programme
- Due to persistent underspending on capital, baseline reductions of R1.3 billion effected over 2014 MTEF period

FINANCIAL AND FISCAL COMMISSION

In-Year Expenditure

- 2012/13 in-year spending erratic
- Appears to be improving in 2013/14 – variances in monthly spending not as large as during 2012/13
- Concern with poor in-year spending is that it hints at unstable cash flow and disbursements

FINANCIAL AND FISCAL COMMISSION

Selected Sub-Programme Analysis: Immovable Asset Management Programme

Real Year on Year Growth	2011/12-2012/13	2012/13-2013/14	2013/14-2014/15	2014/15-2015/16	2015/16-2016/17
Infrastructure (Public Works)	-33.5%	-9.7%	-28.1%	57.5%	-0.1%
Strategic Asset Investment Analysis	-67.7%	149.1%	10.4%	0.2%	1.0%
Operation Management	1.6%	-0.3%	0.5%	-0.4%	2.7%
Prestige Management	-51.5%	44.0%	-27.0%	-1.0%	-28.5%
Special Projects	4.0%	47.6%	-24.7%	1.8%	0.4%
Construction Industry Development Board	-3.4%	2.0%	1.6%	0.4%	0.2%
Council for the Built Environment	-7.7%	28.8%	4.3%	1.4%	0.2%
Parliamentary Village Management Board	-0.6%	0.1%	1.1%	-0.4%	0.5%
Augmentation of the Property Management Trading Entity	-3.2%	0.5%	-6.0%	-0.1%	0.6%
Independent Development Trust	-68.1%	-6.3%	-4.7%	-4.8%	-100.0%
Total	**-14.0%**	**-37.8%**	**-8.6%**	**10.1%**	**-0.7%**

- Total programme growth declines over most of the period reviewed
  - Decline in 2012 and 2013 is due to phasing out of devolution of property rates fund grant to provinces, non-completion of projects and Cabinet approved reductions due to underspending
- Generally sub-programme trends are erratic, brings into question soundness of planning in DPW
- Lack of capacity a challenge in this programme – 10% vacancy rate

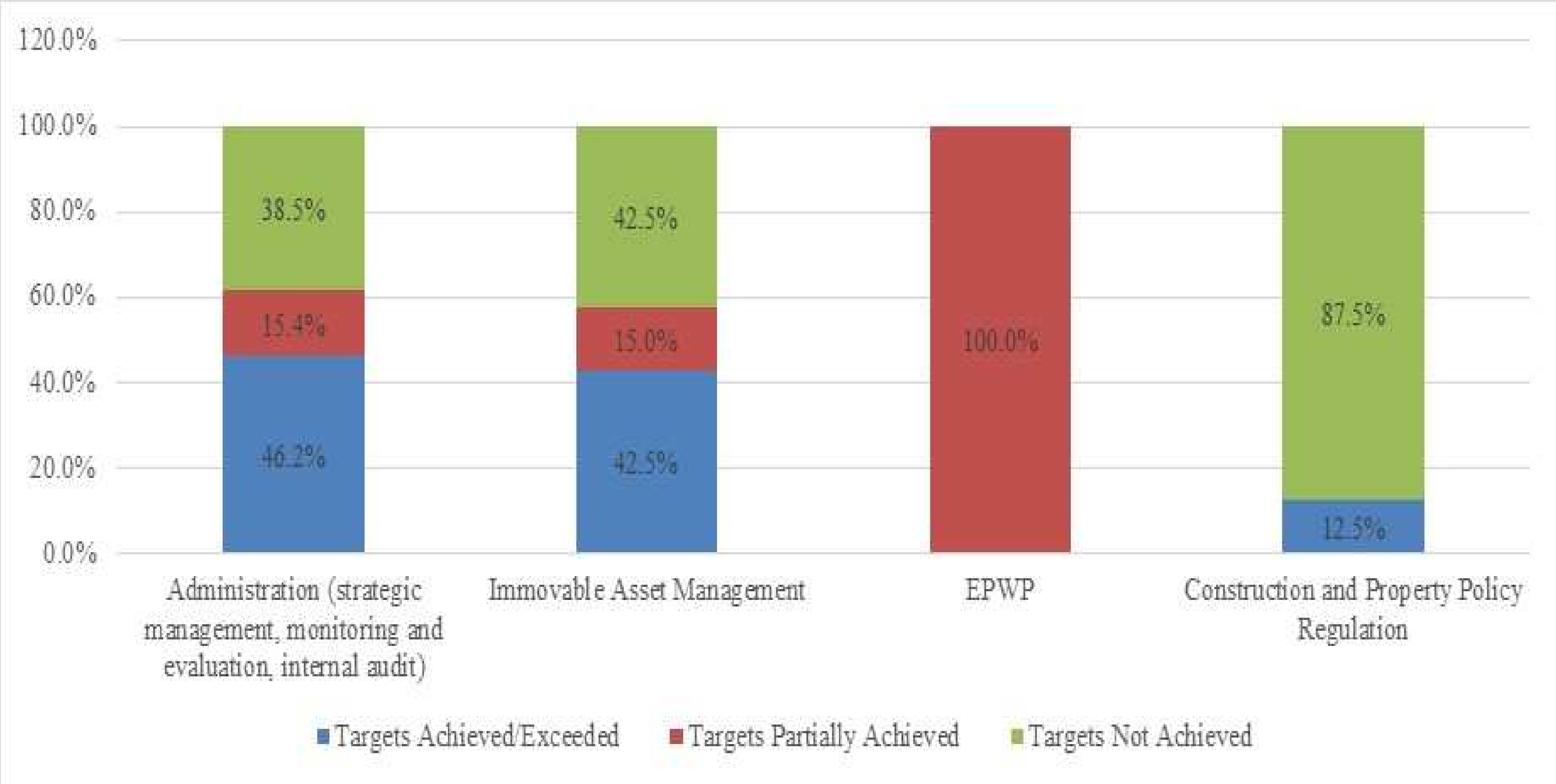
SELECTED SUB-PROGRAMME ANALYSIS: EXPANDED PUBLIC WORKS PROGRAMME

R million	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**
Expanded Public Works Programme	209.7	236.8	273.8	261.5	267.7	290.6
Performance Based Incentive Allocations	953.3	1 467.3	1 674.2	1 689.8	1 739.2	2 104.6
Total	**1 163.0**	**1 704.1**	**1 948.0**	**1 951.3**	**2 006.8**	**2 395.2**
Real Year on Year Growth		**2011/12-2012/13**	**2012/13-2013/14**	**2013/14-2014/15**	**2014/15-2015/16**	**2015/16-2016/17**
Expanded Public Works Programme		12.9%	15.6%	-4.5%	2.4%	8.6%
Performance Based Incentive Allocations		53.9%	14.1%	0.9%	2.9%	21.0%
Total		**46.5%**	**14.3%**	**0.2%**	**2.8%**	**19.4%**

- EPWP promotes use of government expenditure to create additional employment opportunities through the use of labour-intensive delivery methods
  - Increases in 2012/2013 due to appointment of service providers to support provinces and municipalities in design of infrastructure projects and reporting methods
- Performance Based Incentive Allocations is the largest sub-programme
  - Focus: disburses funds to provinces/municipalities and NGOs to ensure creation of work opportunities in infrastructure, environment, social sectors
  - Increases between 2012 and 2013 are due to additional funding allocated. However to give effect to Cabinet-approved reductions, growth in this sub programme slows in 2014 and 2015
- Overall between 2009/10 and 2012/13, just over 3 million jobs created (68% of target of 4.5 million jobs)

DEPARTMENTAL PERFORMANCE

- Department not adequately meeting targets set.
  - Number of targets partially met and totally unmet exceptionally high



DEPARTMENTAL PERFORMANCE [CONT.]

Programme	Explanation for Unmet Targets
Administration	Delays due to lack of capacity/high vacancy rate, unrealistic targets given financial resources, lengthy procurement processes that delay appointment of service providers
Immovable Asset Management	Appropriate supply chain management process not followed, unrealistic target setting, inadequate data collection to verify extent to which target was met
EPWP	Delays in project implementation, lack of technical capacity to implement projects, poor performance on part of municipalities/provinces to carry out projects
Construction and Property Policy Regulation	• Legislative framework for Built Environment Professionals: delays in internal consultation • Establish Agrement SA as public entity: delay in the approval of business case • Provide immovable asset lifecycle management guidelines to national and provincial custodians of immovable assets: delay in internal consultation prevented finalisation

Aspects Highlighted by the Auditor-General

- DPW audit outcomes:
  - 2009/10: qualified with findings
  - 2010/11:disclaimer
  - 2011/12: disclaimer
  - 2012/13: qualified with findings
- Key issues highlighted by Auditor-General that need to be addressed:
  - Inadequate internal controls in areas of leadership, financial management, performance management and governance
  - Areas that were identified for specific attention through the turnaround project include: lack of controls in supply chain management, poor lease management, inadequate immovable asset register, lack of built environment and property management skills

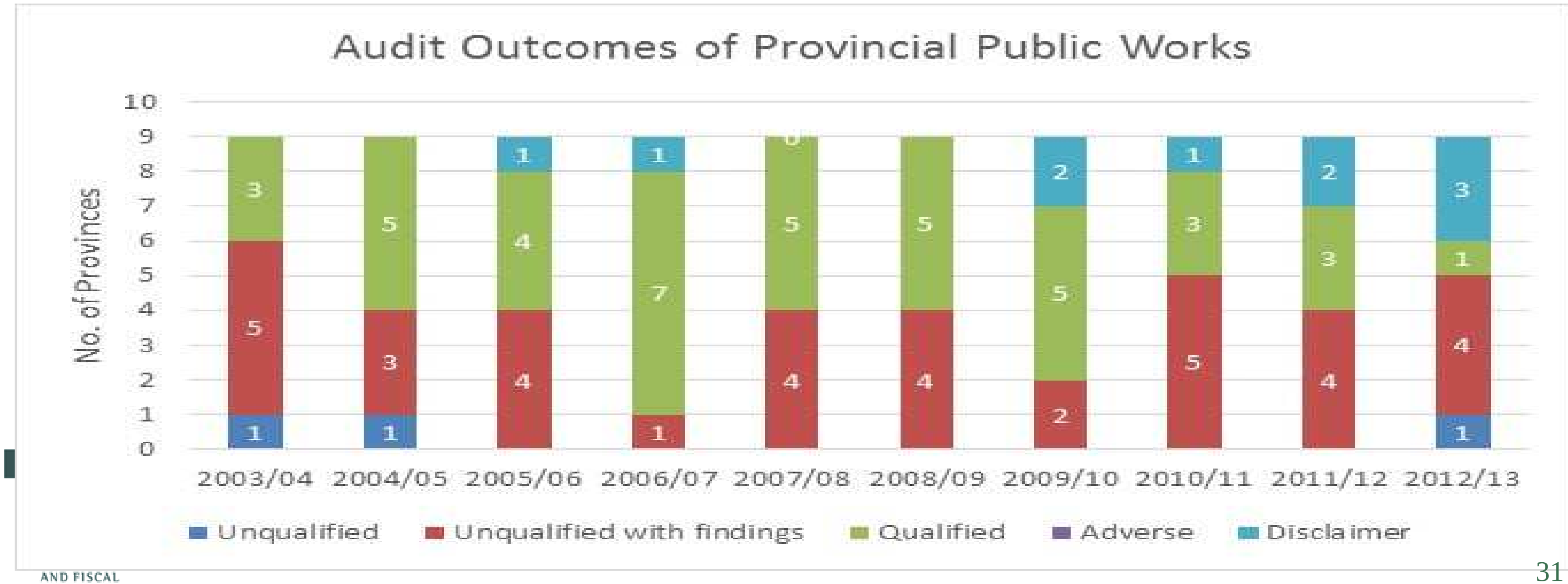
FINANCIAL AND FISCAL COMMISSION

FINANCIAL AND FISCAL COMMISSION

PUBLIC WORKS IN THE PROVINCES

PROVINCIAL AUDIT OUTCOMES

- Audit outcomes for provincial departments of public works have not considerably improved in since 2003/04
  - Four out of the nine provinces received a qualified opinion or disclaimer in 2012/13
  - Over a period of 10 years (i.e. 2003/4 – 2012/13), only 3 provincial departments of public works received an unqualified audit opinion



AND FISCAL COMMISSION

PROVINCIAL AUDIT OUTCOMES [CONT.]

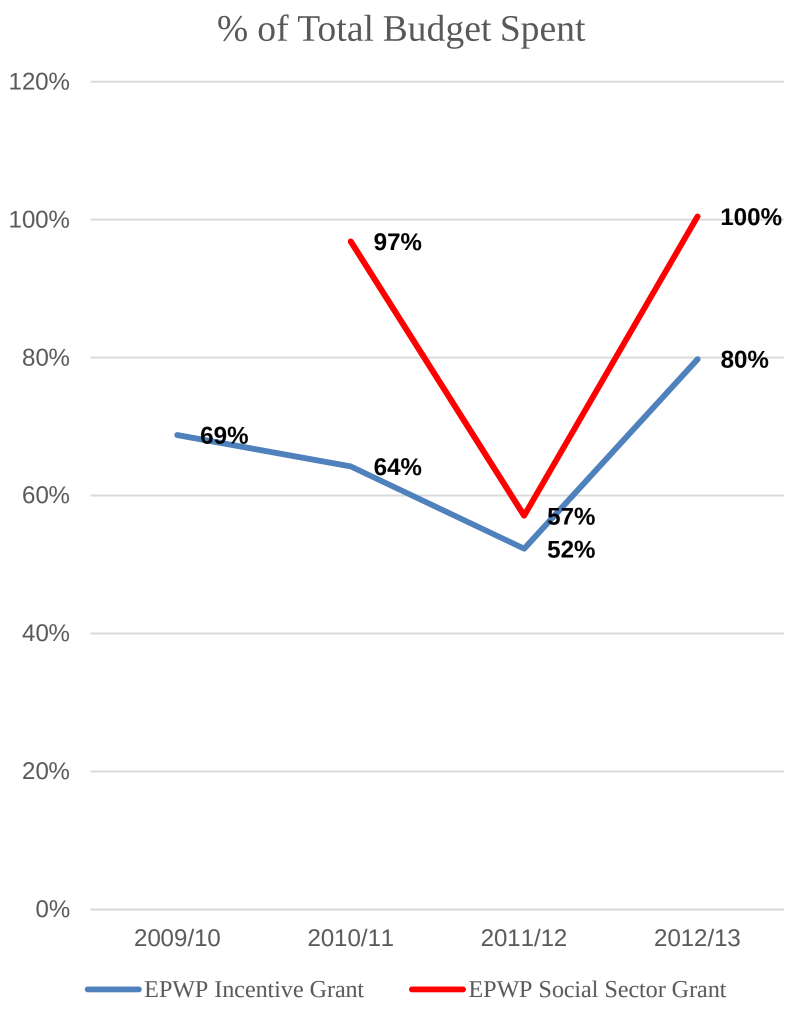
- The Auditor-General raised a number of matters that prevented provincial departments from achieving clean audits such as:
  - Instability in leadership and lack of human resources
  - Internal controls are ineffective
  - Action plans to implement improvement in audit outcomes are not timeously implemented
  - Inaccurate and incomplete fixed asset registers
  - Incomplete disclosures on unauthorized, irregular and fruitless, irregular and wasteful expenditure
  - Commitments by the national sector department to intervene and/or provide support were not honoured
- The Commission's view is that DPW should play a more active role, through the various intergovernmental forums, in providing the necessary support to provincial departments of public works

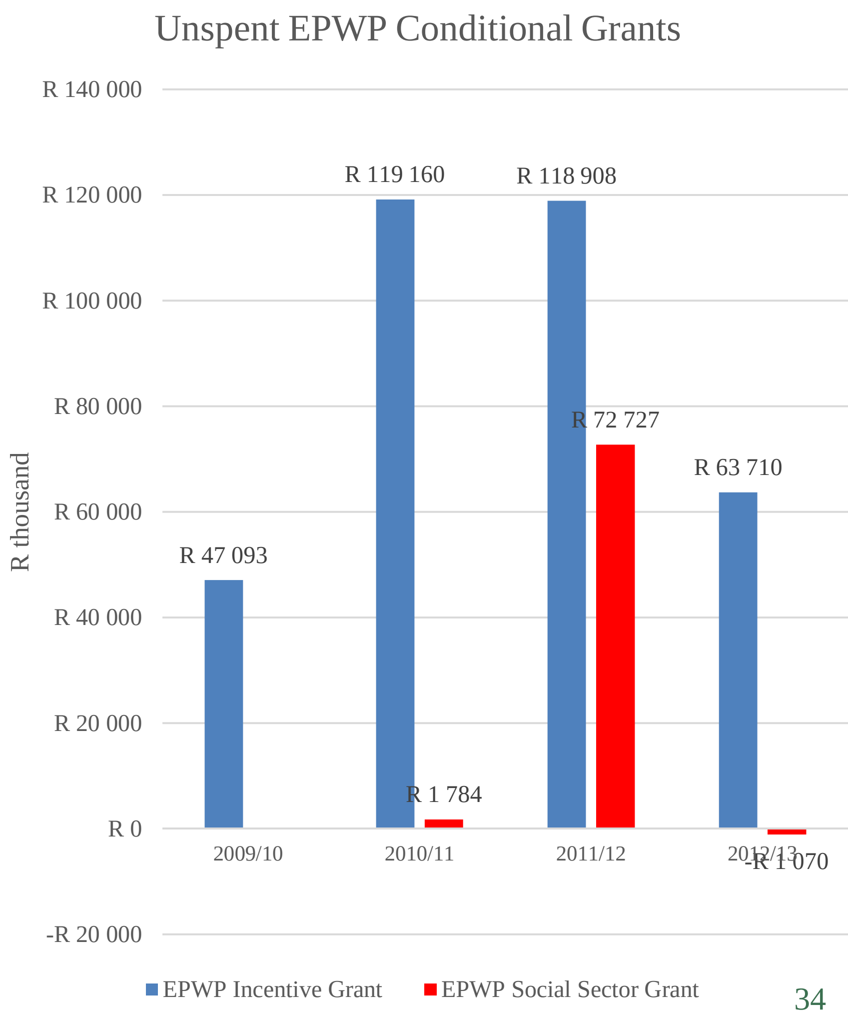
FINANCIAL AND FISCAL COMMISSION

Spending Performance by Provinces on EPWP Conditional Grants

- The National Department of Public Works is the transferring agent for two EPWP conditional grants to provinces
- As the transferring agent, the responsibilities of the DPW are prescribed in the conditional grant framework contained in the Division of Revenue Act. These include (among others):
  - Determine eligibility of grant, monitor and provide support to provinces, audit provincial performance and report to national treasury on provincial progress

EPWP Conditional Grants to Provinces





Summary of Performance on EPWP Grants to Provinces

- Over a four year period (2009/10 – 2012/13), provinces have been unable to spend more than 80% of its allocation to the EPWP Incentive Grant in any given year
- Except in 2011/12 where spending on both EPWP grants were below 60% of total, the EPWP Social Sector grant in general, performed better than the Incentive grant
  - Provinces have challenges relating to infrastructure, which affects the spending performance on the Incentive grant
- In many instances, provinces fail to comply with grant conditions stipulated in DORA, resulting in funds being withheld, thereby leaving funds unspent at the end of the year

FINANCIAL AND FISCAL COMMISSION

CONCLUDING REMARKS

- Key issues emanating from analysis of DPW
  - Underspending of budget
  - Not meeting set targets
- For the sector to turnaround, the DPW should play a leadership role by providing the necessary support to the provinces and establishing minimum norms and standards to facilitate improvement in service delivery in the provinces
- Department to put in place proper systems to guide expenditure management, setting of appropriate key performance indicators and a plan to attract/retain skilled staff
  - Outcome of the Turnaround Project is key in facilitating progress – some improvements noted but far to go in putting DPW on stable footing

FINANCIAL AND FISCAL COMMISSION

FFC's Website: www.ffc.co.za

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FINANCIAL AND FISCAL COMMISSION

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Financial and Fiscal Commission
Intergovernmental Fiscal Relations Conference
11 - 13 August 2014
International Convention Centre, Cape Town, South Africa

2015/16 Submission | Housing Financing | Child Welfare Services | 2012/2013 Annual report

2015/16 SUBMISSION FOR THE DIVISION OF REVENUE

SUBMISSION FOR THE DIVISION OF REVENUE 2015/16

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

NEW!!!

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

UPCOMING EVENTS

FINANCIAL
AND FISCAL
COMMISSION

PORTFOLIO COMMITTEE ON PUBLIC WORKS

Financial and Fiscal Commission

25 September 2014

For an Equitable Sharing of National Revenue

PRESENTATION OUTLINE

1. Role and Function of the Financial and Fiscal Commission
2. Recommendations of the Commission that relate to Public Works
3. Departmental Analysis

FINANCIAL AND FISCAL COMMISSION

1. Role and Function of the Financial and Fiscal Commission

Role and Function of the FFC

- The Financial and Fiscal Commission (FFC)
  - Is an independent, permanent, statutory institution established in terms of Section 220 of Constitution
  - Must function in terms of the FFC Act
- Mandate of Commission
  - To make recommendations, envisaged in Chapter 13 of the Constitution or in national legislation to Parliament, Provincial Legislatures, and any other organ of state determined by national legislation
- The Commission's focus is primarily on the equitable division of nationally collected revenue among the three spheres of government and any other financial and fiscal matters
  - Legislative provisions or executive decisions that affect either provincial or local government from a financial and/or fiscal perspective
  - Includes regulations associated with legislation that may amend or extend such legislation
  - Commission must be consulted in terms of the FFC Act
  - Current research strategy focuses on developmental impacts of IGFR

FINANCIAL AND FISCAL COMMISSION

How FFC Supports Policy

- Identify weakness within the IGFR system
- Propose evidence-based policy proposals
- Interact and participate with/in forums and institutions responsible for IGFR policy – TCF, Budget Council, Budget Forum
- Information dissemination – invitations from nine provincial legislatures and SALGA
- Interact with various committees within parliament

FINANCIAL AND FISCAL COMMISSION

PROCESSING OF RECOMMENDATIONS

- Recommendations of the Commission
  - Recommendations are made to Parliament so that the legislature can examine the financial and fiscal decisions of government against them and understand why they have been accepted or rejected
  - Section 4(4)(c) of the Money Bills Amendment Procedures and Related Matters Act (MBAPMA) requires Parliament to consider the recommendations of the Commission when deliberating on Money Bills
- Government is obligated through an Act of Parliament to explain how it has taken the FFC recommendations in arriving at the division of revenue for any particular year
  - The response is tabled in Annexure W1 of the DoR Bill and of the Budget Review

FINANCIAL AND FISCAL COMMISSION

How FFC can Support Parliament

DIRECT TRAINING AND INTERVENTION

- Training of members of parliamentary committees and councillors on request (e.g. in Bushbuckridge)
- Advice to municipalities (e.g. Tshwane merger)
- Inputs in various fora (e.g. SALGA)

NON TRAINING SUPPORT AND INTERVENTION

- Member of review committees (LES, Infrastructure Grants, Metro's Own Revenue)
- Public hearings (local government fiscal framework, housing and welfare)
- Inputs in benchmarking exercises
- Recommendations through Annual Submission on DoR, MTBPS, FF and Appropriations

VALUE ADD OF THE FFC

- FFC can provide advice, analysis and training to assist the work of the Committee
  - Specialised IGFR training to committee members and/or parliamentary researchers
  - Provision of recommendations that are founded on evidence based research
  - Technical support with respect to parliamentary fiscal oversight activities

FINANCIAL AND FISCAL COMMISSION

2. Recommendations that Relate to Public Works

FFC WORK RELATED TO DPW [CONT.]

Response to Division of Revenue Bill (DoRB) 2010	The Commission welcomed introduction of the *EPWP Incentive Grant for the Social Sector*. The Commission noted that there was a need to standardise the employment framework for the sector including conditions, wages and progression across provinces and municipalities. The Commission also raised concern regarding difficulties that were being experienced with the transfer of the EPWP Incentive Grant to Local and Provincial Governments. In the 2009/10 certain provinces (e.g. Western Cape) raised concern that they received transfers outside the ambit of the DoR and couldn't spend the money because it was not properly appropriated through various legislatures. At that point the general challenge with the grant was that provinces and municipalities found it difficult to integrate it through their infrastructure programmes. This problem persists because labour intensive infrastructure projects need to be planned, costed and scheduled properly. Not all projects yield the same labour intensity, so targets must be set by project type and category. Some projects will better lend themselves to labour intensive methods than others. This must be factored into the budget allocations and monitoring of the grant. *Current Commission analysis is that provinces continue to have challenges relating to labour intensive infrastructure, which affects the spending of the Incentive grant. In 2012/13 DPW appointed service providers to support provinces and municipalities in design of infrastructure projects and reporting methods.*

FFC Work Related to DPW [cont.]

Response to MTBPS 2011	In terms of the EPWP Incentive grant framework, provinces and municipalities must spend their budgets on EPWP projects and after that the grant will be paid by DPW quarterly as an incentive (after employment has been created). There has been general under-spending against budget since inception of the grant. Projected under-spending in financial year 2011 was 28.4%. In 2010, the actual under-spend was 38.4%. Despite poor spending performance, the annual growth of the budget was high. Expenditure reports on the grant performance at local government were inaccessible. DPW should explain how transfers are reconciled with actual expenditure. The grant should be streamlined to the Division of Revenue Act (DORA) requirements in terms of allocation and disbursements of funds. Punitive and incentive elements of the grant should be made transparent to all the stakeholders. *Current FFC analysis indicates that underspending persists. Between 2009/10 and 2012/13, provinces have been unable to spend more than 80% of their allocation*
Response to DoRB 2012	The Commission reiterated concerns raised in its Response to DoRB 2010 and Response to 2011 MTBPS regarding the challenges with the EPWP Incentive grant. The Commission maintained its view that the grant had not succeeded in achieving the intended goals within the specified time. There had also not been a formal assessment of the achievement of this grant both in terms of expenditure and service delivery outputs including how many direct and full times jobs had been created against the allocated funds. The Commission recommended that an independent review of the grant be undertaken, so that lessons can be drawn from past experience to avoid a replication of past mistakes. Government has since set up a team consisting of National Treasury, DPW, DCoG and SALGA that has been working on this. *This review is ongoing*

FFC Work Related to DPW [cont.]

Submission for the 2009/10 DoR	FFC found a need for reporting on EPWP outcomes to be more specific. In accordance with the requirements of the EPWP, job creation for target groups such as women, youth and people with disabilities should be included in the reporting requirements for all infrastructure conditional grants to provinces and municipalities GOVT. RESPONSE: The recommendation for reporting on targets is supported. Some of these indicators can possibly be reported on as part of the conditional grant frameworks prescribed in terms of the Division of Revenue Act
Submission for the 2007/08 DoR	The World Cup funding was crafted on the basis of requirements to meet FIFA standards of hosting cities, and that the major challenge faced by government was sustainability of built infrastructure. On the funding for the FIFA World Cup, FFC, examined the sustainability of built infrastructure, taking the escalation of construction costs into account. FFC's findings included that the escalation of construction costs be budgeted for, and that collaboration with the private sector should be encouraged. Also that a 2010 World Cup "Legacy Management Policy" should be introduced and prudent fiscal policy should be maintained leading to the World Cup GOVT. RESPONSE: Government is of the view that the costs relating to maintenance of constructed 2010 FIFA World Cup facilities should be provided by municipalities

FINANCIAL AND FISCAL COMMISSION

3. Departmental Analysis

CONTEXTUALISING THE DEPARTMENT OF PUBLIC WORKS

- Aim of Department of Public Works (DPW):
  - provide for and manage accommodation, housing, land and infrastructure needs of national departments
  - Lead and direct implementation of the national expanded public works programme (EPWP)
  - Promote growth, job creation and transformation in the construction and property industries
- Public works is a concurrent function between national and provincial spheres of government
- DPW contribution to National Development Plan (NDP) achieved through:
  - Implementation of job creation initiatives
  - Transition to low cost carbon economy
  - Development of an inclusive and integrated rural economy
  - Fight against corruption

FINANCIAL AND FISCAL COMMISSION

KEY CHALLENGES CONFRONTING DPW

- Due to consistent trend of poor audit outcomes and generally poor performance, DPW implemented a turnaround project in November 2012
- Areas that were identified for specific attention through the turnaround project include:
  - Lack of controls in supply chain management (SCM)
    - Identified as major risk area by Auditor-General – DPW capacity to process tenders eroded and has led to numerous instances of fraud/corruption. SCM has been major focus of the Special Investigating Unit (SIU). SCM is the key focus of turnaround project in DPW. A service provider appointed to assist with fundamental review of SCM
      - Irregular expenditure, R171 million in 2011/12; R874 million in 2012/13
  - Poor lease management
    - Numerous irregularities with respect to lease agreements – gives rise to legal risks. DPW reviewing all lease agreements

FINANCIAL AND FISCAL COMMISSION

KEY CHALLENGES CONFRONTING DPW [CONT.]

- Inadequate immovable asset register
  - Lack of compliant immovable asset register resulted in negative audit opinions. DPW now in process of rebuilding immovable asset register and building a model to revalue immovable assets
- Lack of built environment and property management skills
  - Lack of technical capacity to undertake direct construction/maintenance functions. Cooperating with DPSA and Higher Education and Training to address challenge

FINANCIAL AND FISCAL COMMISSION

STARTING POINT FOR BUDGET ANALYSIS

- By vote
  - Compare different votes with each other
- By vote programme
  - Compare different programmes within a vote
- By sub-programme
- Compare different sub-programmes within a programme
- By province
- Compare different provinces with each other
- Use Outputs, Targets and Indicators to measure performance
- Use policy documents as a benchmark

FINANCIAL
AND FISCAL
COMMISSION

Useful Tools

- Percentage Share of Total Budget
- Growth in the Budget
  - Percentage Change
    - Reflecting increases/decreases in percentage form
  - Annual Growth Rate
    - How does the allocation change year on year
  - Real Percentage Change
    - Takes inflation into consideration
  - Variances and explanations
    - Investigating the reasons/drivers of change
  - Spending by economic classification
    - Distinguishes between various categories of current (goods and services, transfers and subsidies) and capital expenditure (acquisition of fixed capital assets, purchase of land)

FINANCIAL AND FISCAL COMMISSION

BUDGET AND PROGRAMMES OF PUBLIC WORKS

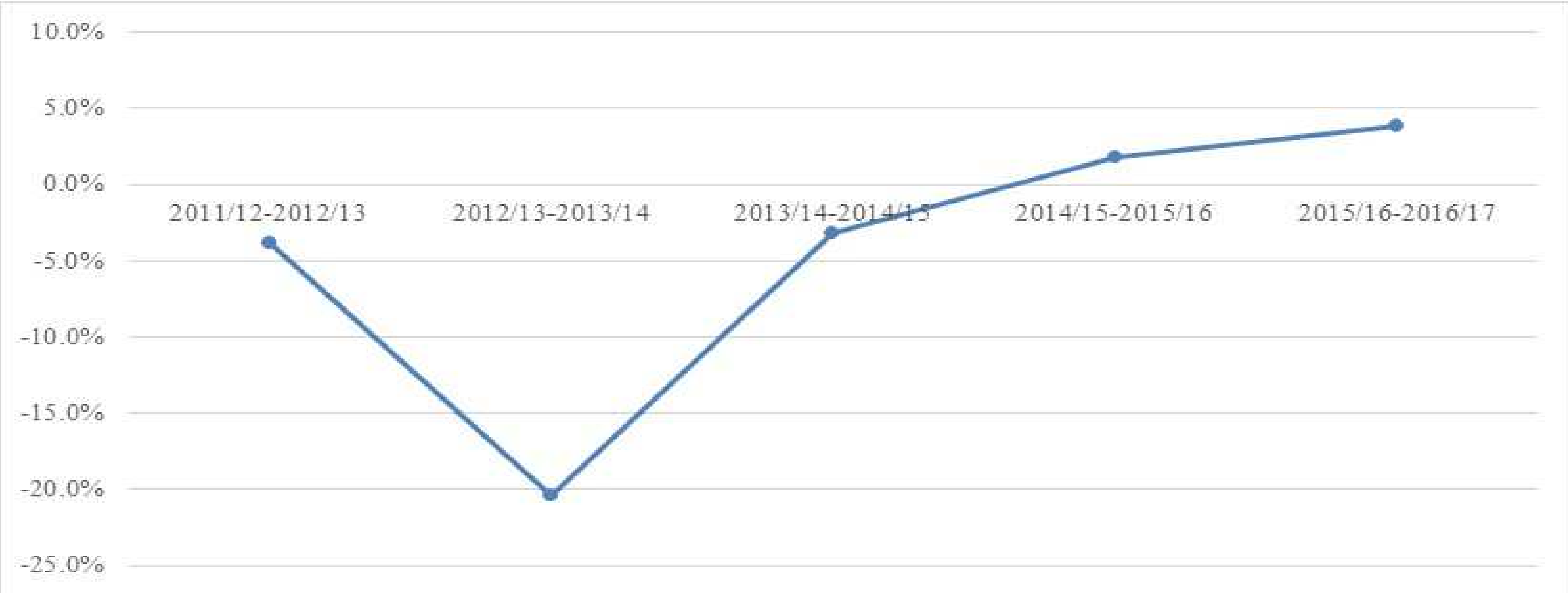
Nominal (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Real Annual Average Growth 2011/12-2013/14	Real Annual Average Growth 2014/15-2016/17
Administration	837.1	856.2	1 158.2	1 175.3	1 133.3	1 191.5	11.5%	-4.1%
Immovable Asset Management	5 001.7	4 563.5	2 831.8	2 861.4	3 308.1	3 450.0	-28.7%	4.6%
Expanded Public Works Programme	1 163.0	1 704.1	1 948.0	1 951.3	2 006.8	2 395.2	22.7%	5.5%
Property and Construction Industry Policy Regulation	34.4	26.9	36.7	41.5	43.4	45.9	-2.1%	0.1%
Auxiliary and Associated Services	25.2	53.3	50.7	91.8	53.7	56.6	34.4%	-25.2%
Total	**7 061.4**	**7 203.9**	**6 025.3**	**6 121.3**	**6 545.3**	**7 139.2**	**-12.5%**	**2.8%**

- Five programmes on Department of Public Works (DPW) budget
- Allocation reduced significantly in 2013/14, due to phasing out of Devolution of Property Rates Fund Grant to provinces and non-completion of various projects. As result of underspending, Cabinet approved reductions were effected
  - Following poor spending performance and audit outcomes, DPW implementing a Turnaround Project
- DPW budget projected to recover to just over R7.1 billion by end of 2014 medium term expenditure framework (MTEF) period
  - 2014 MTEF growth driven by additional allocation of R159 million in 2016/17 for Expanded Public Works Programme (EPWP)

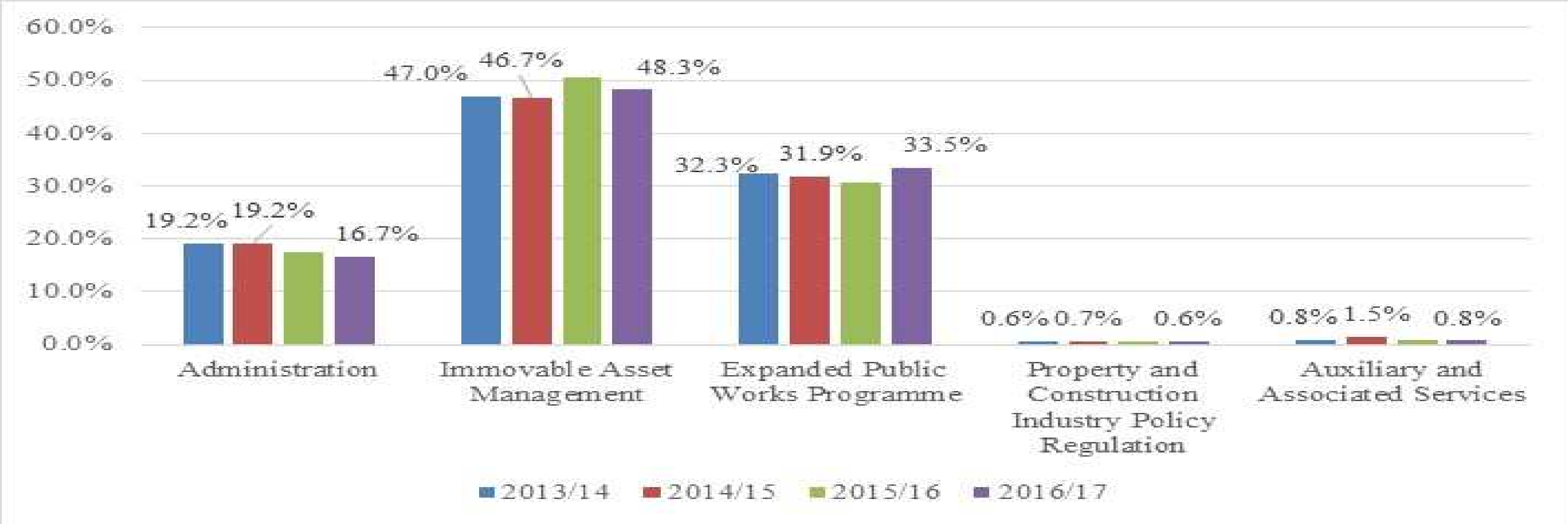
FINANCIAL AND FISCAL COMMISSION

REAL YEAR ON YEAR GROWTH OF PUBLIC WORKS BUDGET

- Significant decline in year on year growth in 2013/14
  - Though still declining in real terms in 2014/15, there is some improvement
- Over rest of 2014 MTEF period, positive growth projected
  - Focus will be on rehabilitating 34 state owned buildings, and ensuring that at least 100 buildings are made accessible to people with disabilities in each year of MTEF



BUDGET COMPOSITION ACROSS PROGRAMMES



- Immovable Asset Management Programme consumes largest share of DPW budget – by end of 2014 MTEF period this programme is projected to consume just under half of DPW budget
- Share allocated to Administration Programme consumers about one fifth of departmental budget – funding for Turnaround Project fall under Administration
  - Turnaround Project will support activities relating to the Special Investigating Unit, a technical support unit, a clean audit project, irregular expenditure management, internal audit support

FINANCIAL AND FISCAL COMMISSION

Economic Classification

Item (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Compensation of Employees	1 269.6	1 374.6	1 473.5	1 659.9	1 753.5	1 870.5
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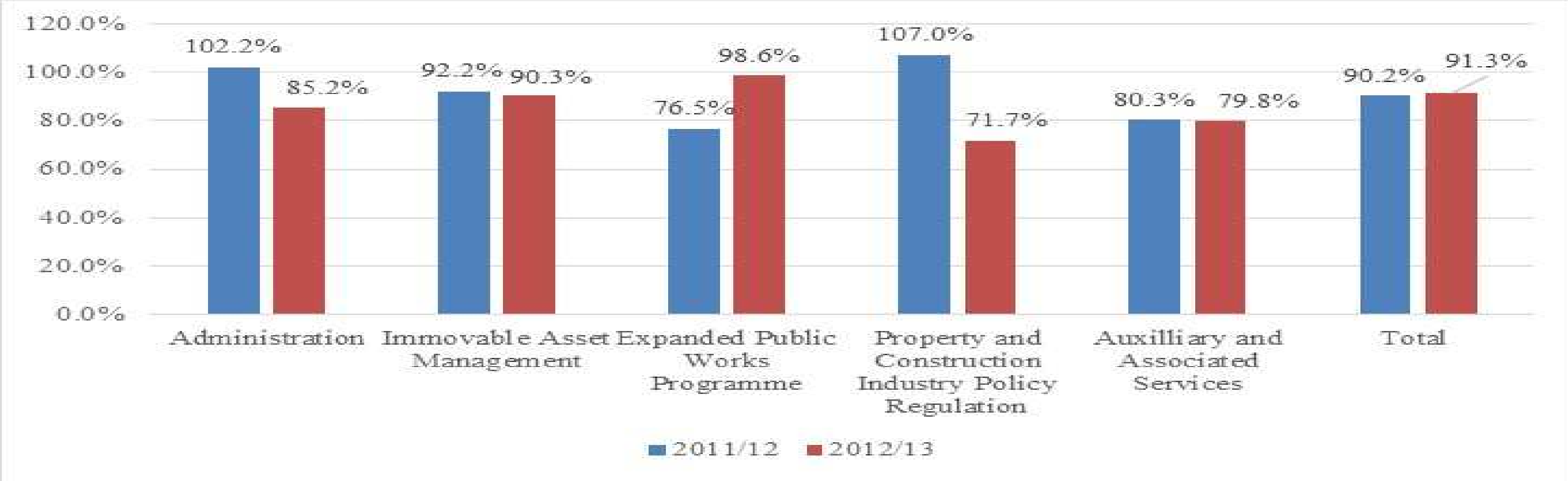
FINANCIAL AND FISCAL COMMISSION

SPENDING PERFORMANCE (FISCAL DISCIPLINE)



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FINANCIAL AND FISCAL COMMISSION

IN-YEAR EXPENDITURE

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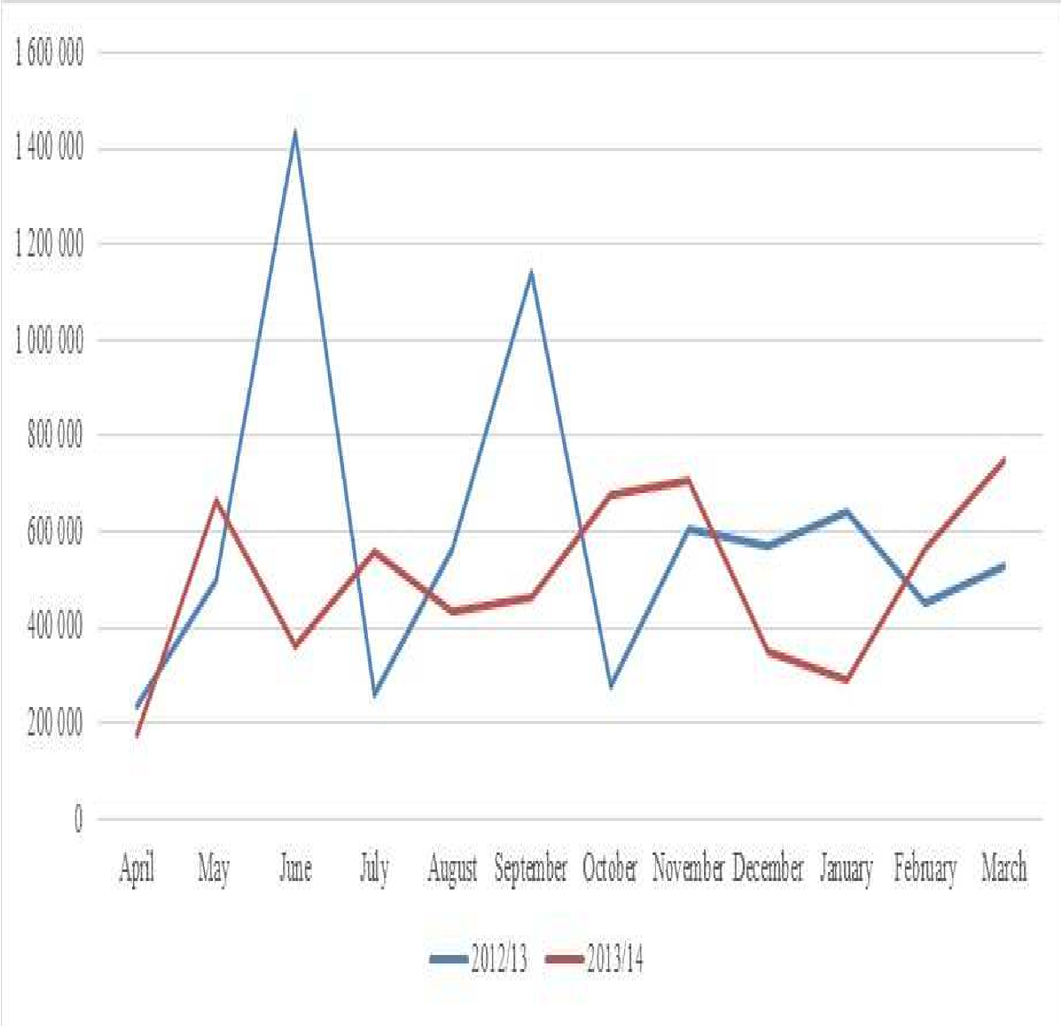
- Appears to be improving in 2013/14 – variances in monthly spending not as large as during 2012/13
- Concern with poor in-year spending is that it hints at unstable cash flow and disbursements



Selected Sub-Programme Analysis: Immovable Asset Management Programme

Real Year on Year Growth	2011/12-2012/13	2012/13-2013/14	2013/14-2014/15	2014/15-2015/16	2015/16-2016/17
Infrastructure (Public Works)	-33.5%	-9.7%	-28.1%	57.5%	-0.1%
Strategic Asset Investment Analysis	-67.7%	149.1%	10.4%	0.2%	1.0%
Operation Management	1.6%	-0.3%	0.5%	-0.4%	2.7%
Prestige Management	-51.5%	44.0%	-27.0%	-1.0%	-28.5%
Special Projects	4.0%	47.6%	-24.7%	1.8%	0.4%
Construction Industry Development Board	-3.4%	2.0%	1.6%	0.4%	0.2%
Council for the Built Environment	-7.7%	28.8%	4.3%	1.4%	0.2%
Parliamentary Village Management Board	-0.6%	0.1%	1.1%	-0.4%	0.5%
Augmentation of the Property Management Trading Entity	-3.2%	0.5%	-6.0%	-0.1%	0.6%
Independent Development Trust	-68.1%	-6.3%	-4.7%	-4.8%	-100.0%
Total	**-14.0%**	**-37.8%**	**-8.6%**	**10.1%**	**-0.7%**

- Total programme growth declines over most of the period reviewed
  - Decline in 2012 and 2013 is due to phasing out of devolution of property rates fund grant to provinces, non-completion of projects and Cabinet approved reductions due to underspending
- Generally sub-programme trends are erratic, brings into question soundness of planning in DPW
- Lack of capacity a challenge in this programme – 10% vacancy rate

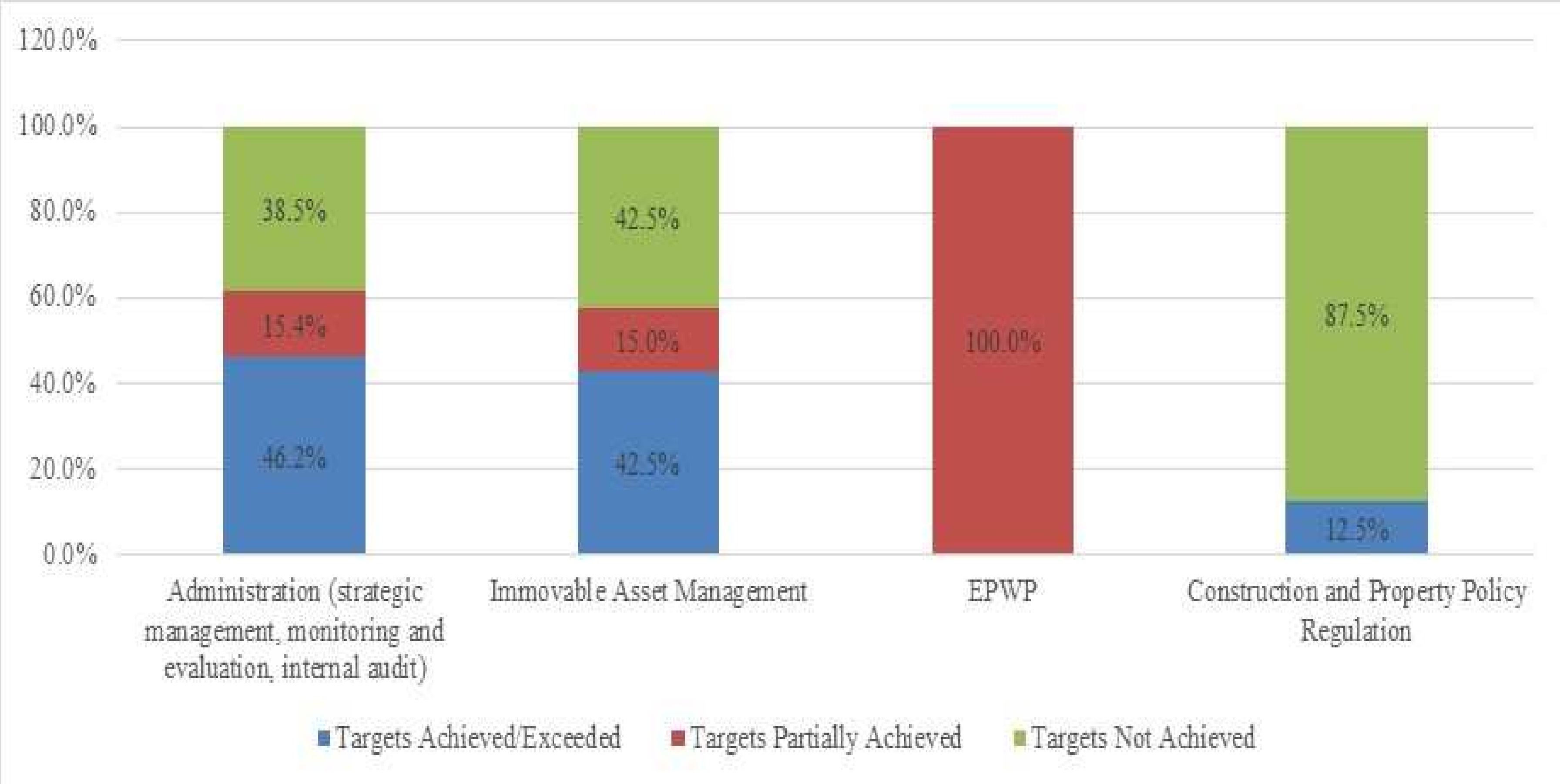
Selected Sub-Programme Analysis: Expanded Public Works Programme

R million	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Expanded Public Works Programme	209.7	236.8	273.8	261.5	267.7	290.6
Performance Based Incentive Allocations	953.3	1 467.3	1 674.2	1 689.8	1 739.2	2 104.6
Total	**1 163.0**	**1 704.1**	**1 948.0**	**1 951.3**	**2 006.8**	**2 395.2**
Real Year on Year Growth		**2011/12-2012/13**	**2012/13-2013/14**	**2013/14-2014/15**	**2014/15-2015/16**	**2015/16-2016/17**
Expanded Public Works Programme		12.9%	15.6%	-4.5%	2.4%	8.6%
Performance Based Incentive Allocations		53.9%	14.1%	0.9%	2.9%	21.0%
Total		**46.5%**	**14.3%**	**0.2%**	**2.8%**	**19.4%**

- EPWP promotes use of government expenditure to create additional employment opportunities through the use of labour-intensive delivery methods
  - Increases in 2012/2013 due to appointment of service providers to support provinces and municipalities in design of infrastructure projects and reporting methods
- Performance Based Incentive Allocations is the largest sub-programme
  - Focus: disburses funds to provinces/municipalities and NGOs to ensure creation of work opportunities in infrastructure, environment, social sectors
  - Increases between 2012 and 2013 are due to additional funding allocated. However to give effect to Cabinet-approved reductions, growth in this sub programme slows in 2014 and 2015
- Overall between 2009/10 and 2012/13, just over 3 million jobs created (68% of target of 4.5 million jobs)

DEPARTMENTAL PERFORMANCE

- Department not adequately meeting targets set.
  - Number of targets partially met and totally unmet exceptionally high



Departmental Performance [cont.]

Programme	Explanation for Unmet Targets
Administration	Delays due to lack of capacity/high vacancy rate, unrealistic targets given financial resources, lengthy procurement processes that delay appointment of service providers
Immovable Asset Management	Appropriate supply chain management process not followed, unrealistic target setting, inadequate data collection to verify extent to which target was met
EPWP	Delays in project implementation, lack of technical capacity to implement projects, poor performance on part of municipalities/provinces to carry out projects
Construction and Property Policy Regulation	• Legislative framework for Built Environment Professionals: delays in internal consultation • Establish Agrement SA as public entity: delay in the approval of business case • Provide immovable asset lifecycle management guidelines to national and provincial custodians of immovable assets: delay in internal consultation prevented finalisation

ASPECTS HIGHLIGHTED BY THE AUDITOR-GENERAL

- DPW audit outcomes:
  - 2009/10: qualified with findings
  - 2010/11:disclaimer
  - 2011/12: disclaimer
  - 2012/13: qualified with findings
- Key issues highlighted by Auditor-General that need to be addressed:
  - Inadequate internal controls in areas of leadership, financial management, performance management and governance
  - Areas that were identified for specific attention through the turnaround project include: lack of controls in supply chain management, poor lease management, inadequate immovable asset register, lack of built environment and property management skills

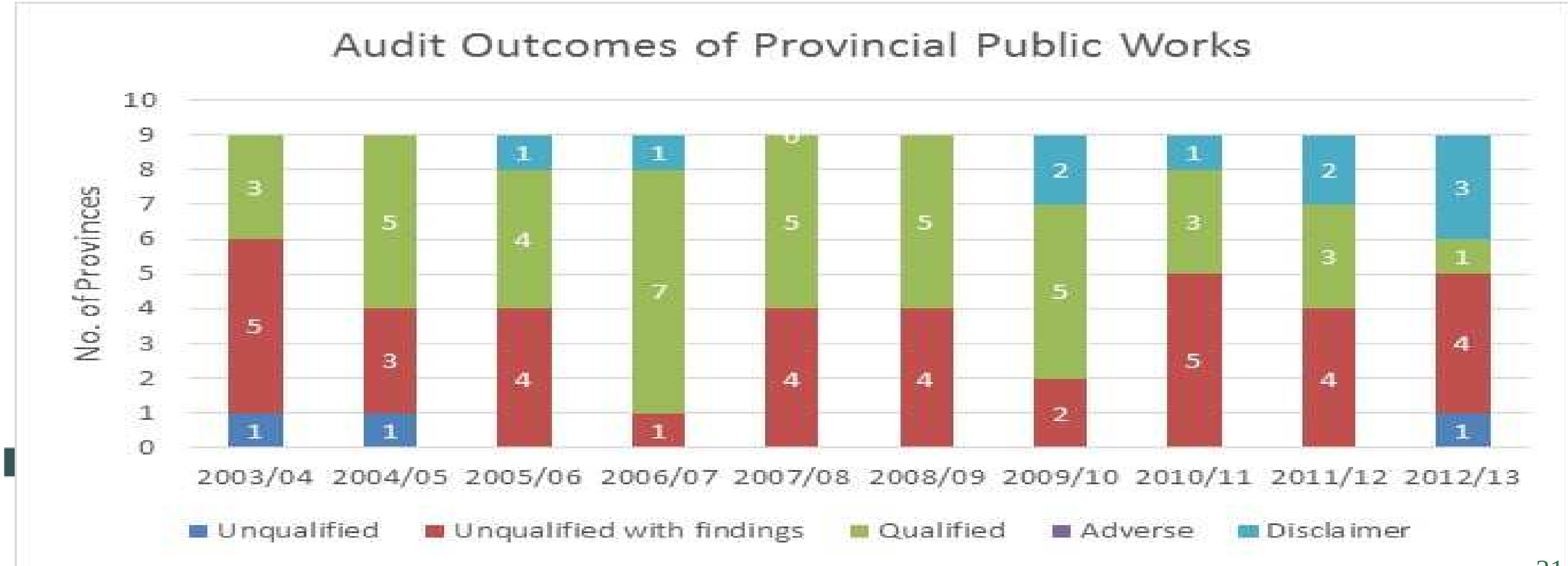
FINANCIAL AND FISCAL COMMISSION

FINANCIAL AND FISCAL COMMISSION

PUBLIC WORKS IN THE PROVINCES

PROVINCIAL AUDIT OUTCOMES

- Audit outcomes for provincial departments of public works have not considerably improved in since 2003/04
  - Four out of the nine provinces received a qualified opinion or disclaimer in 2012/13
  - Over a period of 10 years (i.e. 2003/4 – 2012/13), only 3 provincial departments of public works received an unqualified audit opinion



Provincial Audit Outcomes [cont.]

- The Auditor-General raised a number of matters that prevented provincial departments from achieving clean audits such as:
  - Instability in leadership and lack of human resources
  - Internal controls are ineffective
  - Action plans to implement improvement in audit outcomes are not timeously implemented
  - Inaccurate and incomplete fixed asset registers
  - Incomplete disclosures on unauthorized, irregular and fruitless, irregular and wasteful expenditure
  - Commitments by the national sector department to intervene and/or provide support were not honoured
- The Commission's view is that DPW should play a more active role, through the various intergovernmental forums, in providing the necessary support to provincial departments of public works

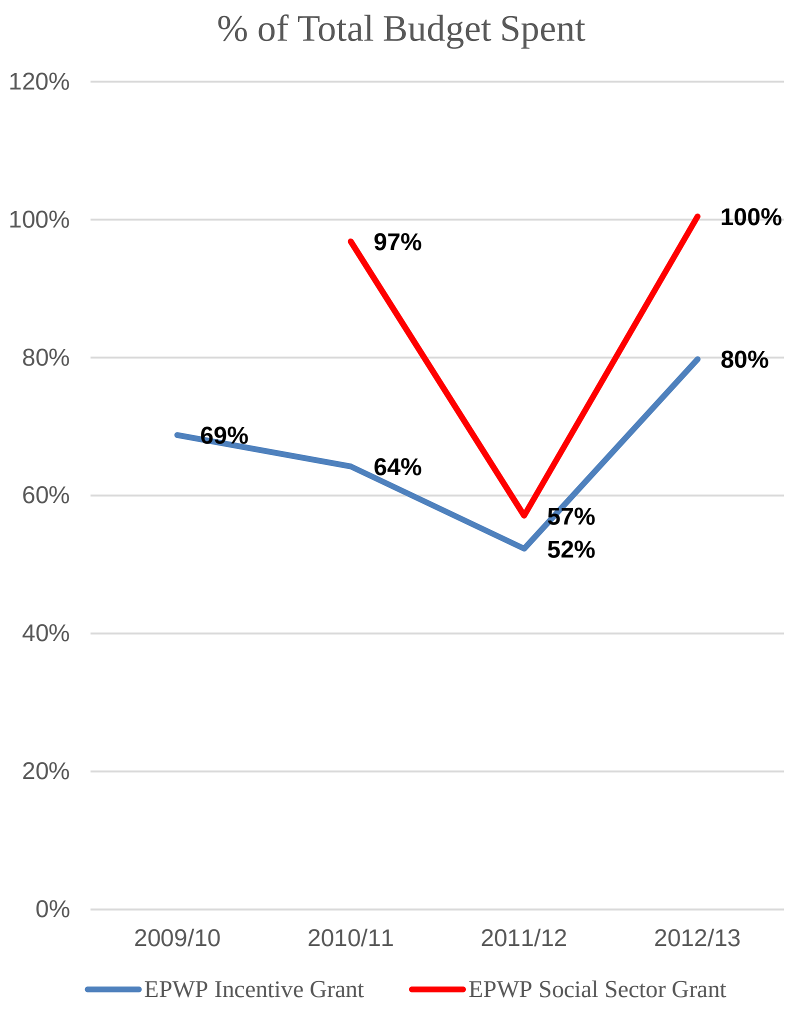
FINANCIAL AND FISCAL COMMISSION

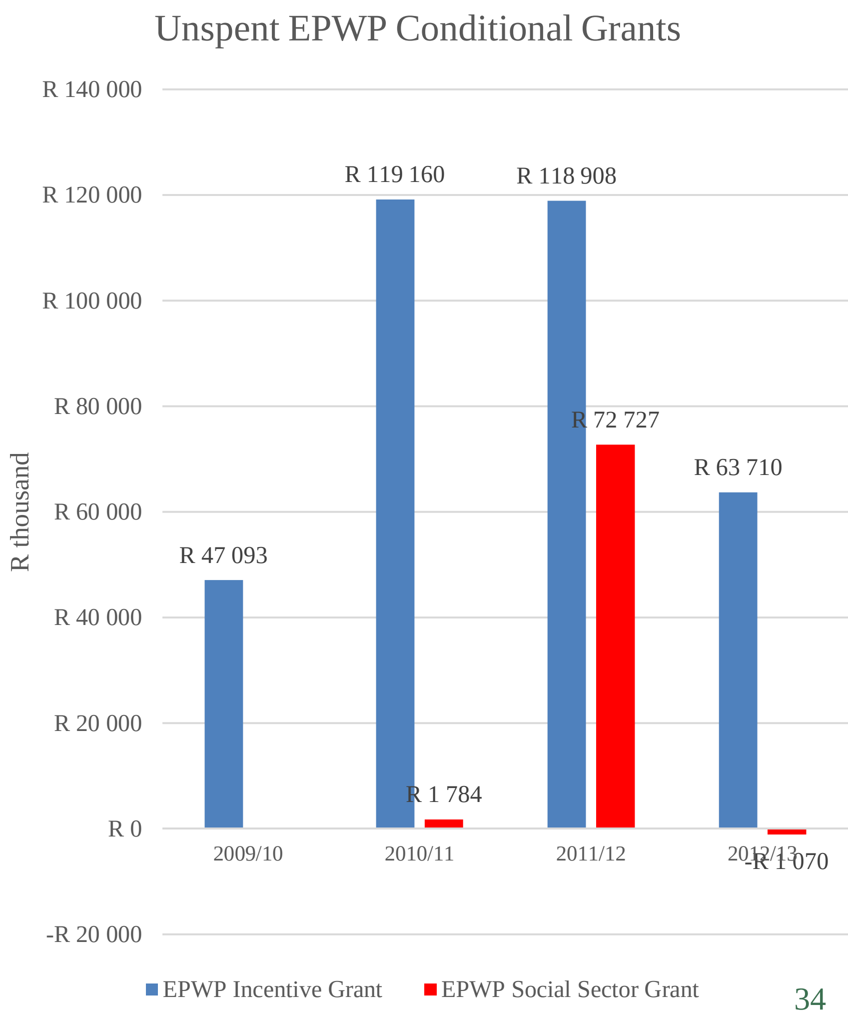
SPENDING PERFORMANCE BY PROVINCES ON EPWP CONDITIONAL GRANTS

- The National Department of Public Works is the transferring agent for two EPWP conditional grants to provinces
- As the transferring agent, the responsibilities of the DPW are prescribed in the conditional grant framework contained in the Division of Revenue Act. These include (among others):
  - Determine eligibility of grant, monitor and provide support to provinces, audit provincial performance and report to national treasury on provincial progress

FINANCIAL AND FISCAL COMMISSION

EPWP CONDITIONAL GRANTS TO PROVINCES





Summary of Performance on EPWP Grants to Provinces

- Over a four year period (2009/10 – 2012/13), provinces have been unable to spend more than 80% of its allocation to the EPWP Incentive Grant in any given year
- Except in 2011/12 where spending on both EPWP grants were below 60% of total, the EPWP Social Sector grant in general, performed better than the Incentive grant
  - Provinces have challenges relating to infrastructure, which affects the spending performance on the Incentive grant
- In many instances, provinces fail to comply with grant conditions stipulated in DORA, resulting in funds being withheld, thereby leaving funds unspent at the end of the year

FINANCIAL AND FISCAL COMMISSION

CONCLUDING REMARKS

- Key issues emanating from analysis of DPW
  - Underspending of budget
  - Not meeting set targets
- For the sector to turnaround, the DPW should play a leadership role by providing the necessary support to the provinces and establishing minimum norms and standards to facilitate improvement in service delivery in the provinces
- Department to put in place proper systems to guide expenditure management, setting of appropriate key performance indicators and a plan to attract/retain skilled staff
  - Outcome of the Turnaround Project is key in facilitating progress – some improvements noted but far to go in putting DPW on stable footing

FINANCIAL AND FISCAL COMMISSION

FFC's Website: www.ffc.co.za

FINANCIAL
AND FISCAL
COMMISSION

PORTFOLIO COMMITTEE ON PUBLIC WORKS

Financial and Fiscal Commission

25 September 2014

For an Equitable Sharing of National Revenue

PRESENTATION OUTLINE

1. Role and Function of the Financial and Fiscal Commission
2. Recommendations of the Commission that relate to Public Works
3. Departmental Analysis

FINANCIAL AND FISCAL COMMISSION

FINANCIAL AND FISCAL COMMISSION

1. Role and Function of the Financial and Fiscal Commission

ROLE AND FUNCTION OF THE FFC

- The Financial and Fiscal Commission (FFC)
  - Is an independent, permanent, statutory institution established in terms of Section 220 of Constitution
  - Must function in terms of the FFC Act
- Mandate of Commission
  - To make recommendations, envisaged in Chapter 13 of the Constitution or in national legislation to Parliament, Provincial Legislatures, and any other organ of state determined by national legislation
- The Commission's focus is primarily on the equitable division of nationally collected revenue among the three spheres of government and any other financial and fiscal matters
  - Legislative provisions or executive decisions that affect either provincial or local government from a financial and/or fiscal perspective
  - Includes regulations associated with legislation that may amend or extend such legislation
  - Commission must be consulted in terms of the FFC Act
  - Current research strategy focuses on developmental impacts of IGFR

FINANCIAL AND FISCAL COMMISSION

How FFC Supports Policy

- Identify weakness within the IGFR system
- Propose evidence-based policy proposals
- Interact and participate with/in forums and institutions responsible for IGFR policy – TCF, Budget Council, Budget Forum
- Information dissemination – invitations from nine provincial legislatures and SALGA
- Interact with various committees within parliament

FINANCIAL AND FISCAL COMMISSION

PROCESSING OF RECOMMENDATIONS

- Recommendations of the Commission
  - Recommendations are made to Parliament so that the legislature can examine the financial and fiscal decisions of government against them and understand why they have been accepted or rejected
  - Section 4(4)(c) of the Money Bills Amendment Procedures and Related Matters Act (MBAPMA) requires Parliament to consider the recommendations of the Commission when deliberating on Money Bills
- Government is obligated through an Act of Parliament to explain how it has taken the FFC recommendations in arriving at the division of revenue for any particular year
  - The response is tabled in Annexure W1 of the DoR Bill and of the Budget Review

FINANCIAL AND FISCAL COMMISSION

How FFC can Support Parliament

DIRECT TRAINING AND INTERVENTION

- Training of members of parliamentary committees and councillors on request (e.g. in Bushbuckridge)
- Advice to municipalities (e.g. Tshwane merger)
- Inputs in various fora (e.g. SALGA)

NON TRAINING SUPPORT AND INTERVENTION

- Member of review committees (LES, Infrastructure Grants, Metro's Own Revenue)
- Public hearings (local government fiscal framework, housing and welfare)
- Inputs in benchmarking exercises
- Recommendations through Annual Submission on DoR, MTBPS, FF and Appropriations

VALUE ADD OF THE FFC

- FFC can provide advice, analysis and training to assist the work of the Committee
  - Specialised IGFR training to committee members and/or parliamentary researchers
  - Provision of recommendations that are founded on evidence based research
  - Technical support with respect to parliamentary fiscal oversight activities

FINANCIAL AND FISCAL COMMISSION

FINANCIAL AND FISCAL COMMISSION

2. Recommendations that Relate to Public Works

FFC Work Related to DPW [cont.]

Response to Division of Revenue Bill (DoRB) 2010	The Commission welcomed introduction of the *EPWP Incentive Grant for the Social Sector*. The Commission noted that there was a need to standardise the employment framework for the sector including conditions, wages and progression across provinces and municipalities. The Commission also raised concern regarding difficulties that were being experienced with the transfer of the EPWP Incentive Grant to Local and Provincial Governments. In the 2009/10 certain provinces (e.g. Western Cape) raised concern that they received transfers outside the ambit of the DoR and couldn't spend the money because it was not properly appropriated through various legislatures. At that point the general challenge with the grant was that provinces and municipalities found it difficult to integrate it through their infrastructure programmes. This problem persists because labour intensive infrastructure projects need to be planned, costed and scheduled properly. Not all projects yield the same labour intensity, so targets must be set by project type and category. Some projects will better lend themselves to labour intensive methods than others. This must be factored into the budget allocations and monitoring of the grant. *Current Commission analysis is that provinces continue to have challenges relating to labour intensive infrastructure, which affects the spending of the Incentive grant. In 2012/13 DPW appointed service providers to support provinces and municipalities in design of infrastructure projects and reporting methods.*

FFC Work Related to DPW [cont.]

Response to MTBPS 2011	In terms of the EPWP Incentive grant framework, provinces and municipalities must spend their budgets on EPWP projects and after that the grant will be paid by DPW quarterly as an incentive (after employment has been created). There has been general under-spending against budget since inception of the grant. Projected under-spending in financial year 2011 was 28.4%. In 2010, the actual under-spend was 38.4%. Despite poor spending performance, the annual growth of the budget was high. Expenditure reports on the grant performance at local government were inaccessible. DPW should explain how transfers are reconciled with actual expenditure. The grant should be streamlined to the Division of Revenue Act (DORA) requirements in terms of allocation and disbursements of funds. Punitive and incentive elements of the grant should be made transparent to all the stakeholders. *Current FFC analysis indicates that underspending persists. Between 2009/10 and 2012/13, provinces have been unable to spend more than 80% of their allocation*
Response to DoRB 2012	The Commission reiterated concerns raised in its Response to DoRB 2010 and Response to 2011 MTBPS regarding the challenges with the EPWP Incentive grant. The Commission maintained its view that the grant had not succeeded in achieving the intended goals within the specified time. There had also not been a formal assessment of the achievement of this grant both in terms of expenditure and service delivery outputs including how many direct and full times jobs had been created against the allocated funds. The Commission recommended that an independent review of the grant be undertaken, so that lessons can be drawn from past experience to avoid a replication of past mistakes. Government has since set up a team consisting of National Treasury, DPW, DCoG and SALGA that has been working on this. *This review is ongoing*

FFC Work Related to DPW [cont.]

Submission for the 2009/10 DoR	FFC found a need for reporting on EPWP outcomes to be more specific. In accordance with the requirements of the EPWP, job creation for target groups such as women, youth and people with disabilities should be included in the reporting requirements for all infrastructure conditional grants to provinces and municipalities GOVT. RESPONSE: The recommendation for reporting on targets is supported. Some of these indicators can possibly be reported on as part of the conditional grant frameworks prescribed in terms of the Division of Revenue Act
Submission for the 2007/08 DoR	The World Cup funding was crafted on the basis of requirements to meet FIFA standards of hosting cities, and that the major challenge faced by government was sustainability of built infrastructure. On the funding for the FIFA World Cup, FFC, examined the sustainability of built infrastructure, taking the escalation of construction costs into account. FFC’s findings included that the escalation of construction costs be budgeted for, and that collaboration with the private sector should be encouraged. Also that a 2010 World Cup "Legacy Management Policy" should be introduced and prudent fiscal policy should be maintained leading to the World Cup GOVT. RESPONSE: Government is of the view that the costs relating to maintenance of constructed 2010 FIFA World Cup facilities should be provided by municipalities

FINANCIAL AND FISCAL COMMISSION

3. Departmental Analysis

CONTEXTUALISING THE DEPARTMENT OF PUBLIC WORKS

- Aim of Department of Public Works (DPW):
  - provide for and manage accommodation, housing, land and infrastructure needs of national departments
  - Lead and direct implementation of the national expanded public works programme (EPWP)
  - Promote growth, job creation and transformation in the construction and property industries
- Public works is a concurrent function between national and provincial spheres of government
- DPW contribution to National Development Plan (NDP) achieved through:
  - Implementation of job creation initiatives
  - Transition to low cost carbon economy
  - Development of an inclusive and integrated rural economy
  - Fight against corruption

FINANCIAL AND FISCAL COMMISSION

KEY CHALLENGES CONFRONTING DPW

- Due to consistent trend of poor audit outcomes and generally poor performance, DPW implemented a turnaround project in November 2012
- Areas that were identified for specific attention through the turnaround project include:
  - Lack of controls in supply chain management (SCM)
    - Identified as major risk area by Auditor-General – DPW capacity to process tenders eroded and has led to numerous instances of fraud/corruption. SCM has been major focus of the Special Investigating Unit (SIU). SCM is the key focus of turnaround project in DPW. A service provider appointed to assist with fundamental review of SCM
      - Irregular expenditure, R171 million in 2011/12; R874 million in 2012/13
  - Poor lease management
    - Numerous irregularities with respect to lease agreements – gives rise to legal risks. DPW reviewing all lease agreements

FINANCIAL AND FISCAL COMMISSION

Key Challenges Confronting DPW [cont.]

- Inadequate immovable asset register
  - Lack of compliant immovable asset register resulted in negative audit opinions. DPW now in process of rebuilding immovable asset register and building a model to revalue immovable assets
- Lack of built environment and property management skills
  - Lack of technical capacity to undertake direct construction/maintenance functions. Cooperating with DPSA and Higher Education and Training to address challenge

FINANCIAL AND FISCAL COMMISSION

STARTING POINT FOR BUDGET ANALYSIS

- By vote
  - Compare different votes with each other
- By vote programme
  - Compare different programmes within a vote
- By sub-programme
- Compare different sub-programmes within a programme
- By province
- Compare different provinces with each other
- Use Outputs, Targets and Indicators to measure performance
- Use policy documents as a benchmark

FINANCIAL AND FISCAL COMMISSION

USEFUL TOOLS

- Percentage Share of Total Budget
- Growth in the Budget
  - Percentage Change
    - Reflecting increases/decreases in percentage form
  - Annual Growth Rate
    - How does the allocation change year on year
  - Real Percentage Change
    - Takes inflation into consideration
  - Variances and explanations
    - Investigating the reasons/drivers of change
  - Spending by economic classification
    - Distinguishes between various categories of current (goods and services, transfers and subsidies) and capital expenditure (acquisition of fixed capital assets, purchase of land)

FINANCIAL AND FISCAL COMMISSION

Budget and Programmes of Public Works

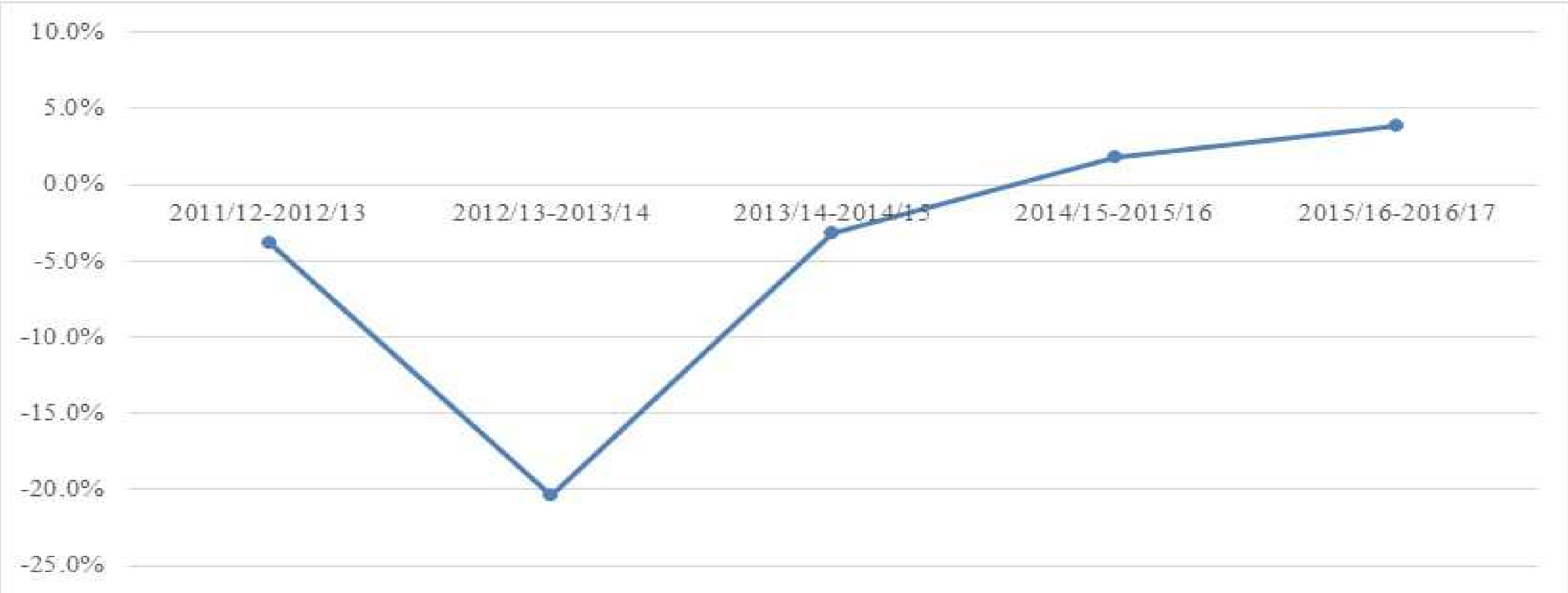
Nominal (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Real Annual Average Growth 2011/12-2013/14	Real Annual Average Growth 2014/15-2016/17
Administration	837.1	856.2	1 158.2	1 175.3	1 133.3	1 191.5	11.5%	-4.1%
Immovable Asset Management	5 001.7	4 563.5	2 831.8	2 861.4	3 308.1	3 450.0	-28.7%	4.6%
Expanded Public Works Programme	1 163.0	1 704.1	1 948.0	1 951.3	2 006.8	2 395.2	22.7%	5.5%
Property and Construction Industry Policy Regulation	34.4	26.9	36.7	41.5	43.4	45.9	-2.1%	0.1%
Auxiliary and Associated Services	25.2	53.3	50.7	91.8	53.7	56.6	34.4%	-25.2%
Total	**7 061.4**	**7 203.9**	**6 025.3**	**6 121.3**	**6 545.3**	**7 139.2**	**-12.5%**	**2.8%**

- Five programmes on Department of Public Works (DPW) budget
- Allocation reduced significantly in 2013/14, due to phasing out of Devolution of Property Rates Fund Grant to provinces and non-completion of various projects. As result of underspending, Cabinet approved reductions were effected
  - Following poor spending performance and audit outcomes, DPW implementing a Turnaround Project
- DPW budget projected to recover to just over R7.1 billion by end of 2014 medium term expenditure framework (MTEF) period
  - 2014 MTEF growth driven by additional allocation of R159 million in 2016/17 for Expanded Public Works Programme (EPWP)

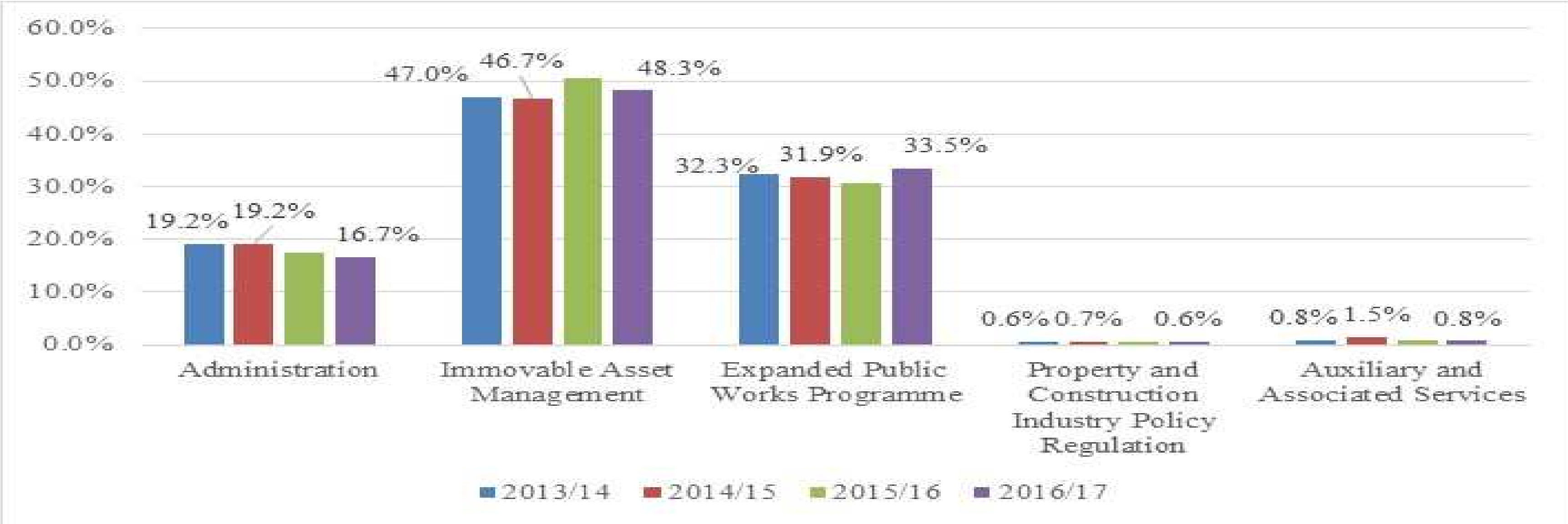
FINANCIAL AND FISCAL COMMISSION

REAL YEAR ON YEAR GROWTH OF PUBLIC WORKS BUDGET

- Significant decline in year on year growth in 2013/14
  - Though still declining in real terms in 2014/15, there is some improvement
- Over rest of 2014 MTEF period, positive growth projected
  - Focus will be on rehabilitating 34 state owned buildings, and ensuring that at least 100 buildings are made accessible to people with disabilities in each year of MTEF



BUDGET COMPOSITION ACROSS PROGRAMMES



- Immovable Asset Management Programme consumes largest share of DPW budget – by end of 2014 MTEF period this programme is projected to consume just under half of DPW budget
- Share allocated to Administration Programme consumers about one fifth of departmental budget – funding for Turnaround Project fall under Administration
  - Turnaround Project will support activities relating to the Special Investigating Unit, a technical support unit, a clean audit project, irregular expenditure management, internal audit support

FINANCIAL AND FISCAL COMMISSION

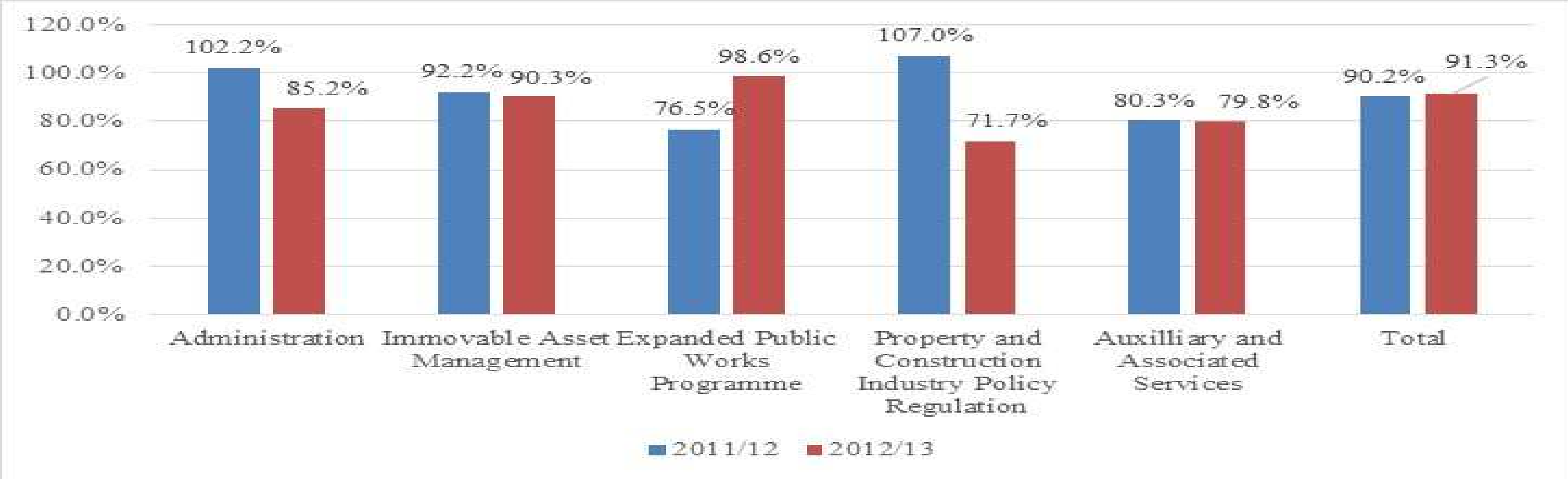
Economic Classification

Item (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Compensation of Employees	1 269.6	1 374.6	1 473.5	1 659.9	1 753.5	1 870.5
Goods and Services	1 032.9	977.0	1 379.6	1 302.1	1 202.9	1 269.0
Transfers and Subsidies	3 656.2	4 092.4	2 543.9	2 563.4	2 654.2	3 017.9
Payments for Capital Assets	1 099.1	756.8	628.4	595.9	934.8	981.7
Real Year on Year Growth (%)						
Compensation of Employees		2.1%	2.1%	7.3%	0.6%	1.6%
Goods and Services		-10.8%	34.5%	-10.1%	-12.0%	0.5%
Transfers and Subsidies		5.6%	-40.8%	-4.0%	-1.4%	8.3%
Payments for Capital Assets		-35.1%	-20.9%	-9.7%	49.4%	-0.003%

- Transfers and subsidies is the largest item
  - the decrease in 2013/14 due to phasing out of the Devolution of Property Rates Fund Grant to Provinces, hence reduction in transfers to provinces
- The increase in spending on Goods and Services in 2013/14 driven by spending on consultants – due to shortage of technical skills in property/project management and specialists as required for the DPW's turnaround project
- Payments for capital assets very erratic
- Relative to strong annual average growth between 2011/12 and 2013/14, growth in Goods and Service set to decline over the 2014 MTEF period

FINANCIAL AND FISCAL COMMISSION

SPENDING PERFORMANCE (FISCAL DISCIPLINE)

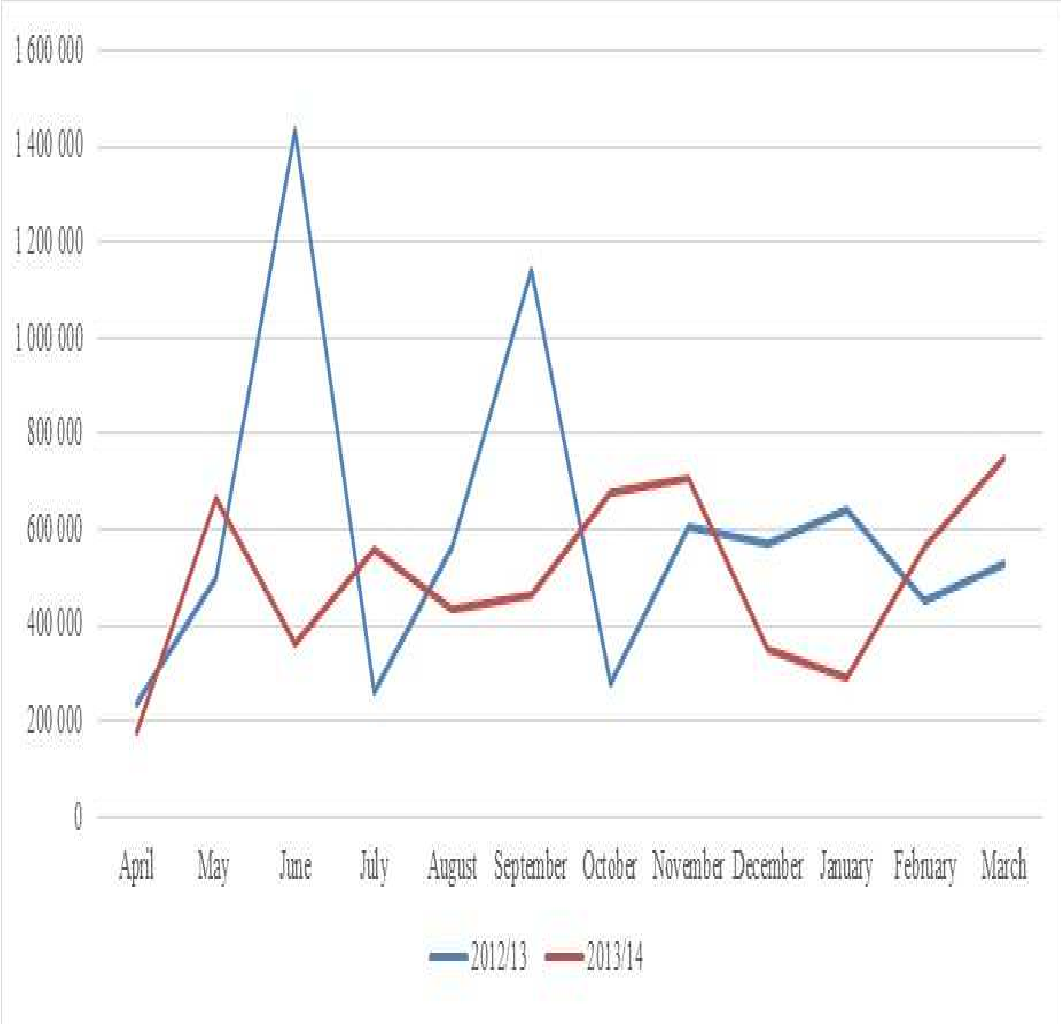


- DPW underspent in 2011/12 and 2012/13
- In 2011 underspending on EPWP and Auxilliary and Associated Services Programme
- In 2012, underspending is as a result of poor spending in Property and Construction Industry Policy Regulation Programme and again Auxilliary and Associated Services Programme
- Due to persistent underspending on capital, baseline reductions of R1.3 billion effected over 2014 MTEF period

FINANCIAL AND FISCAL COMMISSION

IN-YEAR EXPENDITURE

- 2012/13 in-year spending erratic
- Appears to be improving in 2013/14 – variances in monthly spending not as large as during 2012/13
- Concern with poor in-year spending is that it hints at unstable cash flow and disbursements



FINANCIAL AND FISCAL COMMISSION

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Prestige Management	-51.5%	44.0%	-27.0%	-1.0%	-28.5%
Special Projects	4.0%	47.6%	-24.7%	1.8%	0.4%
Construction Industry Development Board	-3.4%	2.0%	1.6%	0.4%	0.2%
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Parliamentary Village Management Board	-0.6%	0.1%	1.1%	-0.4%	0.5%
Augmentation of the Property Management Trading Entity	-3.2%	0.5%	-6.0%	-0.1%	0.6%
Independent Development Trust	-68.1%	-6.3%	-4.7%	-4.8%	-100.0%
Total	**-14.0%**	**-37.8%**	**-8.6%**	**10.1%**	**-0.7%**

- Total programme growth declines over most of the period reviewed
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- Generally sub-programme trends are erratic, brings into question soundness of planning in DPW
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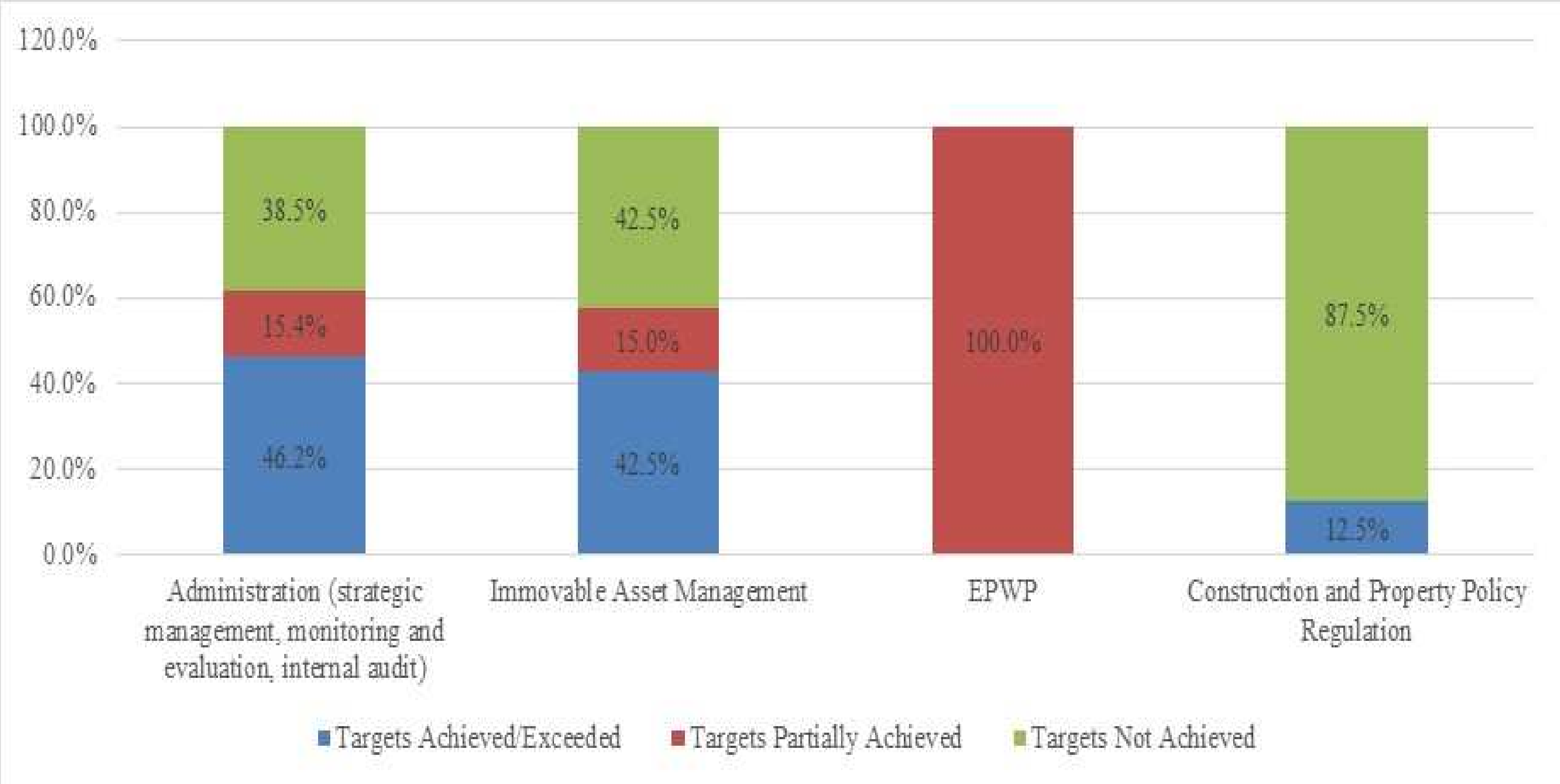
Total		**46.5%**	**14.3%**	**0.2%**	**2.8%**	**19.4%**

- EPWP promotes use of government expenditure to create additional employment opportunities through the use of labour-intensive delivery methods
  - Increases in 2012/2013 due to appointment of service providers to support provinces and municipalities in design of infrastructure projects and reporting methods
- Performance Based Incentive Allocations is the largest sub-programme
  - Focus: disburses funds to provinces/municipalities and NGOs to ensure creation of work opportunities in infrastructure, environment, social sectors
  - Increases between 2012 and 2013 are due to additional funding allocated. However to give effect to Cabinet-approved reductions, growth in this sub programme slows in 2014 and 2015
- Overall between 2009/10 and 2012/13, just over 3 million jobs created (68% of target of 4.5 million jobs)

DEPARTMENTAL PERFORMANCE

- Department not adequately meeting targets set.
  - Number of targets partially met and totally unmet exceptionally high



DEPARTMENTAL PERFORMANCE [CONT.]

Programme	Explanation for Unmet Targets
Administration	Delays due to lack of capacity/high vacancy rate, unrealistic targets given financial resources, lengthy procurement processes that delay appointment of service providers
Immovable Asset Management	Appropriate supply chain management process not followed, unrealistic target setting, inadequate data collection to verify extent to which target was met
EPWP	Delays in project implementation, lack of technical capacity to implement projects, poor performance on part of municipalities/provinces to carry out projects
Construction and Property Policy Regulation	• Legislative framework for Built Environment Professionals: delays in internal consultation • Establish Agrement SA as public entity: delay in the approval of business case • Provide immovable asset lifecycle management guidelines to national and provincial custodians of immovable assets: delay in internal consultation prevented finalisation

Aspects Highlighted by the Auditor-General

- DPW audit outcomes:
  - 2009/10: qualified with findings
  - 2010/11:disclaimer
  - 2011/12: disclaimer
  - 2012/13: qualified with findings
- Key issues highlighted by Auditor-General that need to be addressed:
  - Inadequate internal controls in areas of leadership, financial management, performance management and governance
  - Areas that were identified for specific attention through the turnaround project include: lack of controls in supply chain management, poor lease management, inadequate immovable asset register, lack of built environment and property management skills

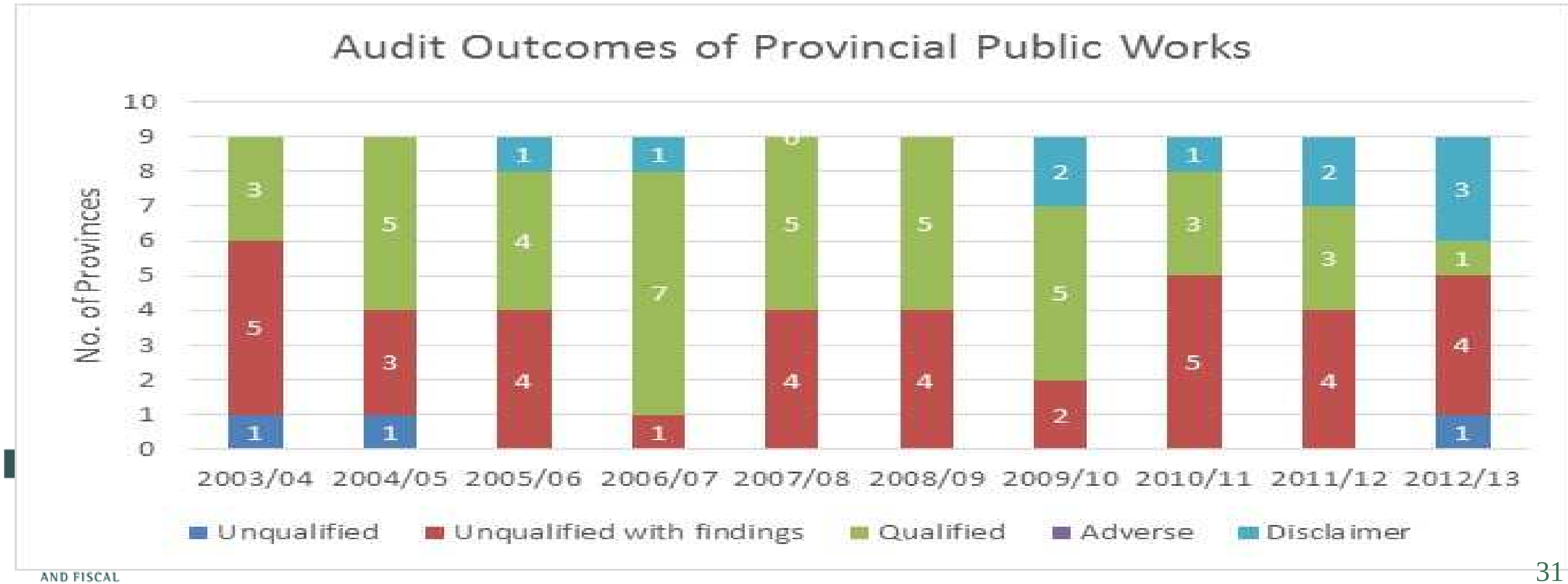
FINANCIAL AND FISCAL COMMISSION

FINANCIAL
AND FISCAL
COMMISSION

PUBLIC WORKS IN THE PROVINCES

PROVINCIAL AUDIT OUTCOMES

- Audit outcomes for provincial departments of public works have not considerably improved in since 2003/04
  - Four out of the nine provinces received a qualified opinion or disclaimer in 2012/13
  - Over a period of 10 years (i.e. 2003/4 – 2012/13), only 3 provincial departments of public works received an unqualified audit opinion



PROVINCIAL AUDIT OUTCOMES [CONT.]

- The Auditor-General raised a number of matters that prevented provincial departments from achieving clean audits such as:
  - Instability in leadership and lack of human resources
  - Internal controls are ineffective
  - Action plans to implement improvement in audit outcomes are not timeously implemented
  - Inaccurate and incomplete fixed asset registers
  - Incomplete disclosures on unauthorized, irregular and fruitless, irregular and wasteful expenditure
  - Commitments by the national sector department to intervene and/or provide support were not honoured
- The Commission's view is that DPW should play a more active role, through the various intergovernmental forums, in providing the necessary support to provincial departments of public works

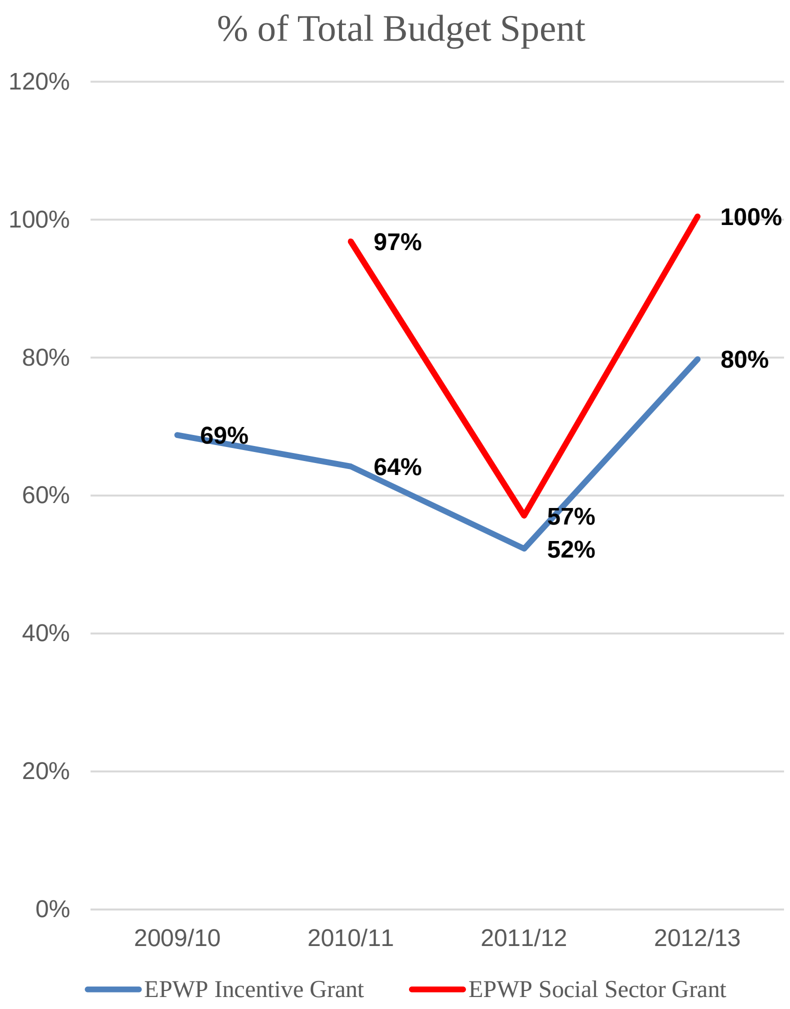
FINANCIAL AND FISCAL COMMISSION

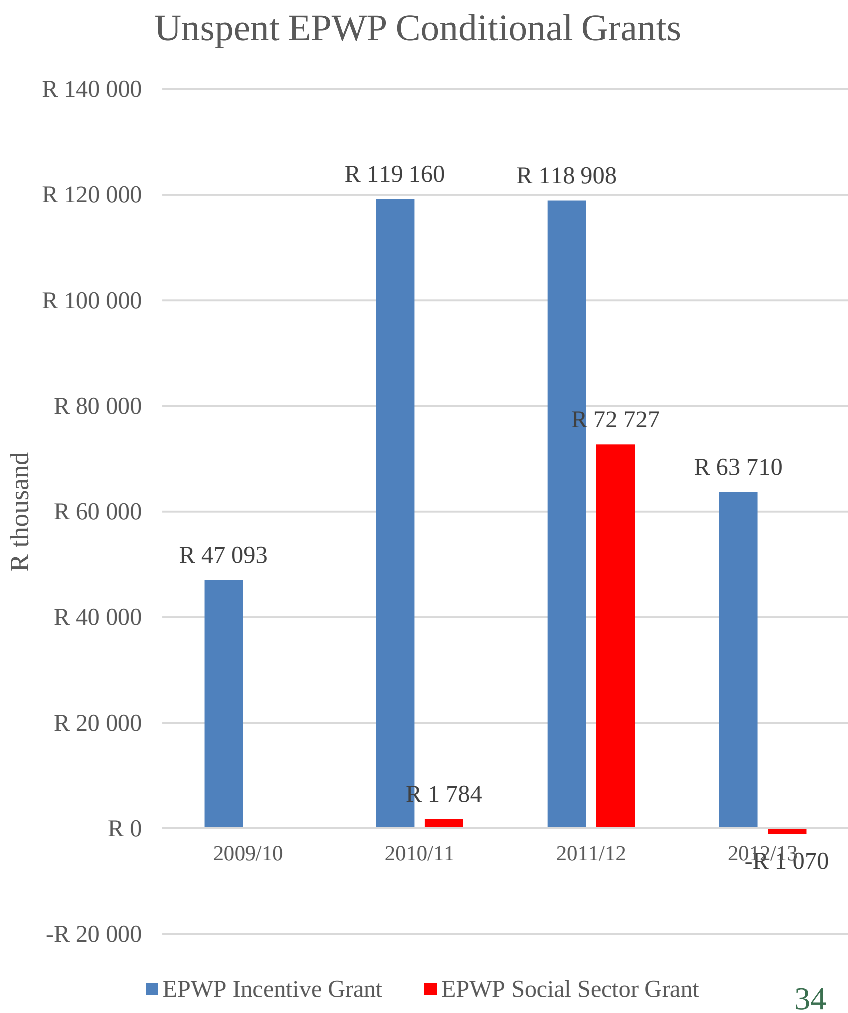
Spending Performance by Provinces on EPWP Conditional Grants

- The National Department of Public Works is the transferring agent for two EPWP conditional grants to provinces
- As the transferring agent, the responsibilities of the DPW are prescribed in the conditional grant framework contained in the Division of Revenue Act. These include (among others):
  - Determine eligibility of grant, monitor and provide support to provinces, audit provincial performance and report to national treasury on provincial progress

FINANCIAL AND FISCAL COMMISSION

EPWP CONDITIONAL GRANTS TO PROVINCES





Summary of Performance on EPWP Grants to Provinces

- Over a four year period (2009/10 – 2012/13), provinces have been unable to spend more than 80% of its allocation to the EPWP Incentive Grant in any given year
- Except in 2011/12 where spending on both EPWP grants were below 60% of total, the EPWP Social Sector grant in general, performed better than the Incentive grant
  – Provinces have challenges relating to infrastructure, which affects the spending performance on the Incentive grant
- In many instances, provinces fail to comply with grant conditions stipulated in DORA, resulting in funds being withheld, thereby leaving funds unspent at the end of the year

FINANCIAL AND FISCAL COMMISSION

Concluding Remarks

- Key issues emanating from analysis of DPW
  - Underspending of budget
  - Not meeting set targets
- For the sector to turnaround, the DPW should play a leadership role by providing the necessary support to the provinces and establishing minimum norms and standards to facilitate improvement in service delivery in the provinces
- Department to put in place proper systems to guide expenditure management, setting of appropriate key performance indicators and a plan to attract/retain skilled staff
  - Outcome of the Turnaround Project is key in facilitating progress – some improvements noted but far to go in putting DPW on stable footing

FINANCIAL AND FISCAL COMMISSION

FFC's Website: www.ffc.co.za

FINANCIAL AND FISCAL COMMISSION

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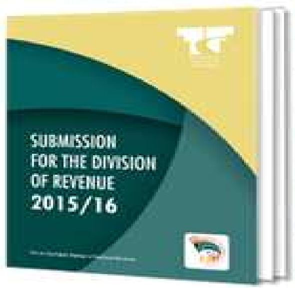
2015/16 Submission | Housing Financing | Child Welfare Services | 2012/2013 Annual report

2015/16 SUBMISSION FOR THE DIVISION OF REVENUE



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

NEW!!!

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

UPCOMING EVENTS

FINANCIAL AND FISCAL COMMISSION

PORTFOLIO COMMITTEE ON PUBLIC WORKS

Financial and Fiscal Commission

25 September 2014

For an Equitable Sharing of National Revenue

PRESENTATION OUTLINE

1. Role and Function of the Financial and Fiscal Commission
2. Recommendations of the Commission that relate to Public Works
3. Departmental Analysis

FINANCIAL AND FISCAL COMMISSION

1. Role and Function of the Financial and Fiscal Commission

Role and Function of the FFC

- The Financial and Fiscal Commission (FFC)
  - Is an independent, permanent, statutory institution established in terms of Section 220 of Constitution
  - Must function in terms of the FFC Act
- Mandate of Commission
  - To make recommendations, envisaged in Chapter 13 of the Constitution or in national legislation to Parliament, Provincial Legislatures, and any other organ of state determined by national legislation
- The Commission's focus is primarily on the equitable division of nationally collected revenue among the three spheres of government and any other financial and fiscal matters
  - Legislative provisions or executive decisions that affect either provincial or local government from a financial and/or fiscal perspective
  - Includes regulations associated with legislation that may amend or extend such legislation
  - Commission must be consulted in terms of the FFC Act
  - Current research strategy focuses on developmental impacts of IGFR

FINANCIAL AND FISCAL COMMISSION

How FFC Supports Policy

- Identify weakness within the IGFR system
- Propose evidence-based policy proposals
- Interact and participate with/in forums and institutions responsible for IGFR policy – TCF, Budget Council, Budget Forum
- Information dissemination – invitations from nine provincial legislatures and SALGA
- Interact with various committees within parliament

FINANCIAL AND FISCAL COMMISSION

PROCESSING OF RECOMMENDATIONS

- Recommendations of the Commission
  - Recommendations are made to Parliament so that the legislature can examine the financial and fiscal decisions of government against them and understand why they have been accepted or rejected
  - Section 4(4)(c) of the Money Bills Amendment Procedures and Related Matters Act (MBAPMA) requires Parliament to consider the recommendations of the Commission when deliberating on Money Bills
- Government is obligated through an Act of Parliament to explain how it has taken the FFC recommendations in arriving at the division of revenue for any particular year
  - The response is tabled in Annexure W1 of the DoR Bill and of the Budget Review

FINANCIAL AND FISCAL COMMISSION

How FFC can Support Parliament

DIRECT TRAINING AND INTERVENTION

- Training of members of parliamentary committees and councillors on request (e.g. in Bushbuckridge)
- Advice to municipalities (e.g. Tshwane merger)
- Inputs in various fora (e.g. SALGA)

NON TRAINING SUPPORT AND INTERVENTION

- Member of review committees (LES, Infrastructure Grants, Metro’s Own Revenue)
- Public hearings (local government fiscal framework, housing and welfare)
- Inputs in benchmarking exercises
- Recommendations through Annual Submission on DoR, MTBPS, FF and Appropriations

VALUE ADD OF THE FFC

- FFC can provide advice, analysis and training to assist the work of the Committee
  - Specialised IGFR training to committee members and/or parliamentary researchers
  - Provision of recommendations that are founded on evidence based research
  - Technical support with respect to parliamentary fiscal oversight activities

FINANCIAL AND FISCAL COMMISSION

2. Recommendations that Relate to Public Works

FFC Work Related to DPW [cont.]

Response to Division of Revenue Bill (DoRB) 2010	The Commission welcomed introduction of the *EPWP Incentive Grant for the Social Sector*. The Commission noted that there was a need to standardise the employment framework for the sector including conditions, wages and progression across provinces and municipalities. The Commission also raised concern regarding difficulties that were being experienced with the transfer of the EPWP Incentive Grant to Local and Provincial Governments. In the 2009/10 certain provinces (e.g. Western Cape) raised concern that they received transfers outside the ambit of the DoR and couldn't spend the money because it was not properly appropriated through various legislatures. At that point the general challenge with the grant was that provinces and municipalities found it difficult to integrate it through their infrastructure programmes. This problem persists because labour intensive infrastructure projects need to be planned, costed and scheduled properly. Not all projects yield the same labour intensity, so targets must be set by project type and category. Some projects will better lend themselves to labour intensive methods than others. This must be factored into the budget allocations and monitoring of the grant. *Current Commission analysis is that provinces continue to have challenges relating to labour intensive infrastructure, which affects the spending of the Incentive grant. In 2012/13 DPW appointed service providers to support provinces and municipalities in design of infrastructure projects and reporting methods.*

FFC Work Related to DPW [cont.]

Response to MTBPS 2011	In terms of the EPWP Incentive grant framework, provinces and municipalities must spend their budgets on EPWP projects and after that the grant will be paid by DPW quarterly as an incentive (after employment has been created). There has been general under-spending against budget since inception of the grant. Projected under-spending in financial year 2011 was 28.4%. In 2010, the actual under-spend was 38.4%. Despite poor spending performance, the annual growth of the budget was high. Expenditure reports on the grant performance at local government were inaccessible. DPW should explain how transfers are reconciled with actual expenditure. The grant should be streamlined to the Division of Revenue Act (DORA) requirements in terms of allocation and disbursements of funds. Punitive and incentive elements of the grant should be made transparent to all the stakeholders. *Current FFC analysis indicates that underspending persists. Between 2009/10 and 2012/13, provinces have been unable to spend more than 80% of their allocation*
Response to DoRB 2012	The Commission reiterated concerns raised in its Response to DoRB 2010 and Response to 2011 MTBPS regarding the challenges with the EPWP Incentive grant. The Commission maintained its view that the grant had not succeeded in achieving the intended goals within the specified time. There had also not been a formal assessment of the achievement of this grant both in terms of expenditure and service delivery outputs including how many direct and full times jobs had been created against the allocated funds. The Commission recommended that an independent review of the grant be undertaken, so that lessons can be drawn from past experience to avoid a replication of past mistakes. Government has since set up a team consisting of National Treasury, DPW, DCoG and SALGA that has been working on this. *This review is ongoing*

FFC Work Related to DPW [cont.]

Submission for the 2009/10 DoR	FFC found a need for reporting on EPWP outcomes to be more specific. In accordance with the requirements of the EPWP, job creation for target groups such as women, youth and people with disabilities should be included in the reporting requirements for all infrastructure conditional grants to provinces and municipalities GOVT. RESPONSE: The recommendation for reporting on targets is supported. Some of these indicators can possibly be reported on as part of the conditional grant frameworks prescribed in terms of the Division of Revenue Act
Submission for the 2007/08 DoR	The World Cup funding was crafted on the basis of requirements to meet FIFA standards of hosting cities, and that the major challenge faced by government was sustainability of built infrastructure. On the funding for the FIFA World Cup, FFC, examined the sustainability of built infrastructure, taking the escalation of construction costs into account. FFC's findings included that the escalation of construction costs be budgeted for, and that collaboration with the private sector should be encouraged. Also that a 2010 World Cup "Legacy Management Policy" should be introduced and prudent fiscal policy should be maintained leading to the World Cup GOVT. RESPONSE: Government is of the view that the costs relating to maintenance of constructed 2010 FIFA World Cup facilities should be provided by municipalities

FINANCIAL AND FISCAL COMMISSION

3. Departmental Analysis

Contextualising the Department of Public works

- Aim of Department of Public Works (DPW):
  - provide for and manage accommodation, housing, land and infrastructure needs of national departments
  - Lead and direct implementation of the national expanded public works programme (EPWP)
  - Promote growth, job creation and transformation in the construction and property industries
- Public works is a concurrent function between national and provincial spheres of government
- DPW contribution to National Development Plan (NDP) achieved through:
  - Implementation of job creation initiatives
  - Transition to low cost carbon economy
  - Development of an inclusive and integrated rural economy
  - Fight against corruption

FINANCIAL AND FISCAL COMMISSION

KEY CHALLENGES CONFRONTING DPW

- Due to consistent trend of poor audit outcomes and generally poor performance, DPW implemented a turnaround project in November 2012
- Areas that were identified for specific attention through the turnaround project include:
  - Lack of controls in supply chain management (SCM)
    - Identified as major risk area by Auditor-General – DPW capacity to process tenders eroded and has led to numerous instances of fraud/corruption. SCM has been major focus of the Special Investigating Unit (SIU). SCM is the key focus of turnaround project in DPW. A service provider appointed to assist with fundamental review of SCM
      - Irregular expenditure, R171 million in 2011/12; R874 million in 2012/13
  - Poor lease management
    - Numerous irregularities with respect to lease agreements – gives rise to legal risks. DPW reviewing all lease agreements

FINANCIAL AND FISCAL COMMISSION

KEY CHALLENGES CONFRONTING DPW [CONT.]

– Inadequate immovable asset register
    - Lack of compliant immovable asset register resulted in negative audit opinions. DPW now in process of rebuilding immovable asset register and building a model to revalue immovable assets
– Lack of built environment and property management skills
    - Lack of technical capacity to undertake direct construction/maintenance functions. Cooperating with DPSA and Higher Education and Training to address challenge

FINANCIAL AND FISCAL COMMISSION

STARTING POINT FOR BUDGET ANALYSIS

- By vote
  - Compare different votes with each other
- By vote programme
  - Compare different programmes within a vote
- By sub-programme
- Compare different sub-programmes within a programme
- By province
- Compare different provinces with each other
- Use Outputs, Targets and Indicators to measure performance
- Use policy documents as a benchmark

FINANCIAL
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USEFUL TOOLS

- Percentage Share of Total Budget
- Growth in the Budget
  - Percentage Change
    - Reflecting increases/decreases in percentage form
  - Annual Growth Rate
    - How does the allocation change year on year
  - Real Percentage Change
    - Takes inflation into consideration
  - Variances and explanations
    - Investigating the reasons/drivers of change
  - Spending by economic classification
    - Distinguishes between various categories of current (goods and services, transfers and subsidies) and capital expenditure (acquisition of fixed capital assets, purchase of land)

FINANCIAL AND FISCAL COMMISSION

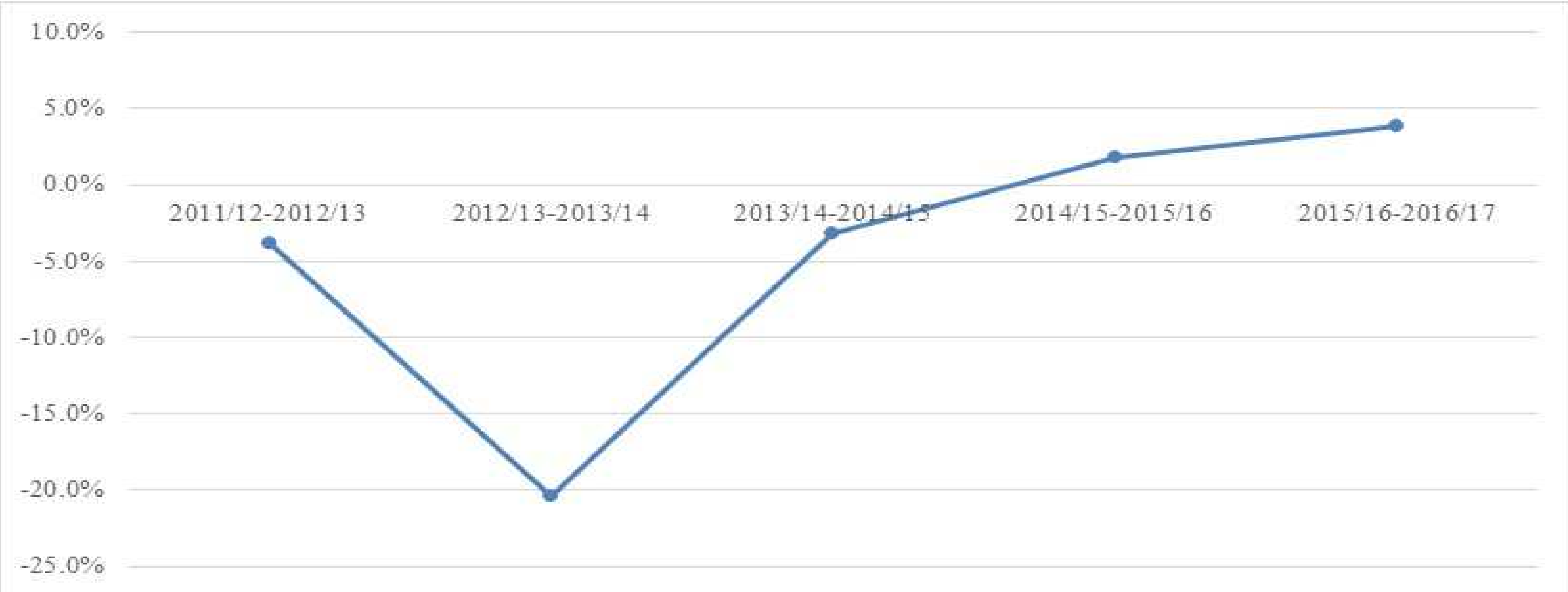
BUDGET AND PROGRAMMES OF PUBLIC WORKS

Nominal (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Real Annual Average Growth 2011/12-2013/14	Real Annual Average Growth 2014/15-2016/17
Administration	837.1	856.2	1 158.2	1 175.3	1 133.3	1 191.5	11.5%	-4.1%
Immovable Asset Management	5 001.7	4 563.5	2 831.8	2 861.4	3 308.1	3 450.0	-28.7%	4.6%
Expanded Public Works Programme	1 163.0	1 704.1	1 948.0	1 951.3	2 006.8	2 395.2	22.7%	5.5%
Property and Construction Industry Policy Regulation	34.4	26.9	36.7	41.5	43.4	45.9	-2.1%	0.1%
Auxiliary and Associated Services	25.2	53.3	50.7	91.8	53.7	56.6	34.4%	-25.2%
Total	**7 061.4**	**7 203.9**	**6 025.3**	**6 121.3**	**6 545.3**	**7 139.2**	**-12.5%**	**2.8%**

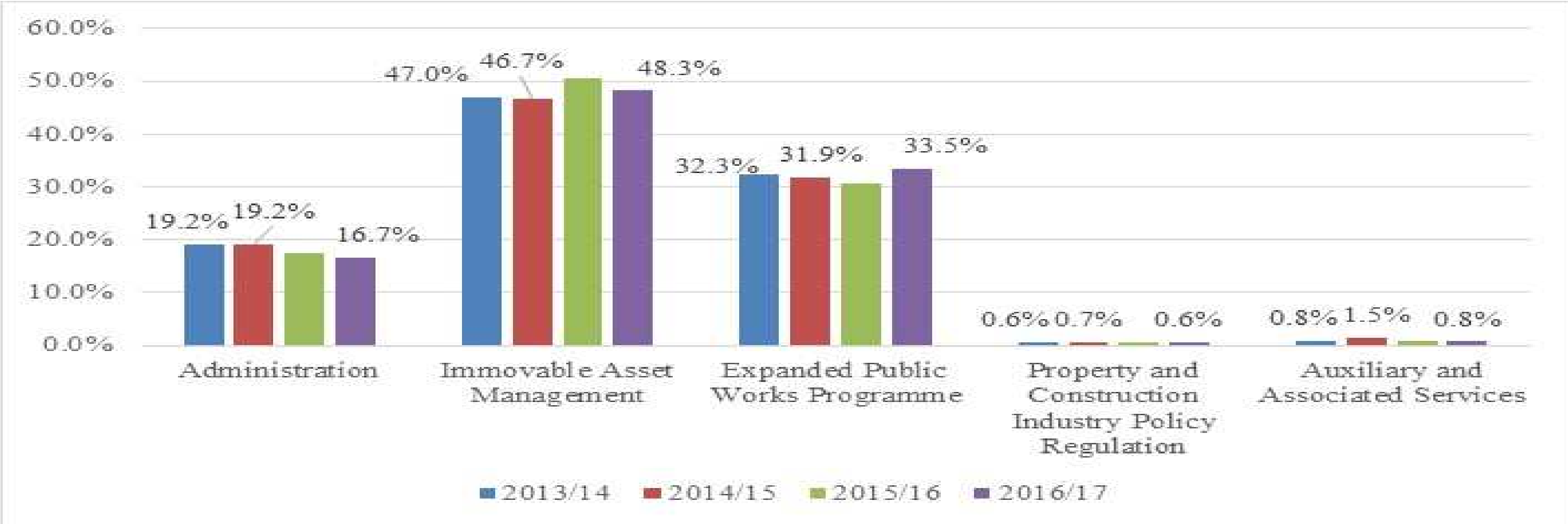
- Five programmes on Department of Public Works (DPW) budget
- Allocation reduced significantly in 2013/14, due to phasing out of Devolution of Property Rates Fund Grant to provinces and non-completion of various projects. As result of underspending, Cabinet approved reductions were effected
  - Following poor spending performance and audit outcomes, DPW implementing a Turnaround Project
- DPW budget projected to recover to just over R7.1 billion by end of 2014 medium term expenditure framework (MTEF) period
  - 2014 MTEF growth driven by additional allocation of R159 million in 2016/17 for Expanded Public Works Programme (EPWP)

REAL YEAR ON YEAR GROWTH OF PUBLIC WORKS BUDGET

- Significant decline in year on year growth in 2013/14
  - Though still declining in real terms in 2014/15, there is some improvement
- Over rest of 2014 MTEF period, positive growth projected
  - Focus will be on rehabilitating 34 state owned buildings, and ensuring that at least 100 buildings are made accessible to people with disabilities in each year of MTEF



BUDGET COMPOSITION ACROSS PROGRAMMES



- Immovable Asset Management Programme consumes largest share of DPW budget – by end of 2014 MTEF period this programme is projected to consume just under half of DPW budget
- Share allocated to Administration Programme consumers about one fifth of departmental budget – funding for Turnaround Project fall under Administration
  - Turnaround Project will support activities relating to the Special Investigating Unit, a technical support unit, a clean audit project, irregular expenditure management, internal audit support

FINANCIAL AND FISCAL COMMISSION

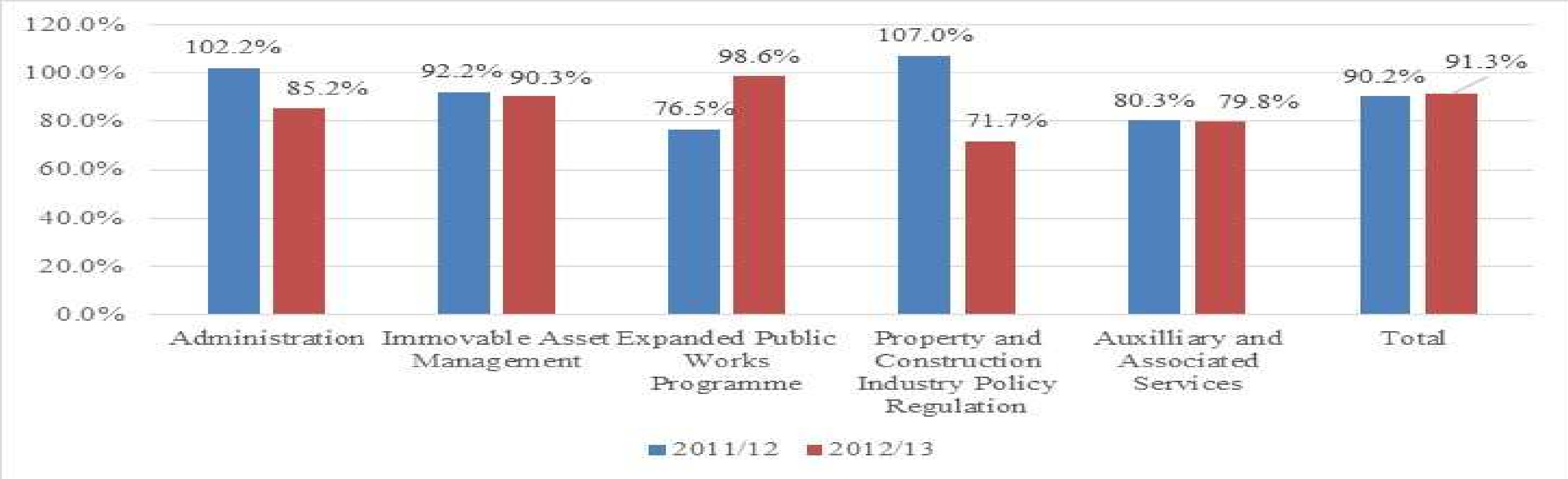
ECONOMIC CLASSIFICATION

Item (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Compensation of Employees	1 269.6	1 374.6	1 473.5	1 659.9	1 753.5	1 870.5
Goods and Services	1 032.9	977.0	1 379.6	1 302.1	1 202.9	1 269.0
Transfers and Subsidies	3 656.2	4 092.4	2 543.9	2 563.4	2 654.2	3 017.9
Payments for Capital Assets	1 099.1	756.8	628.4	595.9	934.8	981.7
Real Year on Year Growth (%)						
Compensation of Employees		2.1%	2.1%	7.3%	0.6%	1.6%
Goods and Services		-10.8%	34.5%	-10.1%	-12.0%	0.5%
Transfers and Subsidies		5.6%	-40.8%	-4.0%	-1.4%	8.3%
Payments for Capital Assets		-35.1%	-20.9%	-9.7%	49.4%	-0.003%

- Transfers and subsidies is the largest item
  - the decrease in 2013/14 due to phasing out of the Devolution of Property Rates Fund Grant to Provinces, hence reduction in transfers to provinces
- The increase in spending on Goods and Services in 2013/14 driven by spending on consultants – due to shortage of technical skills in property/project management and specialists as required for the DPW’s turnaround project
- Payments for capital assets very erratic
- Relative to strong annual average growth between 2011/12 and 2013/14, growth in Goods and Service set to decline over the 2014 MTEF period

FINANCIAL AND FISCAL COMMISSION

SPENDING PERFORMANCE (FISCAL DISCIPLINE)

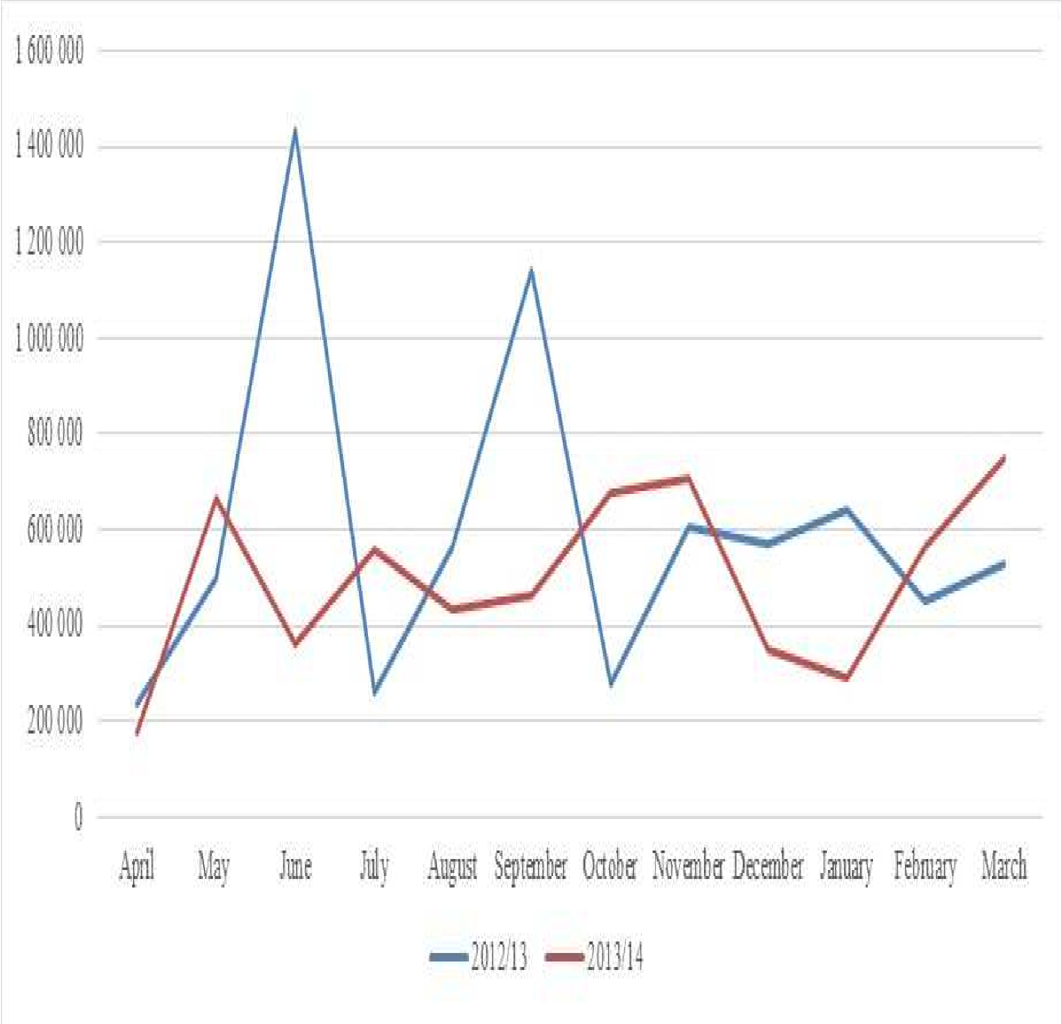


- DPW underspent in 2011/12 and 2012/13
- In 2011 underspending on EPWP and Auxilliary and Associated Services Programme
- In 2012, underspending is as a result of poor spending in Property and Construction Industry Policy Regulation Programme and again Auxilliary and Associated Services Programme
- Due to persistent underspending on capital, baseline reductions of R1.3 billion effected over 2014 MTEF period

FINANCIAL AND FISCAL COMMISSION

IN-YEAR EXPENDITURE

- 2012/13 in-year spending erratic
- Appears to be improving in 2013/14 – variances in monthly spending not as large as during 2012/13
- Concern with poor in-year spending is that it hints at unstable cash flow and disbursements



FINANCIAL AND FISCAL COMMISSION

SELECTED SUB-PROGRAMME ANALYSIS: IMMOVABLE ASSET MANAGEMENT PROGRAMME

Real Year on Year Growth	2011/12-2012/13	2012/13-2013/14	2013/14-2014/15	2014/15-2015/16	2015/16-2016/17
Infrastructure (Public Works)	-33.5%	-9.7%	-28.1%	57.5%	-0.1%
Strategic Asset Investment Analysis	-67.7%	149.1%	10.4%	0.2%	1.0%
Operation Management	1.6%	-0.3%	0.5%	-0.4%	2.7%
Prestige Management	-51.5%	44.0%	-27.0%	-1.0%	-28.5%
Special Projects	4.0%	47.6%	-24.7%	1.8%	0.4%
Construction Industry Development Board	-3.4%	2.0%	1.6%	0.4%	0.2%
Council for the Built Environment	-7.7%	28.8%	4.3%	1.4%	0.2%
Parliamentary Village Management Board	-0.6%	0.1%	1.1%	-0.4%	0.5%
Augmentation of the Property Management Trading Entity	-3.2%	0.5%	-6.0%	-0.1%	0.6%
Independent Development Trust	-68.1%	-6.3%	-4.7%	-4.8%	-100.0%
Total	**-14.0%**	**-37.8%**	**-8.6%**	**10.1%**	**-0.7%**

- Total programme growth declines over most of the period reviewed
  - Decline in 2012 and 2013 is due to phasing out of devolution of property rates fund grant to provinces, non-completion of projects and Cabinet approved reductions due to underspending
- Generally sub-programme trends are erratic, brings into question soundness of planning in DPW
- Lack of capacity a challenge in this programme – 10% vacancy rate

Selected Sub-Programme Analysis: Expanded Public Works Programme

R million	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Expanded Public Works Programme	209.7	236.8	273.8	261.5	267.7	290.6
Performance Based Incentive Allocations	953.3	1 467.3	1 674.2	1 689.8	1 739.2	2 104.6
Total	**1 163.0**	**1 704.1**	**1 948.0**	**1 951.3**	**2 006.8**	**2 395.2**
Real Year on Year Growth		**2011/12-2012/13**	**2012/13-2013/14**	**2013/14-2014/15**	**2014/15-2015/16**	**2015/16-2016/17**
Expanded Public Works Programme		12.9%	15.6%	-4.5%	2.4%	8.6%
Performance Based Incentive Allocations		53.9%	14.1%	0.9%	2.9%	21.0%
Total		**46.5%**	**14.3%**	**0.2%**	**2.8%**	**19.4%**

- EPWP promotes use of government expenditure to create additional employment opportunities through the use of labour-intensive delivery methods
  - Increases in 2012/2013 due to appointment of service providers to support provinces and municipalities in design of infrastructure projects and reporting methods
- Performance Based Incentive Allocations is the largest sub-programme
  - Focus: disburses funds to provinces/municipalities and NGOs to ensure creation of work opportunities in infrastructure, environment, social sectors
  - Increases between 2012 and 2013 are due to additional funding allocated. However to give effect to Cabinet-approved reductions, growth in this sub programme slows in 2014 and 2015
- Overall between 2009/10 and 2012/13, just over 3 million jobs created (68% of target of 4.5 million jobs)

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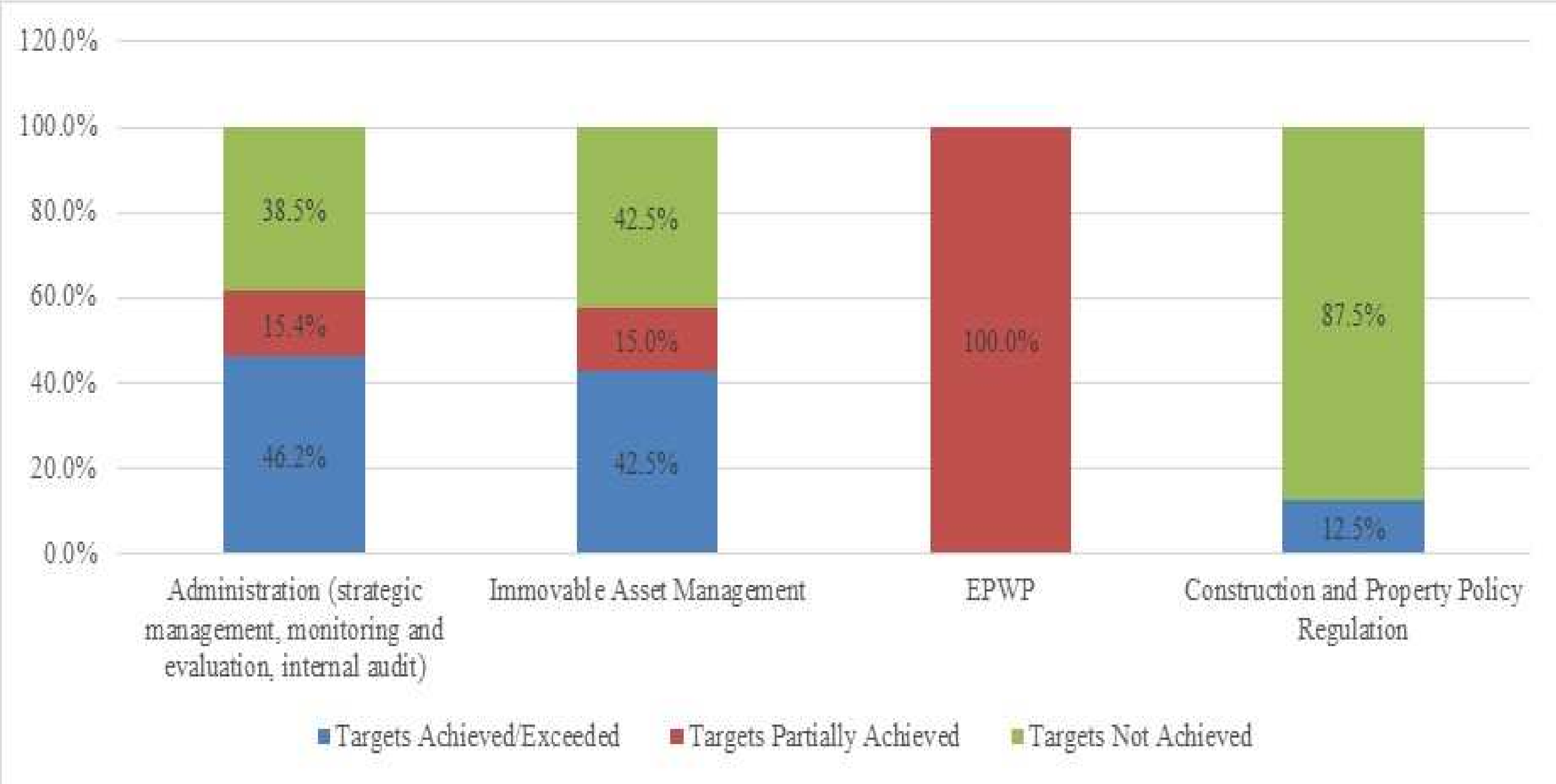

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  - Inadequate internal controls in areas of leadership, financial management, performance management and governance
  - Areas that were identified for specific attention through the turnaround project include: lack of controls in supply chain management, poor lease management, inadequate immovable asset register, lack of built environment and property management skills

FINANCIAL AND FISCAL COMMISSION

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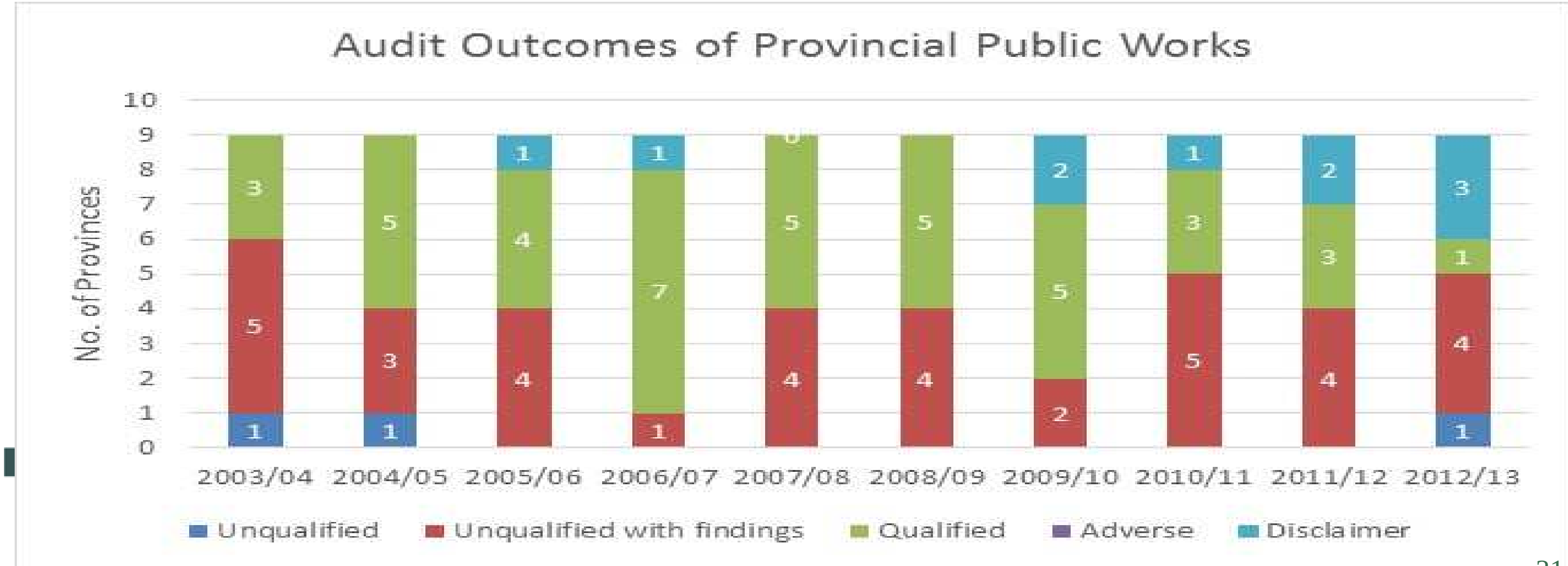
PUBLIC WORKS IN THE PROVINCES

PROVINCIAL AUDIT OUTCOMES

- Audit outcomes for provincial departments of public works have not considerably improved in since 2003/04
  - Four out of the nine provinces received a qualified opinion or disclaimer in 2012/13
  - Over a period of 10 years (i.e. 2003/4 – 2012/13), only 3 provincial departments of public works received an unqualified audit opinion



PROVINCIAL AUDIT OUTCOMES [CONT.]

- The Auditor-General raised a number of matters that prevented provincial departments from achieving clean audits such as:
  - Instability in leadership and lack of human resources
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  - Action plans to implement improvement in audit outcomes are not timeously implemented
  - Inaccurate and incomplete fixed asset registers
  - Incomplete disclosures on unauthorized, irregular and fruitless, irregular and wasteful expenditure
  - Commitments by the national sector department to intervene and/or provide support were not honoured
- The Commission's view is that DPW should play a more active role, through the various intergovernmental forums, in providing the necessary support to provincial departments of public works

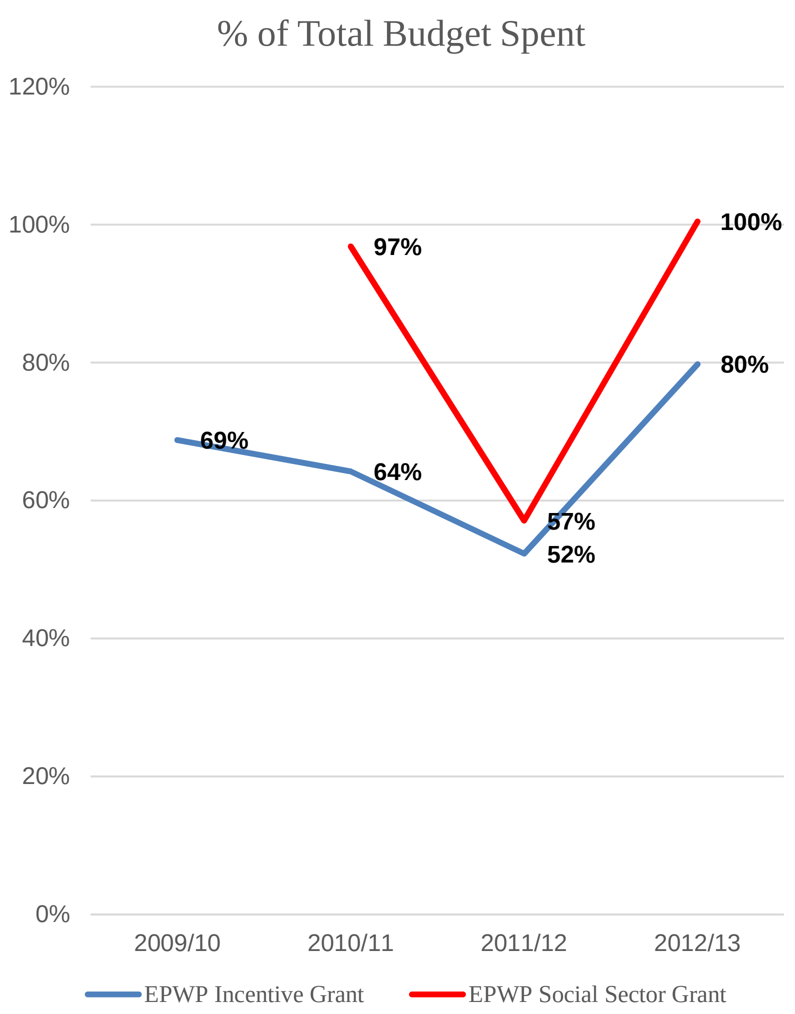
FINANCIAL AND FISCAL COMMISSION

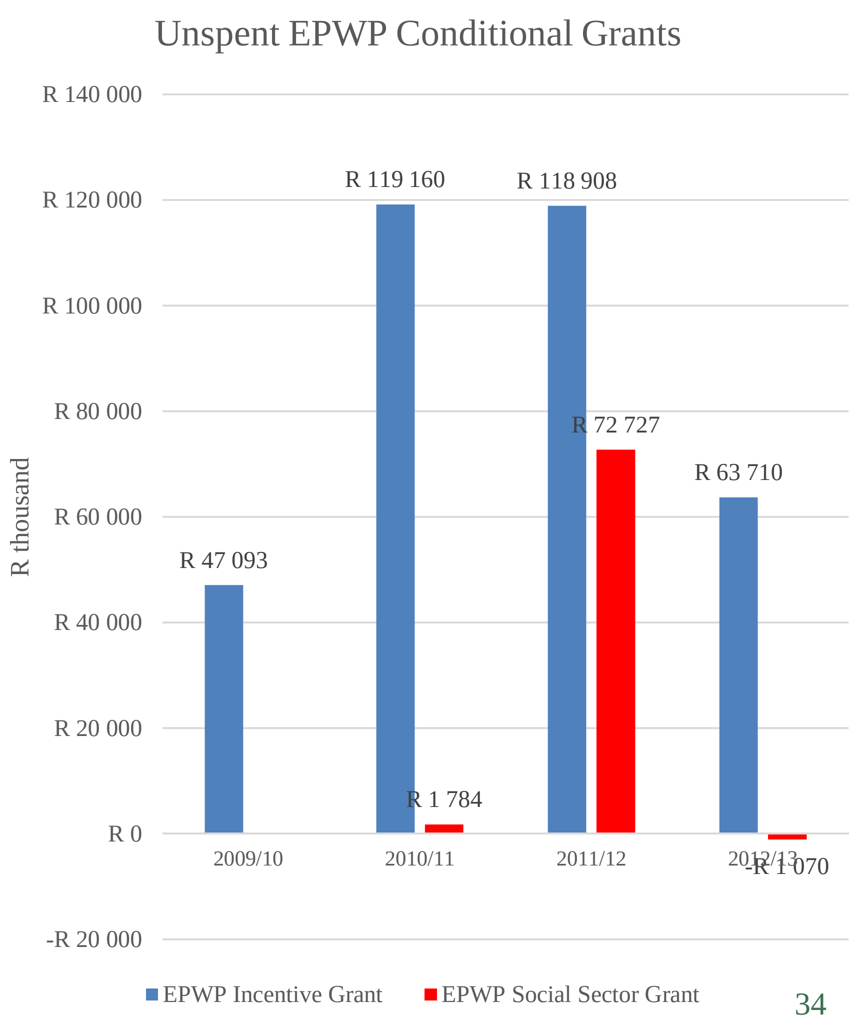
Spending Performance by Provinces on EPWP Conditional Grants

- The National Department of Public Works is the transferring agent for two EPWP conditional grants to provinces
- As the transferring agent, the responsibilities of the DPW are prescribed in the conditional grant framework contained in the Division of Revenue Act. These include (among others):
  - Determine eligibility of grant, monitor and provide support to provinces, audit provincial performance and report to national treasury on provincial progress

FINANCIAL AND FISCAL COMMISSION

EPWP CONDITIONAL GRANTS TO PROVINCES





SUMMARY OF PERFORMANCE ON EPWP GRANTS TO PROVINCES

- Over a four year period (2009/10 – 2012/13), provinces have been unable to spend more than 80% of its allocation to the EPWP Incentive Grant in any given year
- Except in 2011/12 where spending on both EPWP grants were below 60% of total, the EPWP Social Sector grant in general, performed better than the Incentive grant
  - Provinces have challenges relating to infrastructure, which affects the spending performance on the Incentive grant
- In many instances, provinces fail to comply with grant conditions stipulated in DORA, resulting in funds being withheld, thereby leaving funds unspent at the end of the year

FINANCIAL AND FISCAL COMMISSION

Concluding Remarks

- Key issues emanating from analysis of DPW
  - Underspending of budget
  - Not meeting set targets
- For the sector to turnaround, the DPW should play a leadership role by providing the necessary support to the provinces and establishing minimum norms and standards to facilitate improvement in service delivery in the provinces
- Department to put in place proper systems to guide expenditure management, setting of appropriate key performance indicators and a plan to attract/retain skilled staff
  - Outcome of the Turnaround Project is key in facilitating progress – some improvements noted but far to go in putting DPW on stable footing

FINANCIAL AND FISCAL COMMISSION

FFC's Website: www.ffc.co.za

PORTFOLIO COMMITTEE ON PUBLIC WORKS

Financial and Fiscal Commission

25 September 2014

For an Equitable Sharing of National Revenue

PRESENTATION OUTLINE

1. Role and Function of the Financial and Fiscal Commission
2. Recommendations of the Commission that relate to Public Works
3. Departmental Analysis

FINANCIAL AND FISCAL COMMISSION

1. ROLE AND FUNCTION OF THE FINANCIAL AND FISCAL COMMISSION

Role and Function of the FFC

- The Financial and Fiscal Commission (FFC)
  - Is an independent, permanent, statutory institution established in terms of Section 220 of Constitution
  - Must function in terms of the FFC Act
- Mandate of Commission
  - To make recommendations, envisaged in Chapter 13 of the Constitution or in national legislation to Parliament, Provincial Legislatures, and any other organ of state determined by national legislation
- The Commission's focus is primarily on the equitable division of nationally collected revenue among the three spheres of government and any other financial and fiscal matters
  - Legislative provisions or executive decisions that affect either provincial or local government from a financial and/or fiscal perspective
  - Includes regulations associated with legislation that may amend or extend such legislation
  - Commission must be consulted in terms of the FFC Act
  - Current research strategy focuses on developmental impacts of IGFR

FINANCIAL AND FISCAL COMMISSION

How FFC Supports Policy

- Identify weakness within the IGFR system
- Propose evidence-based policy proposals
- Interact and participate with/in forums and institutions responsible for IGFR policy – TCF, Budget Council, Budget Forum
- Information dissemination – invitations from nine provincial legislatures and SALGA
- Interact with various committees within parliament

FINANCIAL AND FISCAL COMMISSION

PROCESSING OF RECOMMENDATIONS

- Recommendations of the Commission
  - Recommendations are made to Parliament so that the legislature can examine the financial and fiscal decisions of government against them and understand why they have been accepted or rejected
  - Section 4(4)(c) of the Money Bills Amendment Procedures and Related Matters Act (MBAPMA) requires Parliament to consider the recommendations of the Commission when deliberating on Money Bills
- Government is obligated through an Act of Parliament to explain how it has taken the FFC recommendations in arriving at the division of revenue for any particular year
  - The response is tabled in Annexure W1 of the DoR Bill and of the Budget Review

FINANCIAL AND FISCAL COMMISSION

How FFC can Support Parliament

DIRECT TRAINING AND INTERVENTION

- Training of members of parliamentary committees and councillors on request (e.g. in Bushbuckridge)
- Advice to municipalities (e.g. Tshwane merger)
- Inputs in various fora (e.g. SALGA)

NON TRAINING SUPPORT AND INTERVENTION

- Member of review committees (LES, Infrastructure Grants, Metro’s Own Revenue)
- Public hearings (local government fiscal framework, housing and welfare)
- Inputs in benchmarking exercises
- Recommendations through Annual Submission on DoR, MTBPS, FF and Appropriations

VALUE ADD OF THE FFC

- FFC can provide advice, analysis and training to assist the work of the Committee
  - Specialised IGFR training to committee members and/or parliamentary researchers
  - Provision of recommendations that are founded on evidence based research
  - Technical support with respect to parliamentary fiscal oversight activities

FINANCIAL AND FISCAL COMMISSION

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2. Recommendations that Relate to Public Works

FFC WORK RELATED TO DPW [CONT.]

Response to Division of Revenue Bill (DoRB) 2010	The Commission welcomed introduction of the *EPWP Incentive Grant for the Social Sector*. The Commission noted that there was a need to standardise the employment framework for the sector including conditions, wages and progression across provinces and municipalities. The Commission also raised concern regarding difficulties that were being experienced with the transfer of the EPWP Incentive Grant to Local and Provincial Governments. In the 2009/10 certain provinces (e.g. Western Cape) raised concern that they received transfers outside the ambit of the DoR and couldn't spend the money because it was not properly appropriated through various legislatures. At that point the general challenge with the grant was that provinces and municipalities found it difficult to integrate it through their infrastructure programmes. This problem persists because labour intensive infrastructure projects need to be planned, costed and scheduled properly. Not all projects yield the same labour intensity, so targets must be set by project type and category. Some projects will better lend themselves to labour intensive methods than others. This must be factored into the budget allocations and monitoring of the grant. *Current Commission analysis is that provinces continue to have challenges relating to labour intensive infrastructure, which affects the spending of the Incentive grant. In 2012/13 DPW appointed service providers to support provinces and municipalities in design of infrastructure projects and reporting methods.*

FFC Work Related to DPW [cont.]

Response to MTBPS 2011	In terms of the EPWP Incentive grant framework, provinces and municipalities must spend their budgets on EPWP projects and after that the grant will be paid by DPW quarterly as an incentive (after employment has been created). There has been general under-spending against budget since inception of the grant. Projected under-spending in financial year 2011 was 28.4%. In 2010, the actual under-spend was 38.4%. Despite poor spending performance, the annual growth of the budget was high. Expenditure reports on the grant performance at local government were inaccessible. DPW should explain how transfers are reconciled with actual expenditure. The grant should be streamlined to the Division of Revenue Act (DORA) requirements in terms of allocation and disbursements of funds. Punitive and incentive elements of the grant should be made transparent to all the stakeholders. *Current FFC analysis indicates that underspending persists. Between 2009/10 and 2012/13, provinces have been unable to spend more than 80% of their allocation*
Response to DoRB 2012	The Commission reiterated concerns raised in its Response to DoRB 2010 and Response to 2011 MTBPS regarding the challenges with the EPWP Incentive grant. The Commission maintained its view that the grant had not succeeded in achieving the intended goals within the specified time. There had also not been a formal assessment of the achievement of this grant both in terms of expenditure and service delivery outputs including how many direct and full times jobs had been created against the allocated funds. The Commission recommended that an independent review of the grant be undertaken, so that lessons can be drawn from past experience to avoid a replication of past mistakes. Government has since set up a team consisting of National Treasury, DPW, DCoG and SALGA that has been working on this. *This review is ongoing*

FFC Work Related to DPW [cont.]

Submission for the 2009/10 DoR	FFC found a need for reporting on EPWP outcomes to be more specific. In accordance with the requirements of the EPWP, job creation for target groups such as women, youth and people with disabilities should be included in the reporting requirements for all infrastructure conditional grants to provinces and municipalities GOVT. RESPONSE: The recommendation for reporting on targets is supported. Some of these indicators can possibly be reported on as part of the conditional grant frameworks prescribed in terms of the Division of Revenue Act
Submission for the 2007/08 DoR	The World Cup funding was crafted on the basis of requirements to meet FIFA standards of hosting cities, and that the major challenge faced by government was sustainability of built infrastructure. On the funding for the FIFA World Cup, FFC, examined the sustainability of built infrastructure, taking the escalation of construction costs into account. FFC's findings included that the escalation of construction costs be budgeted for, and that collaboration with the private sector should be encouraged. Also that a 2010 World Cup "Legacy Management Policy" should be introduced and prudent fiscal policy should be maintained leading to the World Cup GOVT. RESPONSE: Government is of the view that the costs relating to maintenance of constructed 2010 FIFA World Cup facilities should be provided by municipalities

FINANCIAL AND FISCAL COMMISSION

3. Departmental Analysis

CONTEXTUALISING THE DEPARTMENT OF PUBLIC WORKS

- Aim of Department of Public Works (DPW):
  - provide for and manage accommodation, housing, land and infrastructure needs of national departments
  - Lead and direct implementation of the national expanded public works programme (EPWP)
  - Promote growth, job creation and transformation in the construction and property industries
- Public works is a concurrent function between national and provincial spheres of government
- DPW contribution to National Development Plan (NDP) achieved through:
  - Implementation of job creation initiatives
  - Transition to low cost carbon economy
  - Development of an inclusive and integrated rural economy
  - Fight against corruption

FINANCIAL AND FISCAL COMMISSION

KEY CHALLENGES CONFRONTING DPW

- Due to consistent trend of poor audit outcomes and generally poor performance, DPW implemented a turnaround project in November 2012
- Areas that were identified for specific attention through the turnaround project include:
  - Lack of controls in supply chain management (SCM)
    - Identified as major risk area by Auditor-General – DPW capacity to process tenders eroded and has led to numerous instances of fraud/corruption. SCM has been major focus of the Special Investigating Unit (SIU). SCM is the key focus of turnaround project in DPW. A service provider appointed to assist with fundamental review of SCM
      - Irregular expenditure, R171 million in 2011/12; R874 million in 2012/13
  - Poor lease management
    - Numerous irregularities with respect to lease agreements – gives rise to legal risks. DPW reviewing all lease agreements

FINANCIAL AND FISCAL COMMISSION

KEY CHALLENGES CONFRONTING DPW [CONT.]

- Inadequate immovable asset register
  - Lack of compliant immovable asset register resulted in negative audit opinions. DPW now in process of rebuilding immovable asset register and building a model to revalue immovable assets
- Lack of built environment and property management skills
  - Lack of technical capacity to undertake direct construction/maintenance functions. Cooperating with DPSA and Higher Education and Training to address challenge

FINANCIAL AND FISCAL COMMISSION

STARTING POINT FOR BUDGET ANALYSIS

- By vote
  - Compare different votes with each other
- By vote programme
  - Compare different programmes within a vote
- By sub-programme
- Compare different sub-programmes within a programme
- By province
- Compare different provinces with each other
- Use Outputs, Targets and Indicators to measure performance
- Use policy documents as a benchmark

FINANCIAL AND FISCAL COMMISSION

USEFUL TOOLS

- Percentage Share of Total Budget
- Growth in the Budget
  - Percentage Change
    - Reflecting increases/decreases in percentage form
  - Annual Growth Rate
    - How does the allocation change year on year
  - Real Percentage Change
    - Takes inflation into consideration
  - Variances and explanations
    - Investigating the reasons/drivers of change
  - Spending by economic classification
    - Distinguishes between various categories of current (goods and services, transfers and subsidies) and capital expenditure (acquisition of fixed capital assets, purchase of land)

FINANCIAL AND FISCAL COMMISSION

Budget and Programmes of Public Works

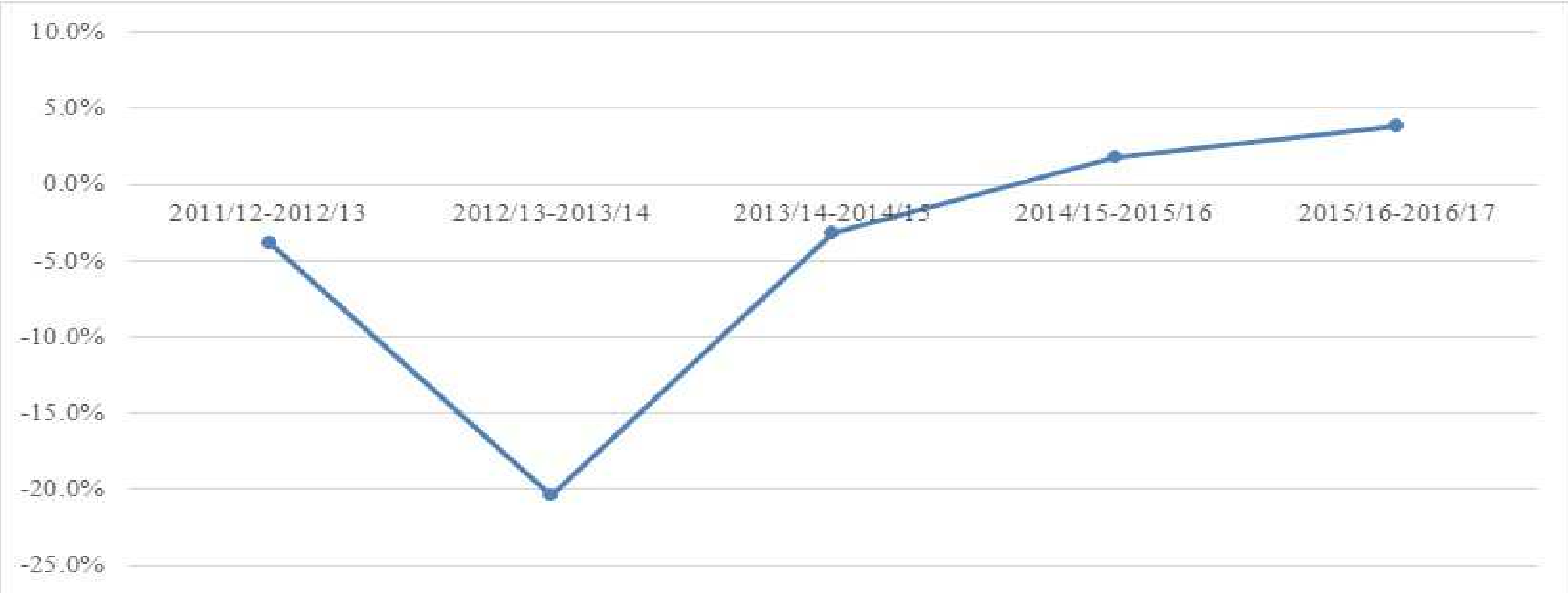
Nominal (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Real Annual Average Growth 2011/12-2013/14	Real Annual Average Growth 2014/15-2016/17
Administration	837.1	856.2	1 158.2	1 175.3	1 133.3	1 191.5	11.5%	-4.1%
Immovable Asset Management	5 001.7	4 563.5	2 831.8	2 861.4	3 308.1	3 450.0	-28.7%	4.6%
Expanded Public Works Programme	1 163.0	1 704.1	1 948.0	1 951.3	2 006.8	2 395.2	22.7%	5.5%
Property and Construction Industry Policy Regulation	34.4	26.9	36.7	41.5	43.4	45.9	-2.1%	0.1%
Auxiliary and Associated Services	25.2	53.3	50.7	91.8	53.7	56.6	34.4%	-25.2%
Total	**7 061.4**	**7 203.9**	**6 025.3**	**6 121.3**	**6 545.3**	**7 139.2**	**-12.5%**	**2.8%**

- Five programmes on Department of Public Works (DPW) budget
- Allocation reduced significantly in 2013/14, due to phasing out of Devolution of Property Rates Fund Grant to provinces and non-completion of various projects. As result of underspending, Cabinet approved reductions were effected
  - Following poor spending performance and audit outcomes, DPW implementing a Turnaround Project
- DPW budget projected to recover to just over R7.1 billion by end of 2014 medium term expenditure framework (MTEF) period
  - 2014 MTEF growth driven by additional allocation of R159 million in 2016/17 for Expanded Public Works Programme (EPWP)

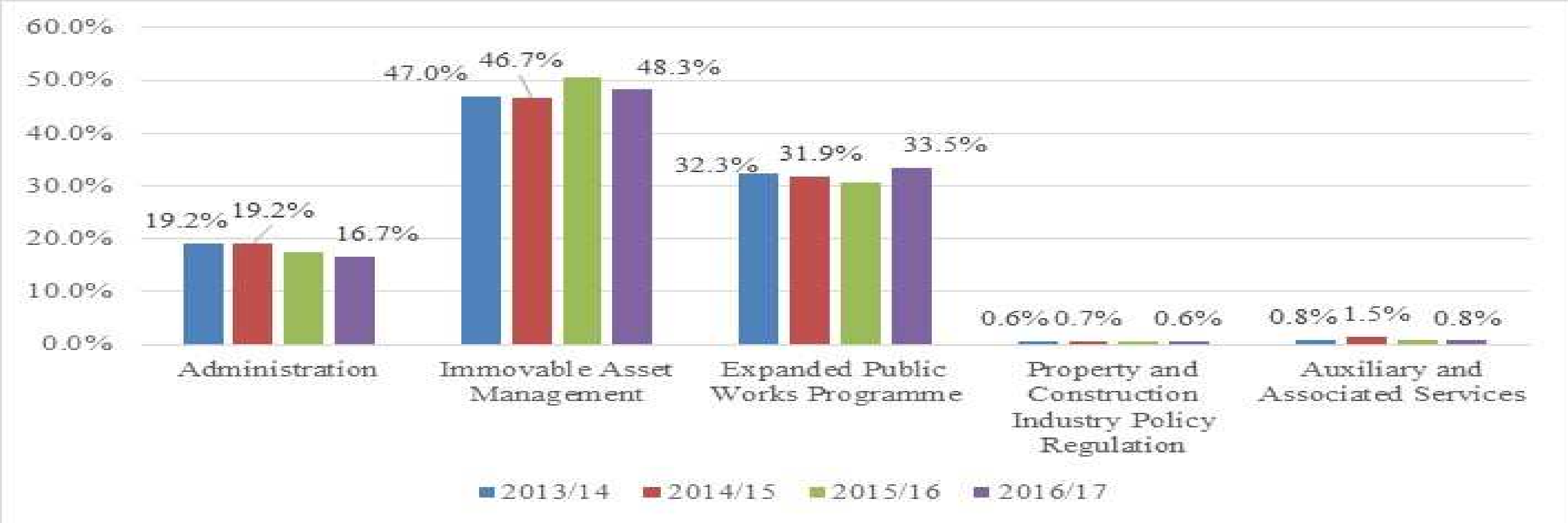
FINANCIAL AND FISCAL COMMISSION

REAL YEAR ON YEAR GROWTH OF PUBLIC WORKS BUDGET

- Significant decline in year on year growth in 2013/14
  - Though still declining in real terms in 2014/15, there is some improvement
- Over rest of 2014 MTEF period, positive growth projected
  - Focus will be on rehabilitating 34 state owned buildings, and ensuring that at least 100 buildings are made accessible to people with disabilities in each year of MTEF



BUDGET COMPOSITION ACROSS PROGRAMMES



- Immovable Asset Management Programme consumes largest share of DPW budget – by end of 2014 MTEF period this programme is projected to consume just under half of DPW budget
- Share allocated to Administration Programme consumers about one fifth of departmental budget – funding for Turnaround Project fall under Administration
  - Turnaround Project will support activities relating to the Special Investigating Unit, a technical support unit, a clean audit project, irregular expenditure management, internal audit support

FINANCIAL AND FISCAL COMMISSION

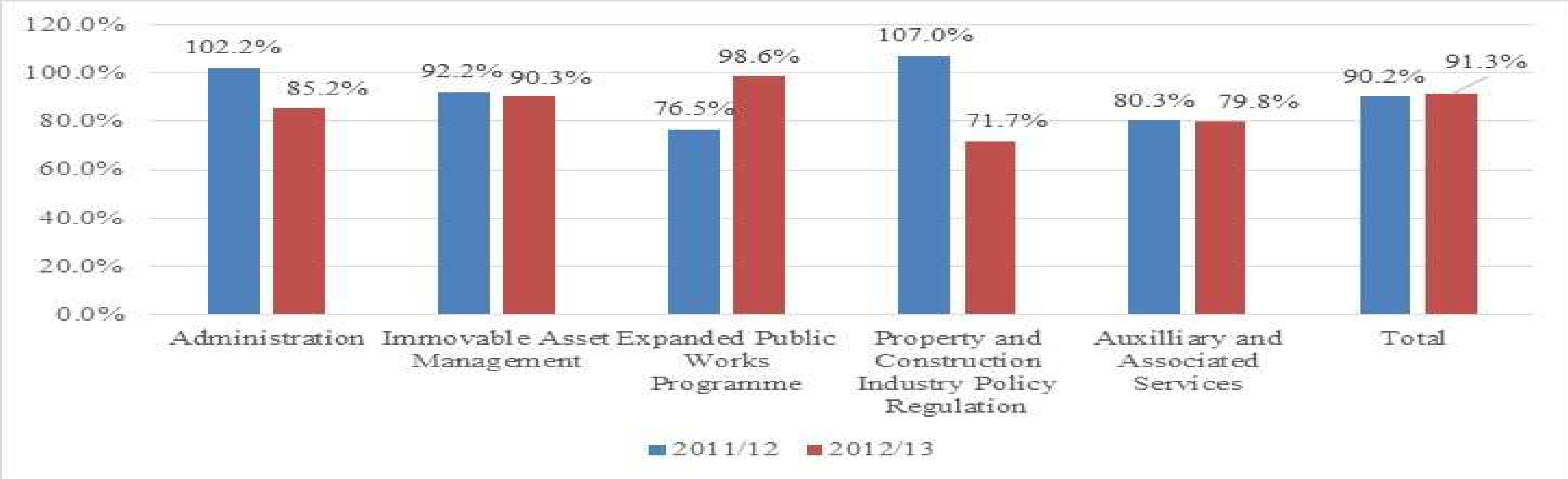
ECONOMIC CLASSIFICATION

Item (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Compensation of Employees	1 269.6	1 374.6	1 473.5	1 659.9	1 753.5	1 870.5
Goods and Services	1 032.9	977.0	1 379.6	1 302.1	1 202.9	1 269.0
Transfers and Subsidies	3 656.2	4 092.4	2 543.9	2 563.4	2 654.2	3 017.9
Payments for Capital Assets	1 099.1	756.8	628.4	595.9	934.8	981.7
Real Year on Year Growth (%)						
Compensation of Employees		2.1%	2.1%	7.3%	0.6%	1.6%
Goods and Services		-10.8%	34.5%	-10.1%	-12.0%	0.5%
Transfers and Subsidies		5.6%	-40.8%	-4.0%	-1.4%	8.3%
Payments for Capital Assets		-35.1%	-20.9%	-9.7%	49.4%	-0.003%

- Transfers and subsidies is the largest item
  - the decrease in 2013/14 due to phasing out of the Devolution of Property Rates Fund Grant to Provinces, hence reduction in transfers to provinces
- The increase in spending on Goods and Services in 2013/14 driven by spending on consultants – due to shortage of technical skills in property/project management and specialists as required for the DPW's turnaround project
- Payments for capital assets very erratic
- Relative to strong annual average growth between 2011/12 and 2013/14, growth in Goods and Service set to decline over the 2014 MTEF period

FINANCIAL AND FISCAL COMMISSION

SPENDING PERFORMANCE (FISCAL DISCIPLINE)

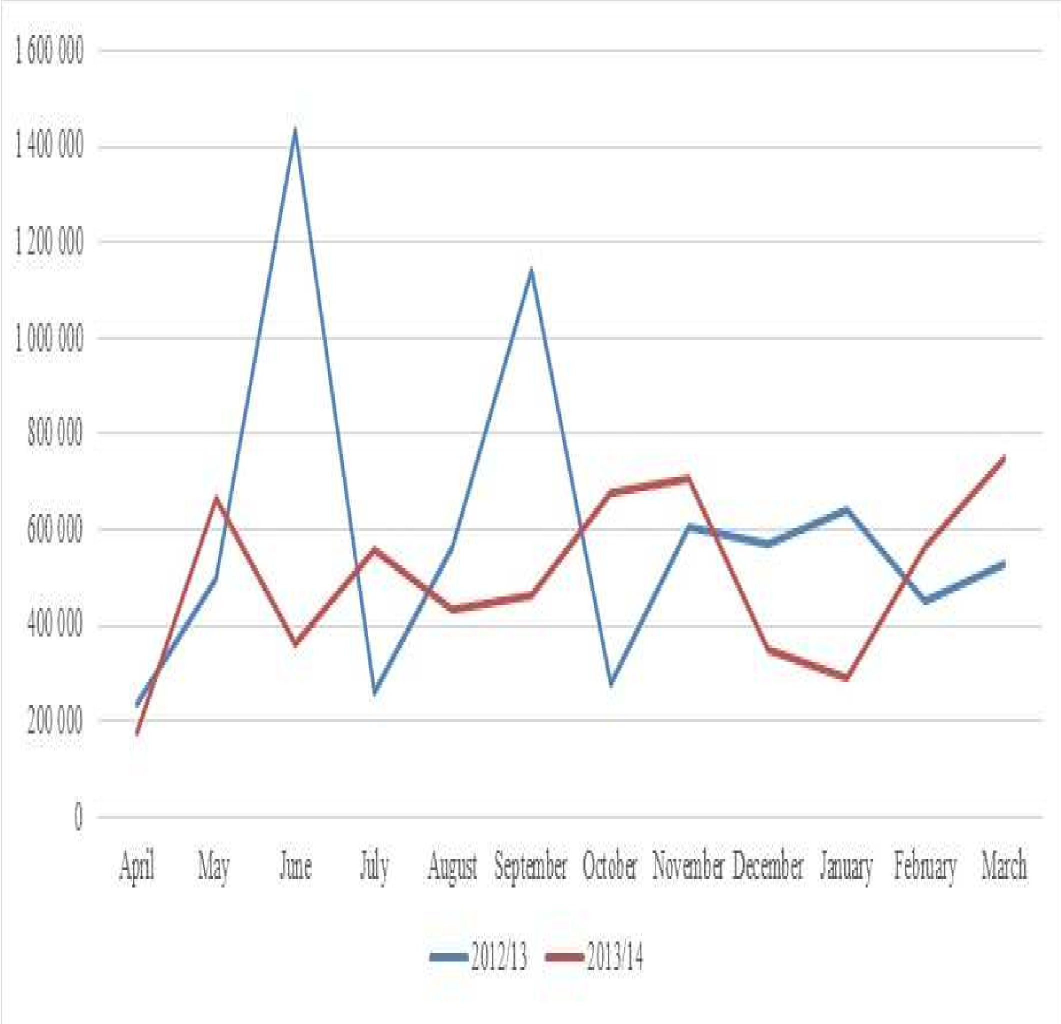


- DPW underspent in 2011/12 and 2012/13
- In 2011 underspending on EPWP and Auxilliary and Associated Services Programme
- In 2012, underspending is as a result of poor spending in Property and Construction Industry Policy Regulation Programme and again Auxilliary and Associated Services Programme
- Due to persistent underspending on capital, baseline reductions of R1.3 billion effected over 2014 MTEF period

FINANCIAL AND FISCAL COMMISSION

IN-YEAR EXPENDITURE

- 2012/13 in-year spending erratic
- Appears to be improving in 2013/14 – variances in monthly spending not as large as during 2012/13
- Concern with poor in-year spending is that it hints at unstable cash flow and disbursements



FINANCIAL AND FISCAL COMMISSION

Selected Sub-Programme Analysis: Immovable Asset Management Programme

Real Year on Year Growth	2011/12-2012/13	2012/13-2013/14	2013/14-2014/15	2014/15-2015/16	2015/16-2016/17
Infrastructure (Public Works)	-33.5%	-9.7%	-28.1%	57.5%	-0.1%
Strategic Asset Investment Analysis	-67.7%	149.1%	10.4%	0.2%	1.0%
Operation Management	1.6%	-0.3%	0.5%	-0.4%	2.7%
Prestige Management	-51.5%	44.0%	-27.0%	-1.0%	-28.5%
Special Projects	4.0%	47.6%	-24.7%	1.8%	0.4%
Construction Industry Development Board	-3.4%	2.0%	1.6%	0.4%	0.2%
Council for the Built Environment	-7.7%	28.8%	4.3%	1.4%	0.2%
Parliamentary Village Management Board	-0.6%	0.1%	1.1%	-0.4%	0.5%
Augmentation of the Property Management Trading Entity	-3.2%	0.5%	-6.0%	-0.1%	0.6%
Independent Development Trust	-68.1%	-6.3%	-4.7%	-4.8%	-100.0%
Total	**-14.0%**	**-37.8%**	**-8.6%**	**10.1%**	**-0.7%**

- Total programme growth declines over most of the period reviewed
  - Decline in 2012 and 2013 is due to phasing out of devolution of property rates fund grant to provinces, non-completion of projects and Cabinet approved reductions due to underspending
- Generally sub-programme trends are erratic, brings into question soundness of planning in DPW
- Lack of capacity a challenge in this programme – 10% vacancy rate

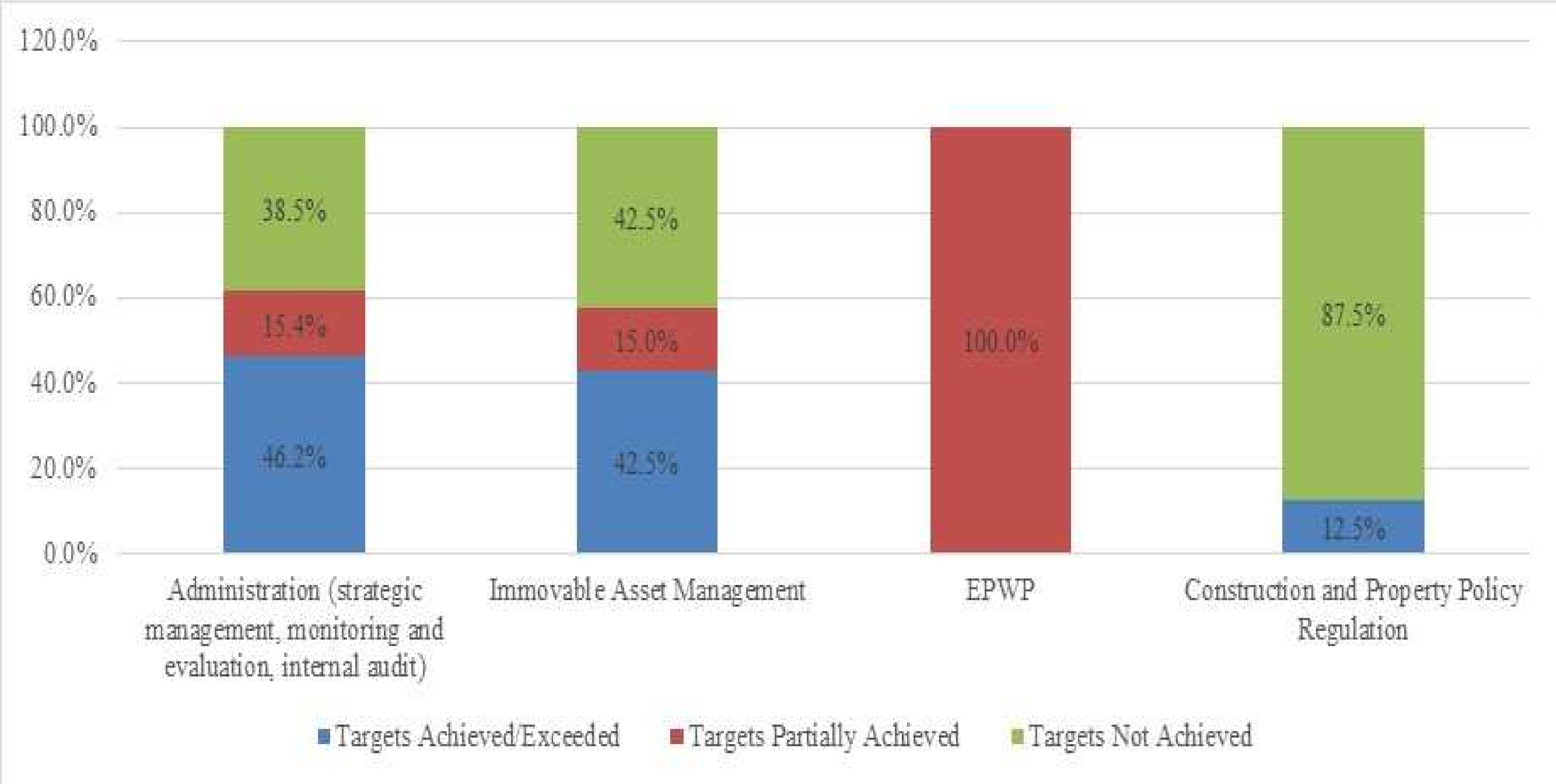
SELECTED SUB-PROGRAMME ANALYSIS: EXPANDED PUBLIC WORKS PROGRAMME

R million	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Expanded Public Works Programme	209.7	236.8	273.8	261.5	267.7	290.6
Performance Based Incentive Allocations	953.3	1 467.3	1 674.2	1 689.8	1 739.2	2 104.6
Total	**1 163.0**	**1 704.1**	**1 948.0**	**1 951.3**	**2 006.8**	**2 395.2**
Real Year on Year Growth		**2011/12-2012/13**	**2012/13-2013/14**	**2013/14-2014/15**	**2014/15-2015/16**	**2015/16-2016/17**
Expanded Public Works Programme		12.9%	15.6%	-4.5%	2.4%	8.6%
Performance Based Incentive Allocations		53.9%	14.1%	0.9%	2.9%	21.0%
Total		**46.5%**	**14.3%**	**0.2%**	**2.8%**	**19.4%**

- EPWP promotes use of government expenditure to create additional employment opportunities through the use of labour-intensive delivery methods
  - Increases in 2012/2013 due to appointment of service providers to support provinces and municipalities in design of infrastructure projects and reporting methods
- Performance Based Incentive Allocations is the largest sub-programme
  - Focus: disburses funds to provinces/municipalities and NGOs to ensure creation of work opportunities in infrastructure, environment, social sectors
  - Increases between 2012 and 2013 are due to additional funding allocated. However to give effect to Cabinet-approved reductions, growth in this sub programme slows in 2014 and 2015
- Overall between 2009/10 and 2012/13, just over 3 million jobs created (68% of target of 4.5 million jobs)

DEPARTMENTAL PERFORMANCE

- Department not adequately meeting targets set.
  - Number of targets partially met and totally unmet exceptionally high



Departmental Performance [cont.]

Programme	Explanation for Unmet Targets
Administration	Delays due to lack of capacity/high vacancy rate, unrealistic targets given financial resources, lengthy procurement processes that delay appointment of service providers
Immovable Asset Management	Appropriate supply chain management process not followed, unrealistic target setting, inadequate data collection to verify extent to which target was met
EPWP	Delays in project implementation, lack of technical capacity to implement projects, poor performance on part of municipalities/provinces to carry out projects
Construction and Property Policy Regulation	• Legislative framework for Built Environment Professionals: delays in internal consultation • Establish Agrement SA as public entity: delay in the approval of business case • Provide immovable asset lifecycle management guidelines to national and provincial custodians of immovable assets: delay in internal consultation prevented finalisation

ASPECTS HIGHLIGHTED BY THE AUDITOR-GENERAL

- DPW audit outcomes:
  - 2009/10: qualified with findings
  - 2010/11:disclaimer
  - 2011/12: disclaimer
  - 2012/13: qualified with findings
- Key issues highlighted by Auditor-General that need to be addressed:
  - Inadequate internal controls in areas of leadership, financial management, performance management and governance
  - Areas that were identified for specific attention through the turnaround project include: lack of controls in supply chain management, poor lease management, inadequate immovable asset register, lack of built environment and property management skills

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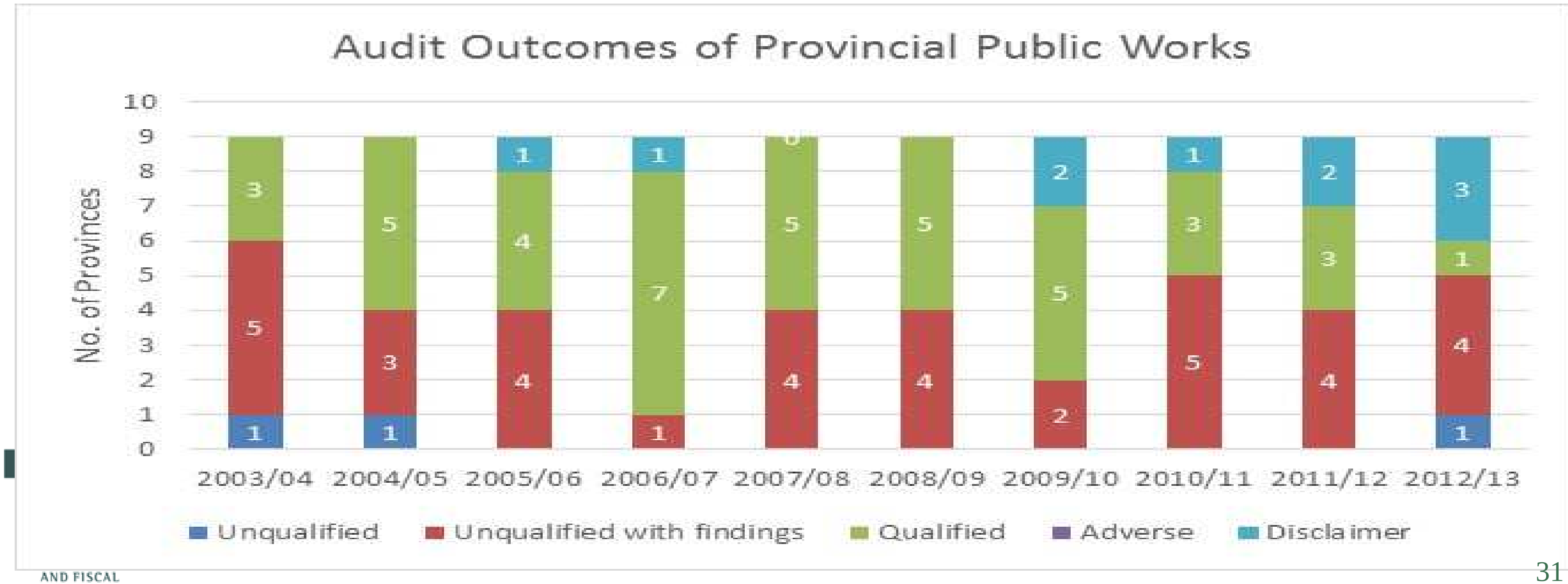

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FINANCIAL AND FISCAL COMMISSION

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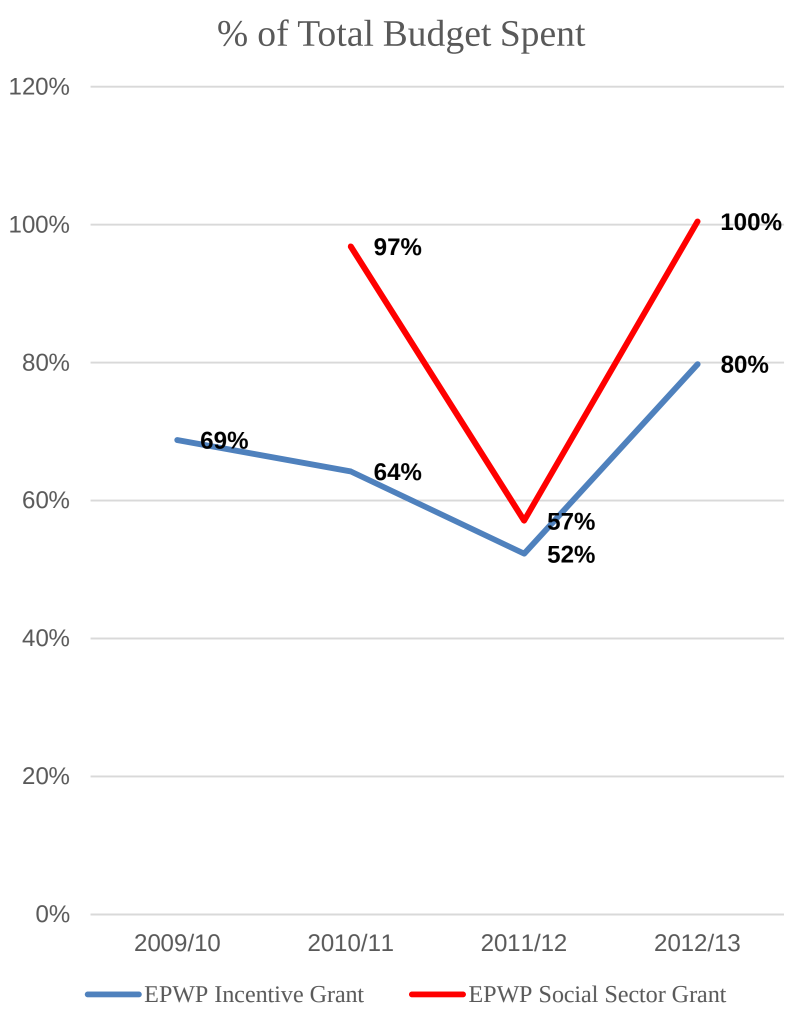

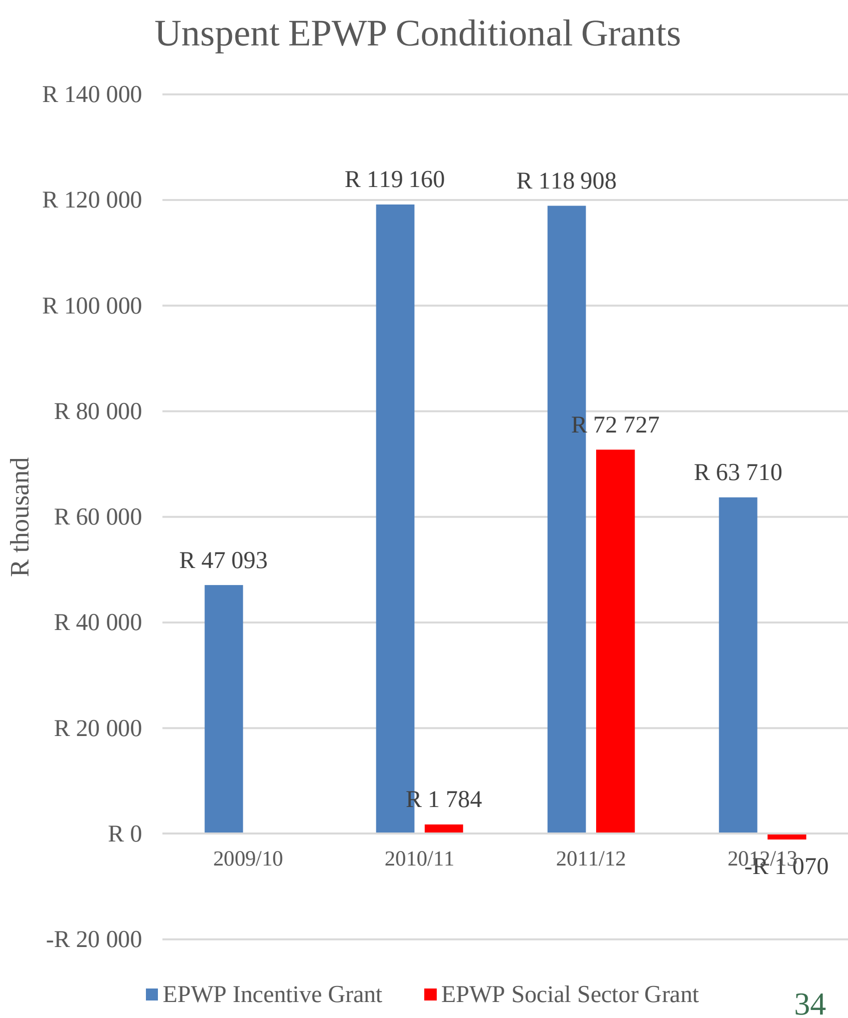

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FINANCIAL AND FISCAL COMMISSION

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  - Not meeting set targets
- For the sector to turnaround, the DPW should play a leadership role by providing the necessary support to the provinces and establishing minimum norms and standards to facilitate improvement in service delivery in the provinces
- Department to put in place proper systems to guide expenditure management, setting of appropriate key performance indicators and a plan to attract/retain skilled staff
  - Outcome of the Turnaround Project is key in facilitating progress – some improvements noted but far to go in putting DPW on stable footing

FINANCIAL AND FISCAL COMMISSION

FFC's Website: www.ffc.co.za

FINANCIAL AND FISCAL COMMISSION

PORTFOLIO COMMITTEE ON PUBLIC WORKS

Financial and Fiscal Commission

25 September 2014

For an Equitable Sharing of National Revenue

PRESENTATION OUTLINE

1. Role and Function of the Financial and Fiscal Commission
2. Recommendations of the Commission that relate to Public Works
3. Departmental Analysis

FINANCIAL AND FISCAL COMMISSION

1. Role and Function of the Financial and Fiscal Commission

ROLE AND FUNCTION OF THE FFC

- The Financial and Fiscal Commission (FFC)
  - Is an independent, permanent, statutory institution established in terms of Section 220 of Constitution
  - Must function in terms of the FFC Act
- Mandate of Commission
  - To make recommendations, envisaged in Chapter 13 of the Constitution or in national legislation to Parliament, Provincial Legislatures, and any other organ of state determined by national legislation
- The Commission's focus is primarily on the equitable division of nationally collected revenue among the three spheres of government and any other financial and fiscal matters
  - Legislative provisions or executive decisions that affect either provincial or local government from a financial and/or fiscal perspective
  - Includes regulations associated with legislation that may amend or extend such legislation
  - Commission must be consulted in terms of the FFC Act
  - Current research strategy focuses on developmental impacts of IGFR

FINANCIAL AND FISCAL COMMISSION

How FFC Supports Policy

- Identify weakness within the IGFR system
- Propose evidence-based policy proposals
- Interact and participate with/in forums and institutions responsible for IGFR policy – TCF, Budget Council, Budget Forum
- Information dissemination – invitations from nine provincial legislatures and SALGA
- Interact with various committees within parliament

FINANCIAL AND FISCAL COMMISSION

PROCESSING OF RECOMMENDATIONS

- Recommendations of the Commission
  - Recommendations are made to Parliament so that the legislature can examine the financial and fiscal decisions of government against them and understand why they have been accepted or rejected
  - Section 4(4)(c) of the Money Bills Amendment Procedures and Related Matters Act (MBAPMA) requires Parliament to consider the recommendations of the Commission when deliberating on Money Bills
- Government is obligated through an Act of Parliament to explain how it has taken the FFC recommendations in arriving at the division of revenue for any particular year
  - The response is tabled in Annexure W1 of the DoR Bill and of the Budget Review

FINANCIAL AND FISCAL COMMISSION

How FFC can Support Parliament

DIRECT TRAINING AND INTERVENTION

- Training of members of parliamentary committees and councillors on request (e.g. in Bushbuckridge)
- Advice to municipalities (e.g. Tshwane merger)
- Inputs in various fora (e.g. SALGA)

NON TRAINING SUPPORT AND INTERVENTION

- Member of review committees (LES, Infrastructure Grants, Metro's Own Revenue)
- Public hearings (local government fiscal framework, housing and welfare)
- Inputs in benchmarking exercises
- Recommendations through Annual Submission on DoR, MTBPS, FF and Appropriations

VALUE ADD OF THE FFC

- FFC can provide advice, analysis and training to assist the work of the Committee
  - Specialised IGFR training to committee members and/or parliamentary researchers
  - Provision of recommendations that are founded on evidence based research
  - Technical support with respect to parliamentary fiscal oversight activities

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2. RECOMMENDATIONS THAT RELATE TO PUBLIC WORKS

FFC WORK RELATED TO DPW [CONT.]

Response to Division of Revenue Bill (DoRB) 2010	The Commission welcomed introduction of the *EPWP Incentive Grant for the Social Sector*. The Commission noted that there was a need to standardise the employment framework for the sector including conditions, wages and progression across provinces and municipalities. The Commission also raised concern regarding difficulties that were being experienced with the transfer of the EPWP Incentive Grant to Local and Provincial Governments. In the 2009/10 certain provinces (e.g. Western Cape) raised concern that they received transfers outside the ambit of the DoR and couldn't spend the money because it was not properly appropriated through various legislatures. At that point the general challenge with the grant was that provinces and municipalities found it difficult to integrate it through their infrastructure programmes. This problem persists because labour intensive infrastructure projects need to be planned, costed and scheduled properly. Not all projects yield the same labour intensity, so targets must be set by project type and category. Some projects will better lend themselves to labour intensive methods than others. This must be factored into the budget allocations and monitoring of the grant. *Current Commission analysis is that provinces continue to have challenges relating to labour intensive infrastructure, which affects the spending of the Incentive grant. In 2012/13 DPW appointed service providers to support provinces and municipalities in design of infrastructure projects and reporting methods.*

FFC Work Related to DPW [cont.]

Response to MTBPS 2011	In terms of the EPWP Incentive grant framework, provinces and municipalities must spend their budgets on EPWP projects and after that the grant will be paid by DPW quarterly as an incentive (after employment has been created). There has been general under-spending against budget since inception of the grant. Projected under-spending in financial year 2011 was 28.4%. In 2010, the actual under-spend was 38.4%. Despite poor spending performance, the annual growth of the budget was high. Expenditure reports on the grant performance at local government were inaccessible. DPW should explain how transfers are reconciled with actual expenditure. The grant should be streamlined to the Division of Revenue Act (DORA) requirements in terms of allocation and disbursements of funds. Punitive and incentive elements of the grant should be made transparent to all the stakeholders. *Current FFC analysis indicates that underspending persists. Between 2009/10 and 2012/13, provinces have been unable to spend more than 80% of their allocation*
Response to DoRB 2012	The Commission reiterated concerns raised in its Response to DoRB 2010 and Response to 2011 MTBPS regarding the challenges with the EPWP Incentive grant. The Commission maintained its view that the grant had not succeeded in achieving the intended goals within the specified time. There had also not been a formal assessment of the achievement of this grant both in terms of expenditure and service delivery outputs including how many direct and full times jobs had been created against the allocated funds. The Commission recommended that an independent review of the grant be undertaken, so that lessons can be drawn from past experience to avoid a replication of past mistakes. Government has since set up a team consisting of National Treasury, DPW, DCoG and SALGA that has been working on this. *This review is ongoing*

FFC Work Related to DPW [cont.]

Submission for the 2009/10 DoR	FFC found a need for reporting on EPWP outcomes to be more specific. In accordance with the requirements of the EPWP, job creation for target groups such as women, youth and people with disabilities should be included in the reporting requirements for all infrastructure conditional grants to provinces and municipalities GOVT. RESPONSE: The recommendation for reporting on targets is supported. Some of these indicators can possibly be reported on as part of the conditional grant frameworks prescribed in terms of the Division of Revenue Act
Submission for the 2007/08 DoR	The World Cup funding was crafted on the basis of requirements to meet FIFA standards of hosting cities, and that the major challenge faced by government was sustainability of built infrastructure. On the funding for the FIFA World Cup, FFC, examined the sustainability of built infrastructure, taking the escalation of construction costs into account. FFC's findings included that the escalation of construction costs be budgeted for, and that collaboration with the private sector should be encouraged. Also that a 2010 World Cup "Legacy Management Policy" should be introduced and prudent fiscal policy should be maintained leading to the World Cup GOVT. RESPONSE: Government is of the view that the costs relating to maintenance of constructed 2010 FIFA World Cup facilities should be provided by municipalities

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3. Departmental Analysis

Contextualising the Department of Public works

- Aim of Department of Public Works (DPW):
  - provide for and manage accommodation, housing, land and infrastructure needs of national departments
  - Lead and direct implementation of the national expanded public works programme (EPWP)
  - Promote growth, job creation and transformation in the construction and property industries
- Public works is a concurrent function between national and provincial spheres of government
- DPW contribution to National Development Plan (NDP) achieved through:
  - Implementation of job creation initiatives
  - Transition to low cost carbon economy
  - Development of an inclusive and integrated rural economy
  - Fight against corruption

FINANCIAL AND FISCAL COMMISSION

KEY CHALLENGES CONFRONTING DPW

- Due to consistent trend of poor audit outcomes and generally poor performance, DPW implemented a turnaround project in November 2012
- Areas that were identified for specific attention through the turnaround project include:
  - Lack of controls in supply chain management (SCM)
    - Identified as major risk area by Auditor-General – DPW capacity to process tenders eroded and has led to numerous instances of fraud/corruption. SCM has been major focus of the Special Investigating Unit (SIU). SCM is the key focus of turnaround project in DPW. A service provider appointed to assist with fundamental review of SCM
      - Irregular expenditure, R171 million in 2011/12; R874 million in 2012/13
  - Poor lease management
    - Numerous irregularities with respect to lease agreements – gives rise to legal risks. DPW reviewing all lease agreements

KEY CHALLENGES CONFRONTING DPW [CONT.]

- Inadequate immovable asset register
  - Lack of compliant immovable asset register resulted in negative audit opinions. DPW now in process of rebuilding immovable asset register and building a model to revalue immovable assets
- Lack of built environment and property management skills
  - Lack of technical capacity to undertake direct construction/maintenance functions. Cooperating with DPSA and Higher Education and Training to address challenge

FINANCIAL AND FISCAL COMMISSION

Starting Point for Budget Analysis

- By vote
  - Compare different votes with each other
- By vote programme
  - Compare different programmes within a vote
- By sub-programme
- Compare different sub-programmes within a programme
- By province
- Compare different provinces with each other
- Use Outputs, Targets and Indicators to measure performance
- Use policy documents as a benchmark

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USEFUL TOOLS

- Percentage Share of Total Budget
- Growth in the Budget
  - Percentage Change
    - Reflecting increases/decreases in percentage form
  - Annual Growth Rate
    - How does the allocation change year on year
  - Real Percentage Change
    - Takes inflation into consideration
  - Variances and explanations
    - Investigating the reasons/drivers of change
  - Spending by economic classification
    - Distinguishes between various categories of current (goods and services, transfers and subsidies) and capital expenditure (acquisition of fixed capital assets, purchase of land)

FINANCIAL AND FISCAL COMMISSION

BUDGET AND PROGRAMMES OF PUBLIC WORKS

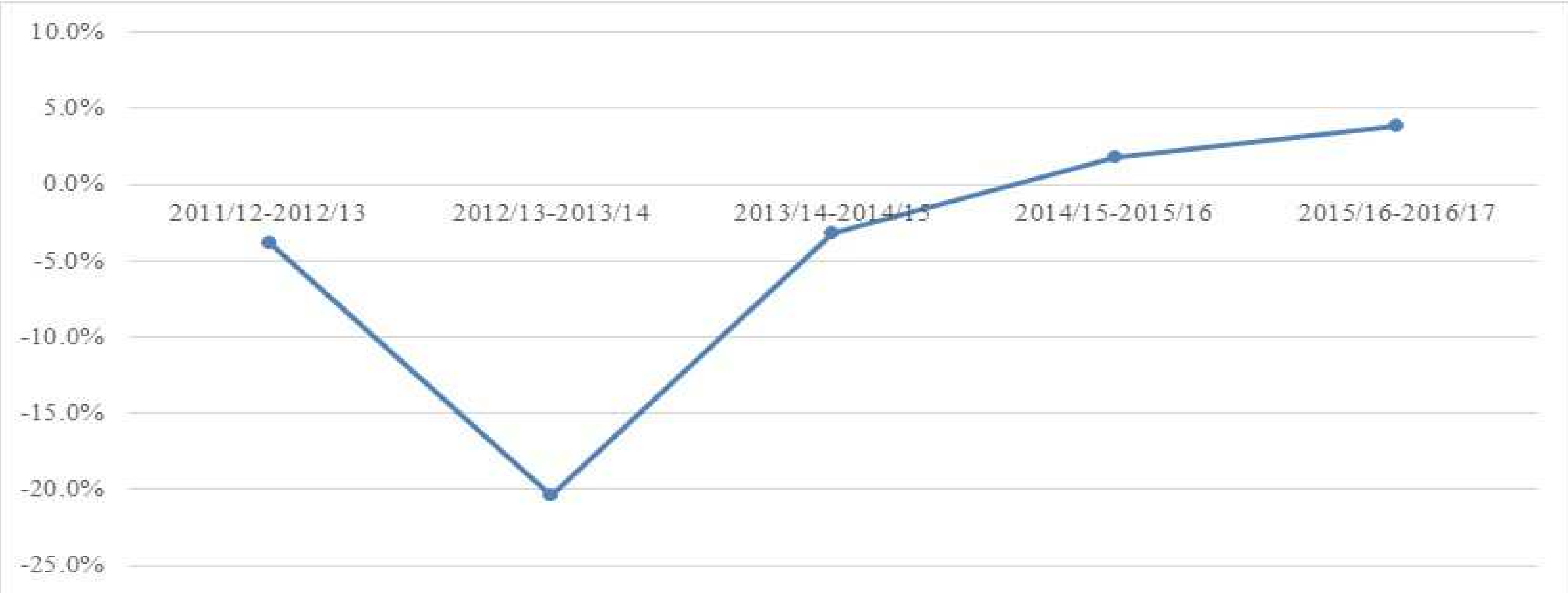
Nominal (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Real Annual Average Growth 2011/12-2013/14	Real Annual Average Growth 2014/15-2016/17
Administration	837.1	856.2	1 158.2	1 175.3	1 133.3	1 191.5	11.5%	-4.1%
Immovable Asset Management	5 001.7	4 563.5	2 831.8	2 861.4	3 308.1	3 450.0	-28.7%	4.6%
Expanded Public Works Programme	1 163.0	1 704.1	1 948.0	1 951.3	2 006.8	2 395.2	22.7%	5.5%
Property and Construction Industry Policy Regulation	34.4	26.9	36.7	41.5	43.4	45.9	-2.1%	0.1%
Auxiliary and Associated Services	25.2	53.3	50.7	91.8	53.7	56.6	34.4%	-25.2%
Total	**7 061.4**	**7 203.9**	**6 025.3**	**6 121.3**	**6 545.3**	**7 139.2**	**-12.5%**	**2.8%**

- Five programmes on Department of Public Works (DPW) budget
- Allocation reduced significantly in 2013/14, due to phasing out of Devolution of Property Rates Fund Grant to provinces and non-completion of various projects. As result of underspending, Cabinet approved reductions were effected
  - Following poor spending performance and audit outcomes, DPW implementing a Turnaround Project
- DPW budget projected to recover to just over R7.1 billion by end of 2014 medium term expenditure framework (MTEF) period
  - 2014 MTEF growth driven by additional allocation of R159 million in 2016/17 for Expanded Public Works Programme (EPWP)

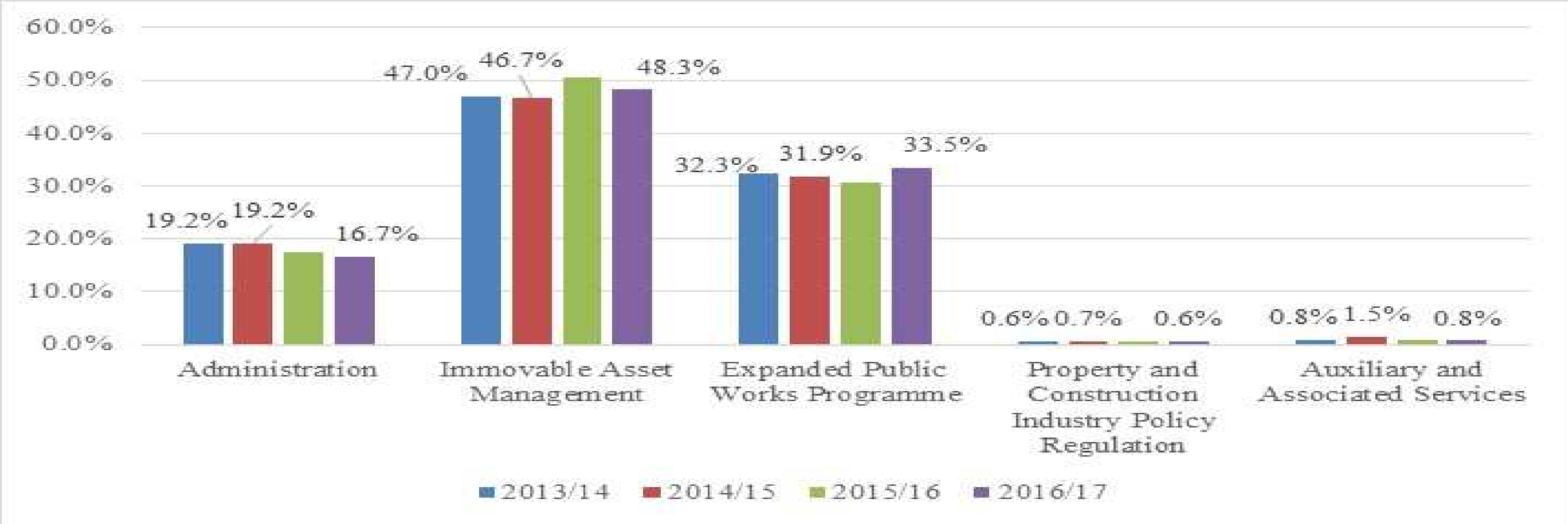
FINANCIAL AND FISCAL COMMISSION

REAL YEAR ON YEAR GROWTH OF PUBLIC WORKS BUDGET

- Significant decline in year on year growth in 2013/14
  - Though still declining in real terms in 2014/15, there is some improvement
- Over rest of 2014 MTEF period, positive growth projected
  - Focus will be on rehabilitating 34 state owned buildings, and ensuring that at least 100 buildings are made accessible to people with disabilities in each year of MTEF



BUDGET COMPOSITION ACROSS PROGRAMMES



- Immovable Asset Management Programme consumes largest share of DPW budget – by end of 2014 MTEF period this programme is projected to consume just under half of DPW budget
- Share allocated to Administration Programme consumers about one fifth of departmental budget – funding for Turnaround Project fall under Administration
  - Turnaround Project will support activities relating to the Special Investigating Unit, a technical support unit, a clean audit project, irregular expenditure management, internal audit support

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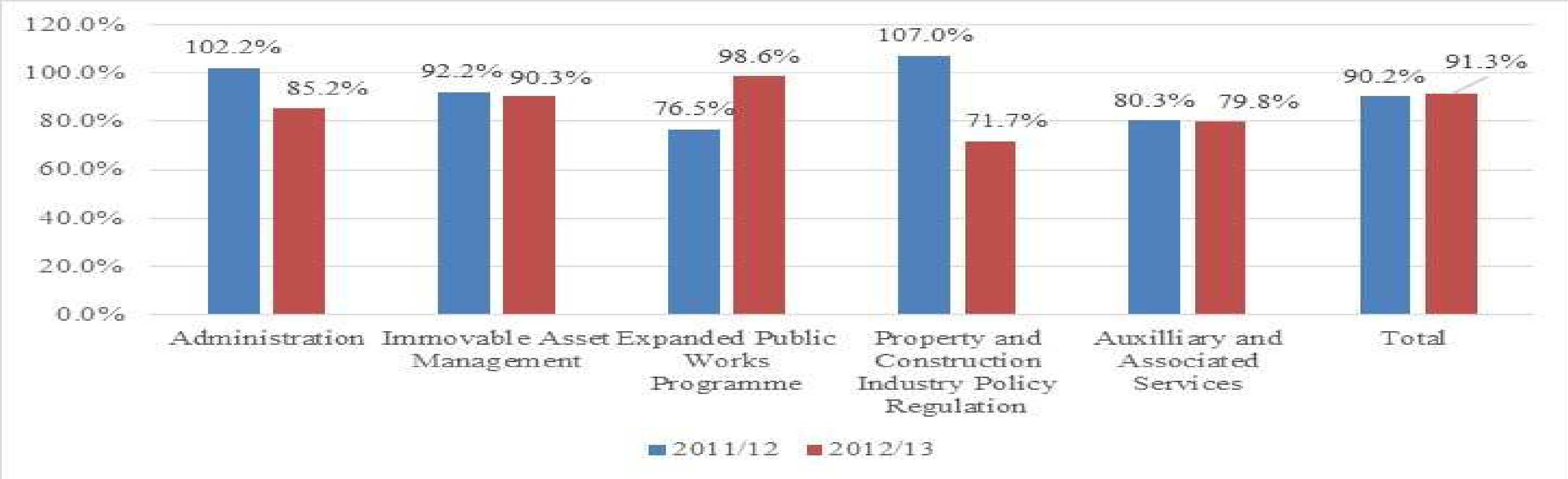
ECONOMIC CLASSIFICATION

Item (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Compensation of Employees	1 269.6	1 374.6	1 473.5	1 659.9	1 753.5	1 870.5
Goods and Services	1 032.9	977.0	1 379.6	1 302.1	1 202.9	1 269.0
Transfers and Subsidies	3 656.2	4 092.4	2 543.9	2 563.4	2 654.2	3 017.9
Payments for Capital Assets	1 099.1	756.8	628.4	595.9	934.8	981.7
Real Year on Year Growth (%)						
Compensation of Employees		2.1%	2.1%	7.3%	0.6%	1.6%
Goods and Services		-10.8%	34.5%	-10.1%	-12.0%	0.5%
Transfers and Subsidies		5.6%	-40.8%	-4.0%	-1.4%	8.3%
Payments for Capital Assets		-35.1%	-20.9%	-9.7%	49.4%	-0.003%

- Transfers and subsidies is the largest item
  - the decrease in 2013/14 due to phasing out of the Devolution of Property Rates Fund Grant to Provinces, hence reduction in transfers to provinces
- The increase in spending on Goods and Services in 2013/14 driven by spending on consultants – due to shortage of technical skills in property/project management and specialists as required for the DPW's turnaround project
- Payments for capital assets very erratic
- Relative to strong annual average growth between 2011/12 and 2013/14, growth in Goods and Service set to decline over the 2014 MTEF period

FINANCIAL AND FISCAL COMMISSION

SPENDING PERFORMANCE (FISCAL DISCIPLINE)

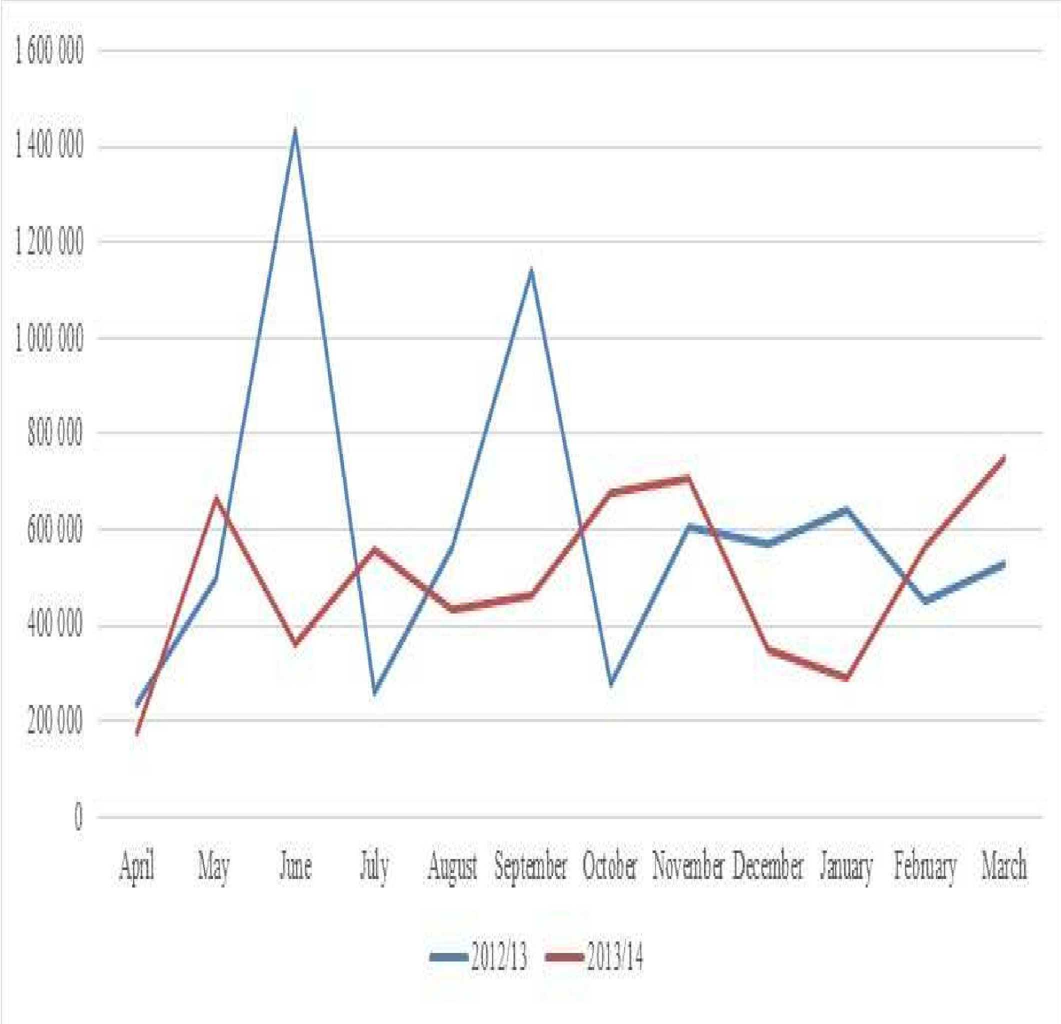


- DPW underspent in 2011/12 and 2012/13
- In 2011 underspending on EPWP and Auxilliary and Associated Services Programme
- In 2012, underspending is as a result of poor spending in Property and Construction Industry Policy Regulation Programme and again Auxilliary and Associated Services Programme
- Due to persistent underspending on capital, baseline reductions of R1.3 billion effected over 2014 MTEF period

FINANCIAL AND FISCAL COMMISSION

IN-YEAR EXPENDITURE

- 2012/13 in-year spending erratic
- Appears to be improving in 2013/14 – variances in monthly spending not as large as during 2012/13
- Concern with poor in-year spending is that it hints at unstable cash flow and disbursements



Selected Sub-Programme Analysis: Immovable Asset Management Programme

Real Year on Year Growth	2011/12-2012/13	2012/13-2013/14	2013/14-2014/15	2014/15-2015/16	2015/16-2016/17
Infrastructure (Public Works)	-33.5%	-9.7%	-28.1%	57.5%	-0.1%
Strategic Asset Investment Analysis	-67.7%	149.1%	10.4%	0.2%	1.0%
Operation Management	1.6%	-0.3%	0.5%	-0.4%	2.7%
Prestige Management	-51.5%	44.0%	-27.0%	-1.0%	-28.5%
Special Projects	4.0%	47.6%	-24.7%	1.8%	0.4%
Construction Industry Development Board	-3.4%	2.0%	1.6%	0.4%	0.2%
Council for the Built Environment	-7.7%	28.8%	4.3%	1.4%	0.2%
Parliamentary Village Management Board	-0.6%	0.1%	1.1%	-0.4%	0.5%
Augmentation of the Property Management Trading Entity	-3.2%	0.5%	-6.0%	-0.1%	0.6%
Independent Development Trust	-68.1%	-6.3%	-4.7%	-4.8%	-100.0%
Total	**-14.0%**	**-37.8%**	**-8.6%**	**10.1%**	**-0.7%**

- Total programme growth declines over most of the period reviewed
  - Decline in 2012 and 2013 is due to phasing out of devolution of property rates fund grant to provinces, non-completion of projects and Cabinet approved reductions due to underspending
- Generally sub-programme trends are erratic, brings into question soundness of planning in DPW
- Lack of capacity a challenge in this programme – 10% vacancy rate

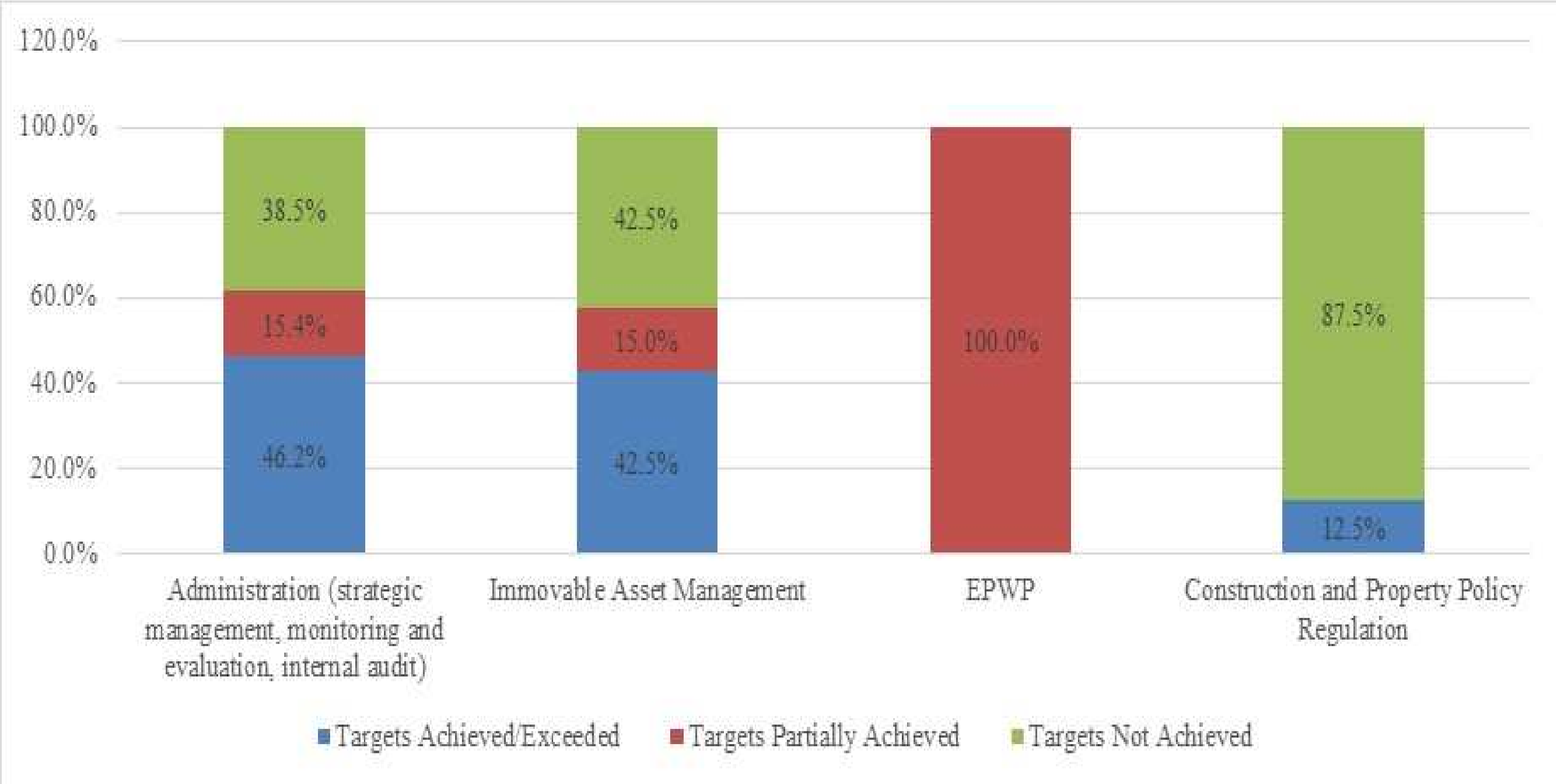
Selected Sub-Programme Analysis: Expanded Public Works Programme

R million	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**
Expanded Public Works Programme	209.7	236.8	273.8	261.5	267.7	290.6
Performance Based Incentive Allocations	953.3	1 467.3	1 674.2	1 689.8	1 739.2	2 104.6
Total	**1 163.0**	**1 704.1**	**1 948.0**	**1 951.3**	**2 006.8**	**2 395.2**
Real Year on Year Growth		**2011/12-2012/13**	**2012/13-2013/14**	**2013/14-2014/15**	**2014/15-2015/16**	**2015/16-2016/17**
Expanded Public Works Programme		12.9%	15.6%	-4.5%	2.4%	8.6%
Performance Based Incentive Allocations		53.9%	14.1%	0.9%	2.9%	21.0%
Total		**46.5%**	**14.3%**	**0.2%**	**2.8%**	**19.4%**

- EPWP promotes use of government expenditure to create additional employment opportunities through the use of labour-intensive delivery methods
  - Increases in 2012/2013 due to appointment of service providers to support provinces and municipalities in design of infrastructure projects and reporting methods
- Performance Based Incentive Allocations is the largest sub-programme
  - Focus: disburses funds to provinces/municipalities and NGOs to ensure creation of work opportunities in infrastructure, environment, social sectors
  - Increases between 2012 and 2013 are due to additional funding allocated. However to give effect to Cabinet-approved reductions, growth in this sub programme slows in 2014 and 2015
- Overall between 2009/10 and 2012/13, just over 3 million jobs created (68% of target of 4.5 million jobs)

DEPARTMENTAL PERFORMANCE

- Department not adequately meeting targets set.
  - Number of targets partially met and totally unmet exceptionally high



DEPARTMENTAL PERFORMANCE [CONT.]

Programme	Explanation for Unmet Targets
Administration	Delays due to lack of capacity/high vacancy rate, unrealistic targets given financial resources, lengthy procurement processes that delay appointment of service providers
Immovable Asset Management	Appropriate supply chain management process not followed, unrealistic target setting, inadequate data collection to verify extent to which target was met
EPWP	Delays in project implementation, lack of technical capacity to implement projects, poor performance on part of municipalities/provinces to carry out projects
Construction and Property Policy Regulation	• Legislative framework for Built Environment Professionals: delays in internal consultation • Establish Agrement SA as public entity: delay in the approval of business case • Provide immovable asset lifecycle management guidelines to national and provincial custodians of immovable assets: delay in internal consultation prevented finalisation

Aspects Highlighted by the Auditor-General

- DPW audit outcomes:
  - 2009/10: qualified with findings
  - 2010/11:disclaimer
  - 2011/12: disclaimer
  - 2012/13: qualified with findings
- Key issues highlighted by Auditor-General that need to be addressed:
  - Inadequate internal controls in areas of leadership, financial management, performance management and governance
  - Areas that were identified for specific attention through the turnaround project include: lack of controls in supply chain management, poor lease management, inadequate immovable asset register, lack of built environment and property management skills

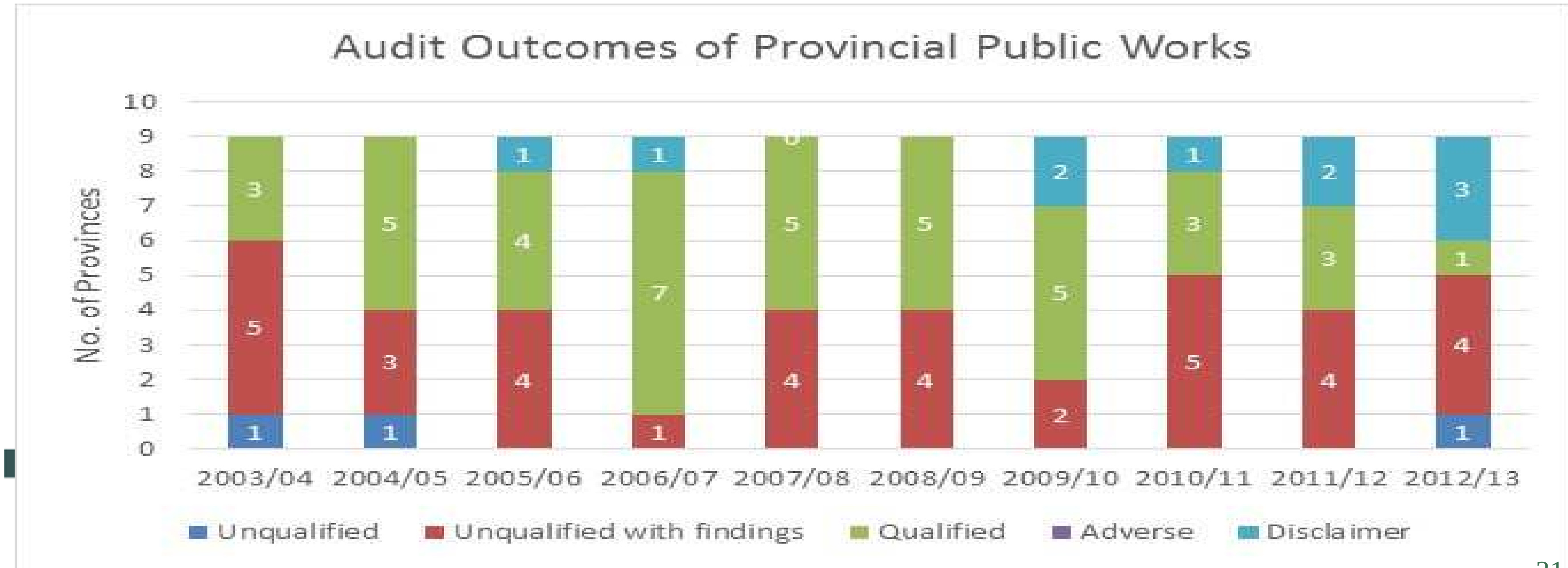
FINANCIAL AND FISCAL COMMISSION

FINANCIAL AND FISCAL COMMISSION

PUBLIC WORKS IN THE PROVINCES

PROVINCIAL AUDIT OUTCOMES

- Audit outcomes for provincial departments of public works have not considerably improved in since 2003/04
  - Four out of the nine provinces received a qualified opinion or disclaimer in 2012/13
  - Over a period of 10 years (i.e. 2003/4 – 2012/13), only 3 provincial departments of public works received an unqualified audit opinion



PROVINCIAL AUDIT OUTCOMES [CONT.]

- The Auditor-General raised a number of matters that prevented provincial departments from achieving clean audits such as:
  - Instability in leadership and lack of human resources
  - Internal controls are ineffective
  - Action plans to implement improvement in audit outcomes are not timeously implemented
  - Inaccurate and incomplete fixed asset registers
  - Incomplete disclosures on unauthorized, irregular and fruitless, irregular and wasteful expenditure
  - Commitments by the national sector department to intervene and/or provide support were not honoured
- The Commission's view is that DPW should play a more active role, through the various intergovernmental forums, in providing the necessary support to provincial departments of public works

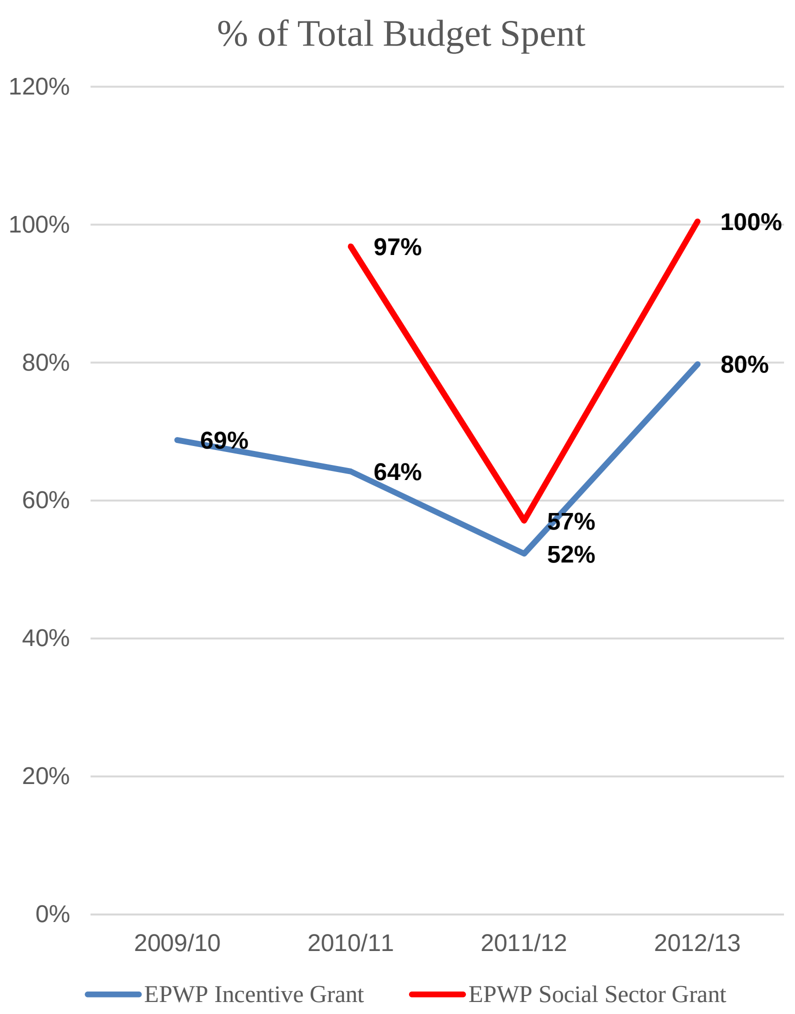
FINANCIAL AND FISCAL COMMISSION

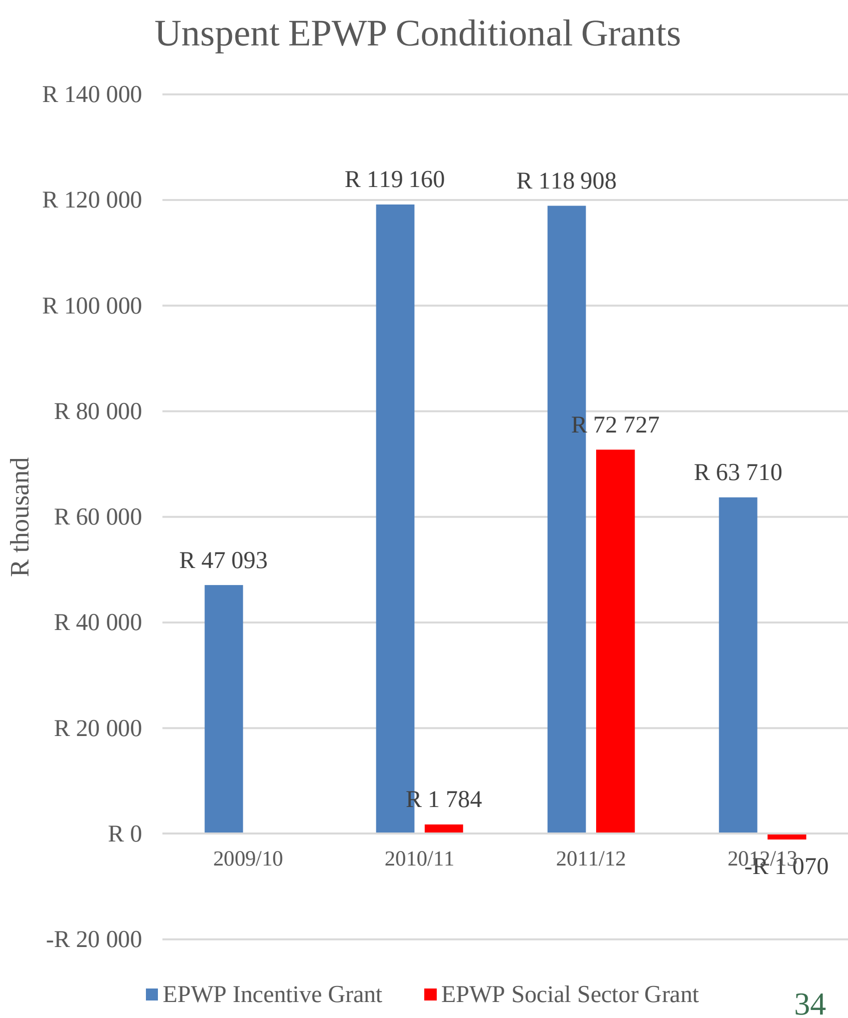
SPENDING PERFORMANCE BY PROVINCES ON EPWP CONDITIONAL GRANTS

- The National Department of Public Works is the transferring agent for two EPWP conditional grants to provinces
- As the transferring agent, the responsibilities of the DPW are prescribed in the conditional grant framework contained in the Division of Revenue Act. These include (among others):
  – Determine eligibility of grant, monitor and provide support to provinces, audit provincial performance and report to national treasury on provincial progress

FINANCIAL AND FISCAL COMMISSION

EPWP CONDITIONAL GRANTS TO PROVINCES





Summary of Performance on EPWP Grants to Provinces

- Over a four year period (2009/10 – 2012/13), provinces have been unable to spend more than 80% of its allocation to the EPWP Incentive Grant in any given year
- Except in 2011/12 where spending on both EPWP grants were below 60% of total, the EPWP Social Sector grant in general, performed better than the Incentive grant
  – Provinces have challenges relating to infrastructure, which affects the spending performance on the Incentive grant
- In many instances, provinces fail to comply with grant conditions stipulated in DORA, resulting in funds being withheld, thereby leaving funds unspent at the end of the year

FINANCIAL AND FISCAL COMMISSION

Concluding Remarks

- Key issues emanating from analysis of DPW
  - Underspending of budget
  - Not meeting set targets
- For the sector to turnaround, the DPW should play a leadership role by providing the necessary support to the provinces and establishing minimum norms and standards to facilitate improvement in service delivery in the provinces
- Department to put in place proper systems to guide expenditure management, setting of appropriate key performance indicators and a plan to attract/retain skilled staff
  - Outcome of the Turnaround Project is key in facilitating progress – some improvements noted but far to go in putting DPW on stable footing

FINANCIAL AND FISCAL COMMISSION

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FINANCIAL AND FISCAL COMMISSION

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2. Recommendations that Relate to Public Works

FFC Work Related to DPW [cont.]

Response to Division of Revenue Bill (DoRB) 2010	The Commission welcomed introduction of the *EPWP Incentive Grant for the Social Sector*. The Commission noted that there was a need to standardise the employment framework for the sector including conditions, wages and progression across provinces and municipalities. The Commission also raised concern regarding difficulties that were being experienced with the transfer of the EPWP Incentive Grant to Local and Provincial Governments. In the 2009/10 certain provinces (e.g. Western Cape) raised concern that they received transfers outside the ambit of the DoR and couldn’t spend the money because it was not properly appropriated through various legislatures. At that point the general challenge with the grant was that provinces and municipalities found it difficult to integrate it through their infrastructure programmes. This problem persists because labour intensive infrastructure projects need to be planned, costed and scheduled properly. Not all projects yield the same labour intensity, so targets must be set by project type and category. Some projects will better lend themselves to labour intensive methods than others. This must be factored into the budget allocations and monitoring of the grant. *Current Commission analysis is that provinces continue to have challenges relating to labour intensive infrastructure, which affects the spending of the Incentive grant. In 2012/13 DPW appointed service providers to support provinces and municipalities in design of infrastructure projects and reporting methods.*

FFC Work Related to DPW [cont.]

Response to MTBPS 2011	In terms of the EPWP Incentive grant framework, provinces and municipalities must spend their budgets on EPWP projects and after that the grant will be paid by DPW quarterly as an incentive (after employment has been created). There has been general under-spending against budget since inception of the grant. Projected under-spending in financial year 2011 was 28.4%. In 2010, the actual under-spend was 38.4%. Despite poor spending performance, the annual growth of the budget was high. Expenditure reports on the grant performance at local government were inaccessible. DPW should explain how transfers are reconciled with actual expenditure. The grant should be streamlined to the Division of Revenue Act (DORA) requirements in terms of allocation and disbursements of funds. Punitive and incentive elements of the grant should be made transparent to all the stakeholders. *Current FFC analysis indicates that underspending persists. Between 2009/10 and 2012/13, provinces have been unable to spend more than 80% of their allocation*
Response to DoRB 2012	The Commission reiterated concerns raised in its Response to DoRB 2010 and Response to 2011 MTBPS regarding the challenges with the EPWP Incentive grant. The Commission maintained its view that the grant had not succeeded in achieving the intended goals within the specified time. There had also not been a formal assessment of the achievement of this grant both in terms of expenditure and service delivery outputs including how many direct and full times jobs had been created against the allocated funds. The Commission recommended that an independent review of the grant be undertaken, so that lessons can be drawn from past experience to avoid a replication of past mistakes. Government has since set up a team consisting of National Treasury, DPW, DCoG and SALGA that has been working on this. *This review is ongoing*

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FINANCIAL AND FISCAL COMMISSION

3. Departmental Analysis

CONTEXTUALISING THE DEPARTMENT OF PUBLIC WORKS

- Aim of Department of Public Works (DPW):
  - provide for and manage accommodation, housing, land and infrastructure needs of national departments
  - Lead and direct implementation of the national expanded public works programme (EPWP)
  - Promote growth, job creation and transformation in the construction and property industries
- Public works is a concurrent function between national and provincial spheres of government
- DPW contribution to National Development Plan (NDP) achieved through:
  - Implementation of job creation initiatives
  - Transition to low cost carbon economy
  - Development of an inclusive and integrated rural economy
  - Fight against corruption

FINANCIAL AND FISCAL COMMISSION

KEY CHALLENGES CONFRONTING DPW

- Due to consistent trend of poor audit outcomes and generally poor performance, DPW implemented a turnaround project in November 2012
- Areas that were identified for specific attention through the turnaround project include:
  - Lack of controls in supply chain management (SCM)
    - Identified as major risk area by Auditor-General – DPW capacity to process tenders eroded and has led to numerous instances of fraud/corruption. SCM has been major focus of the Special Investigating Unit (SIU). SCM is the key focus of turnaround project in DPW. A service provider appointed to assist with fundamental review of SCM
      - Irregular expenditure, R171 million in 2011/12; R874 million in 2012/13
  - Poor lease management
    - Numerous irregularities with respect to lease agreements – gives rise to legal risks. DPW reviewing all lease agreements

FINANCIAL AND FISCAL COMMISSION

KEY CHALLENGES CONFRONTING DPW [CONT.]

– Inadequate immovable asset register
  - Lack of compliant immovable asset register resulted in negative audit opinions. DPW now in process of rebuilding immovable asset register and building a model to revalue immovable assets
– Lack of built environment and property management skills
  - Lack of technical capacity to undertake direct construction/maintenance functions. Cooperating with DPSA and Higher Education and Training to address challenge

FINANCIAL AND FISCAL COMMISSION

Starting Point for Budget Analysis

- By vote
  - Compare different votes with each other
- By vote programme
  - Compare different programmes within a vote
- By sub-programme
- Compare different sub-programmes within a programme
- By province
- Compare different provinces with each other
- Use Outputs, Targets and Indicators to measure performance
- Use policy documents as a benchmark

FINANCIAL AND FISCAL COMMISSION

USEFUL TOOLS

- Percentage Share of Total Budget
- Growth in the Budget
  - Percentage Change
    - Reflecting increases/decreases in percentage form
  - Annual Growth Rate
    - How does the allocation change year on year
  - Real Percentage Change
    - Takes inflation into consideration
  - Variances and explanations
    - Investigating the reasons/drivers of change
  - Spending by economic classification
    - Distinguishes between various categories of current (goods and services, transfers and subsidies) and capital expenditure (acquisition of fixed capital assets, purchase of land)

FINANCIAL AND FISCAL COMMISSION

BUDGET AND PROGRAMMES OF PUBLIC WORKS

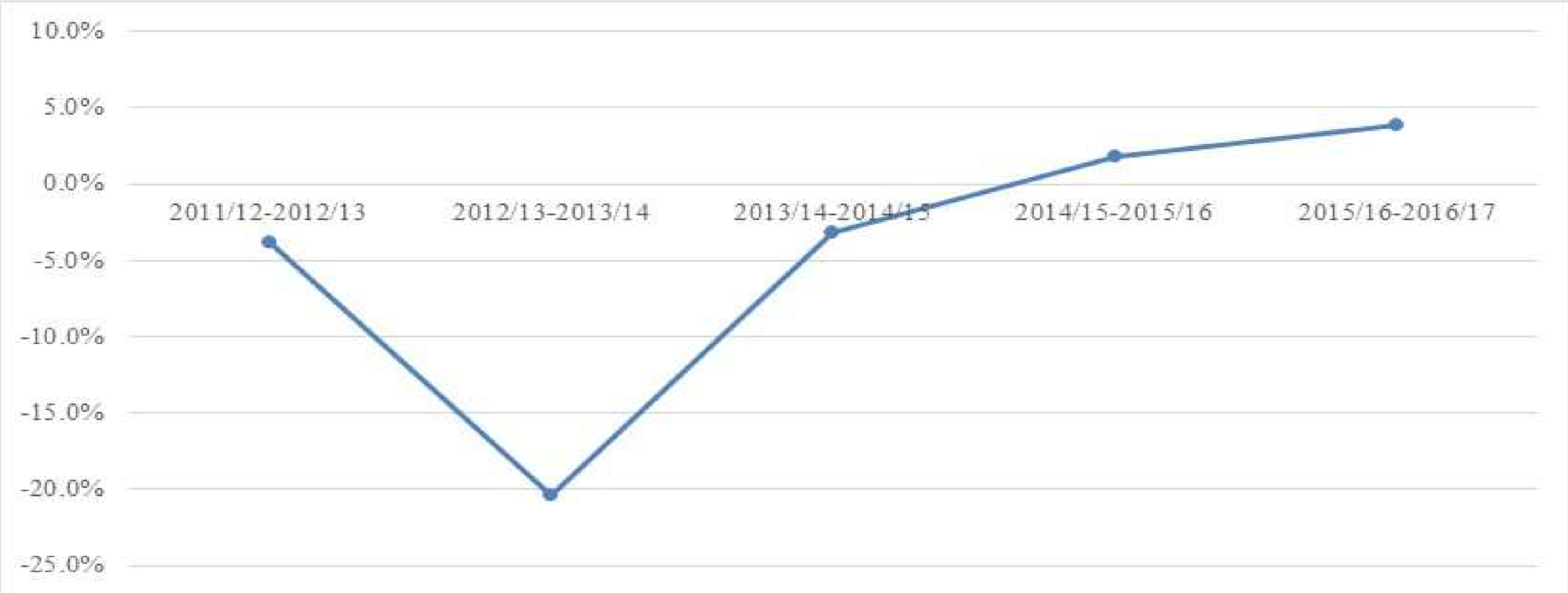
Nominal (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Real Annual Average Growth 2011/12-2013/14	Real Annual Average Growth 2014/15-2016/17
Administration	837.1	856.2	1 158.2	1 175.3	1 133.3	1 191.5	11.5%	-4.1%
Immovable Asset Management	5 001.7	4 563.5	2 831.8	2 861.4	3 308.1	3 450.0	-28.7%	4.6%
Expanded Public Works Programme	1 163.0	1 704.1	1 948.0	1 951.3	2 006.8	2 395.2	22.7%	5.5%
Property and Construction Industry Policy Regulation	34.4	26.9	36.7	41.5	43.4	45.9	-2.1%	0.1%
Auxiliary and Associated Services	25.2	53.3	50.7	91.8	53.7	56.6	34.4%	-25.2%
Total	**7 061.4**	**7 203.9**	**6 025.3**	**6 121.3**	**6 545.3**	**7 139.2**	**-12.5%**	**2.8%**

- Five programmes on Department of Public Works (DPW) budget
- Allocation reduced significantly in 2013/14, due to phasing out of Devolution of Property Rates Fund Grant to provinces and non-completion of various projects. As result of underspending, Cabinet approved reductions were effected
  - Following poor spending performance and audit outcomes, DPW implementing a Turnaround Project
- DPW budget projected to recover to just over R7.1 billion by end of 2014 medium term expenditure framework (MTEF) period
  - 2014 MTEF growth driven by additional allocation of R159 million in 2016/17 for Expanded Public Works Programme (EPWP)

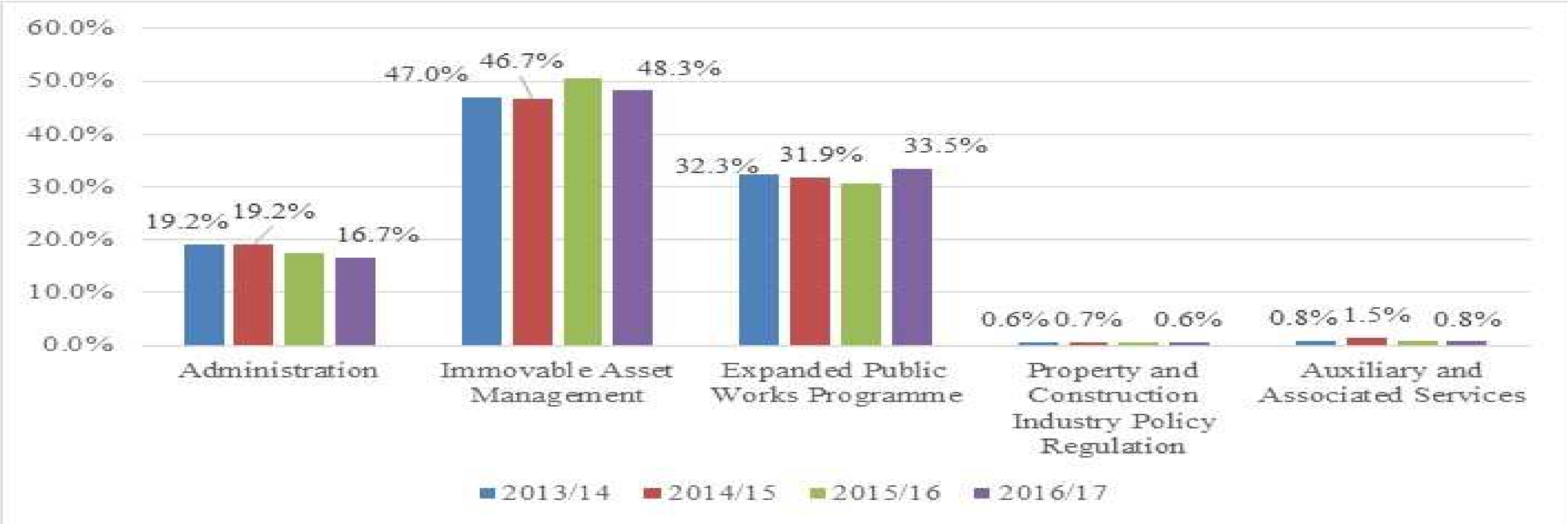
FINANCIAL AND FISCAL COMMISSION

Real Year on Year Growth of Public Works Budget

- Significant decline in year on year growth in 2013/14
  - Though still declining in real terms in 2014/15, there is some improvement
- Over rest of 2014 MTEF period, positive growth projected
  - Focus will be on rehabilitating 34 state owned buildings, and ensuring that at least 100 buildings are made accessible to people with disabilities in each year of MTEF



Budget Composition across Programmes



- Immovable Asset Management Programme consumes largest share of DPW budget – by end of 2014 MTEF period this programme is projected to consume just under half of DPW budget
- Share allocated to Administration Programme consumers about one fifth of departmental budget – funding for Turnaround Project fall under Administration
  - Turnaround Project will support activities relating to the Special Investigating Unit, a technical support unit, a clean audit project, irregular expenditure management, internal audit support

FINANCIAL AND FISCAL COMMISSION

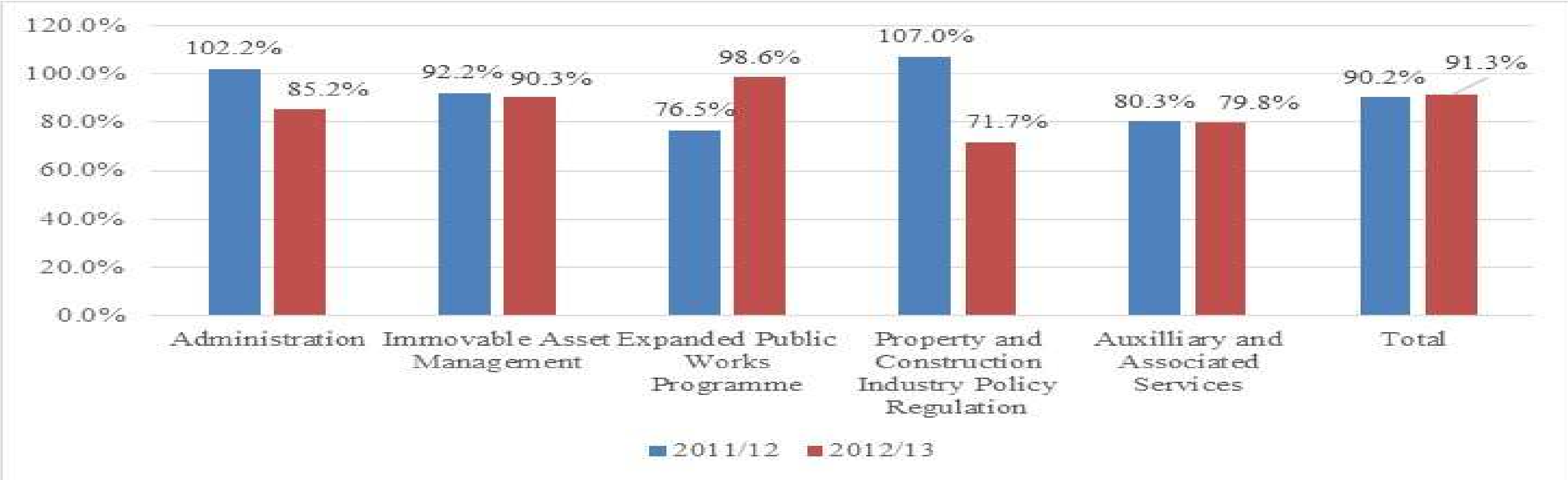
ECONOMIC CLASSIFICATION

Item (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Compensation of Employees	1 269.6	1 374.6	1 473.5	1 659.9	1 753.5	1 870.5
Goods and Services	1 032.9	977.0	1 379.6	1 302.1	1 202.9	1 269.0
Transfers and Subsidies	3 656.2	4 092.4	2 543.9	2 563.4	2 654.2	3 017.9
Payments for Capital Assets	1 099.1	756.8	628.4	595.9	934.8	981.7
Real Year on Year Growth (%)						
Compensation of Employees		2.1%	2.1%	7.3%	0.6%	1.6%
Goods and Services		-10.8%	34.5%	-10.1%	-12.0%	0.5%
Transfers and Subsidies		5.6%	-40.8%	-4.0%	-1.4%	8.3%
Payments for Capital Assets		-35.1%	-20.9%	-9.7%	49.4%	-0.003%

- Transfers and subsidies is the largest item
  - the decrease in 2013/14 due to phasing out of the Devolution of Property Rates Fund Grant to Provinces, hence reduction in transfers to provinces
- The increase in spending on Goods and Services in 2013/14 driven by spending on consultants – due to shortage of technical skills in property/project management and specialists as required for the DPW's turnaround project
- Payments for capital assets very erratic
- Relative to strong annual average growth between 2011/12 and 2013/14, growth in Goods and Service set to decline over the 2014 MTEF period

FINANCIAL AND FISCAL COMMISSION

SPENDING PERFORMANCE (FISCAL DISCIPLINE)



- DPW underspent in 2011/12 and 2012/13
- In 2011 underspending on EPWP and Auxilliary and Associated Services Programme
- In 2012, underspending is as a result of poor spending in Property and Construction Industry Policy Regulation Programme and again Auxilliary and Associated Services Programme
- Due to persistent underspending on capital, baseline reductions of R1.3 billion effected over 2014 MTEF period

FINANCIAL AND FISCAL COMMISSION

IN-YEAR EXPENDITURE

- 2012/13 in-year spending erratic
- Appears to be improving in 2013/14 – variances in monthly spending not as large as during 2012/13
- Concern with poor in-year spending is that it hints at unstable cash flow and disbursements

FINANCIAL AND FISCAL COMMISSION

Selected Sub-Programme Analysis: Immovable Asset Management Programme

Real Year on Year Growth	2011/12-2012/13	2012/13-2013/14	2013/14-2014/15	2014/15-2015/16	2015/16-2016/17
Infrastructure (Public Works)	-33.5%	-9.7%	-28.1%	57.5%	-0.1%
Strategic Asset Investment Analysis	-67.7%	149.1%	10.4%	0.2%	1.0%
Operation Management	1.6%	-0.3%	0.5%	-0.4%	2.7%
Prestige Management	-51.5%	44.0%	-27.0%	-1.0%	-28.5%
Special Projects	4.0%	47.6%	-24.7%	1.8%	0.4%
Construction Industry Development Board	-3.4%	2.0%	1.6%	0.4%	0.2%
Council for the Built Environment	-7.7%	28.8%	4.3%	1.4%	0.2%
Parliamentary Village Management Board	-0.6%	0.1%	1.1%	-0.4%	0.5%
Augmentation of the Property Management Trading Entity	-3.2%	0.5%	-6.0%	-0.1%	0.6%
Independent Development Trust	-68.1%	-6.3%	-4.7%	-4.8%	-100.0%
Total	**-14.0%**	**-37.8%**	**-8.6%**	**10.1%**	**-0.7%**

- Total programme growth declines over most of the period reviewed
  - Decline in 2012 and 2013 is due to phasing out of devolution of property rates fund grant to provinces, non-completion of projects and Cabinet approved reductions due to underspending
- Generally sub-programme trends are erratic, brings into question soundness of planning in DPW
- Lack of capacity a challenge in this programme – 10% vacancy rate

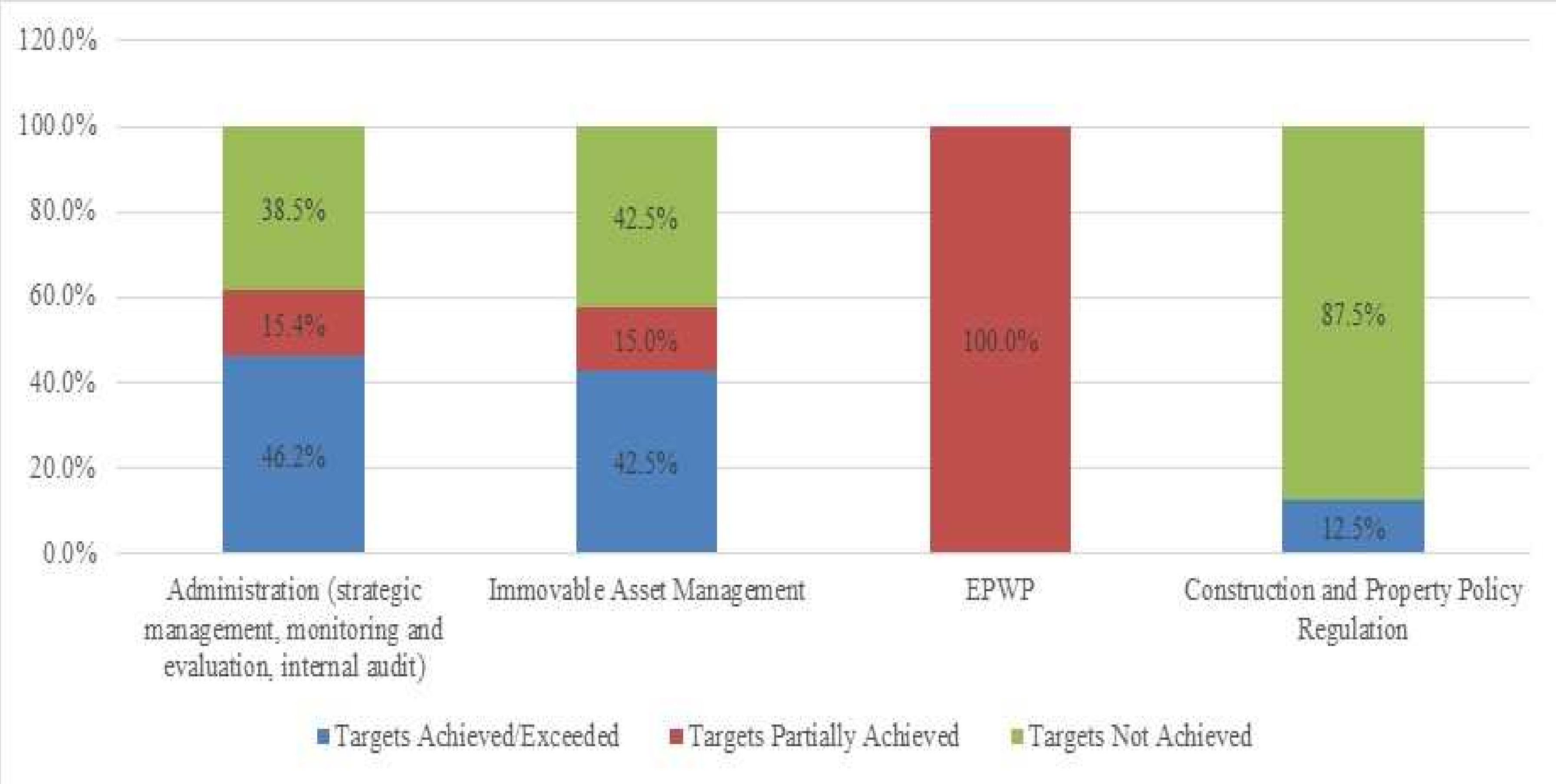
Selected Sub-Programme Analysis: Expanded Public Works Programme

R million	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Expanded Public Works Programme	209.7	236.8	273.8	261.5	267.7	290.6
Performance Based Incentive Allocations	953.3	1 467.3	1 674.2	1 689.8	1 739.2	2 104.6
Total	**1 163.0**	**1 704.1**	**1 948.0**	**1 951.3**	**2 006.8**	**2 395.2**
Real Year on Year Growth		**2011/12-2012/13**	**2012/13-2013/14**	**2013/14-2014/15**	**2014/15-2015/16**	**2015/16-2016/17**
Expanded Public Works Programme		12.9%	15.6%	-4.5%	2.4%	8.6%
Performance Based Incentive Allocations		53.9%	14.1%	0.9%	2.9%	21.0%
Total		**46.5%**	**14.3%**	**0.2%**	**2.8%**	**19.4%**

- EPWP promotes use of government expenditure to create additional employment opportunities through the use of labour-intensive delivery methods
  - Increases in 2012/2013 due to appointment of service providers to support provinces and municipalities in design of infrastructure projects and reporting methods
- Performance Based Incentive Allocations is the largest sub-programme
  - Focus: disburses funds to provinces/municipalities and NGOs to ensure creation of work opportunities in infrastructure, environment, social sectors
  - Increases between 2012 and 2013 are due to additional funding allocated. However to give effect to Cabinet-approved reductions, growth in this sub programme slows in 2014 and 2015
- Overall between 2009/10 and 2012/13, just over 3 million jobs created (68% of target of 4.5 million jobs)

DEPARTMENTAL PERFORMANCE

- Department not adequately meeting targets set.
  - Number of targets partially met and totally unmet exceptionally high



Departmental Performance [cont.]

Programme	Explanation for Unmet Targets
Administration	Delays due to lack of capacity/high vacancy rate, unrealistic targets given financial resources, lengthy procurement processes that delay appointment of service providers
Immovable Asset Management	Appropriate supply chain management process not followed, unrealistic target setting, inadequate data collection to verify extent to which target was met
EPWP	Delays in project implementation, lack of technical capacity to implement projects, poor performance on part of municipalities/provinces to carry out projects
Construction and Property Policy Regulation	• Legislative framework for Built Environment Professionals: delays in internal consultation • Establish Agrement SA as public entity: delay in the approval of business case • Provide immovable asset lifecycle management guidelines to national and provincial custodians of immovable assets: delay in internal consultation prevented finalisation

ASPECTS HIGHLIGHTED BY THE AUDITOR-GENERAL

- DPW audit outcomes:
  - 2009/10: qualified with findings
  - 2010/11:disclaimer
  - 2011/12: disclaimer
  - 2012/13: qualified with findings
- Key issues highlighted by Auditor-General that need to be addressed:
  - Inadequate internal controls in areas of leadership, financial management, performance management and governance
  - Areas that were identified for specific attention through the turnaround project include: lack of controls in supply chain management, poor lease management, inadequate immovable asset register, lack of built environment and property management skills

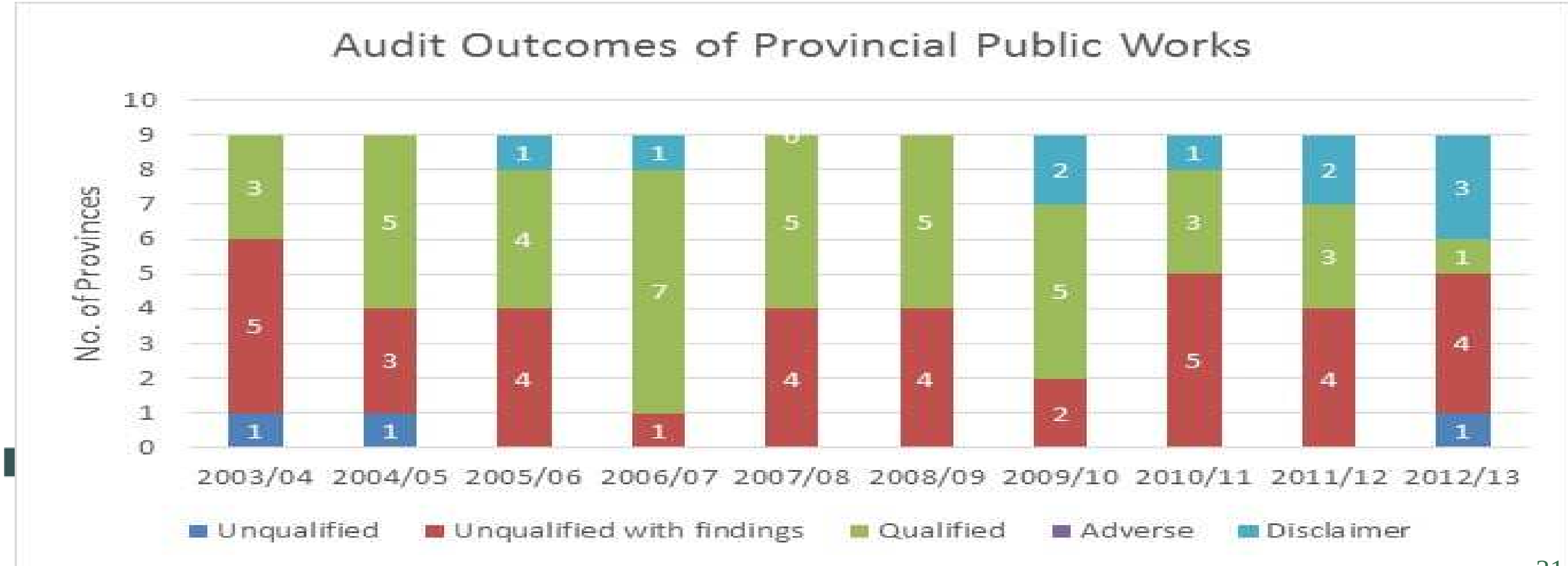
FINANCIAL AND FISCAL COMMISSION

FINANCIAL AND FISCAL COMMISSION

Public Works in the Provinces

PROVINCIAL AUDIT OUTCOMES

- Audit outcomes for provincial departments of public works have not considerably improved in since 2003/04
  - Four out of the nine provinces received a qualified opinion or disclaimer in 2012/13
  - Over a period of 10 years (i.e. 2003/4 – 2012/13), only 3 provincial departments of public works received an unqualified audit opinion



AND FISCAL COMMISSION

PROVINCIAL AUDIT OUTCOMES [CONT.]

- The Auditor-General raised a number of matters that prevented provincial departments from achieving clean audits such as:
  - Instability in leadership and lack of human resources
  - Internal controls are ineffective
  - Action plans to implement improvement in audit outcomes are not timeously implemented
  - Inaccurate and incomplete fixed asset registers
  - Incomplete disclosures on unauthorized, irregular and fruitless, irregular and wasteful expenditure
  - Commitments by the national sector department to intervene and/or provide support were not honoured
- The Commission's view is that DPW should play a more active role, through the various intergovernmental forums, in providing the necessary support to provincial departments of public works

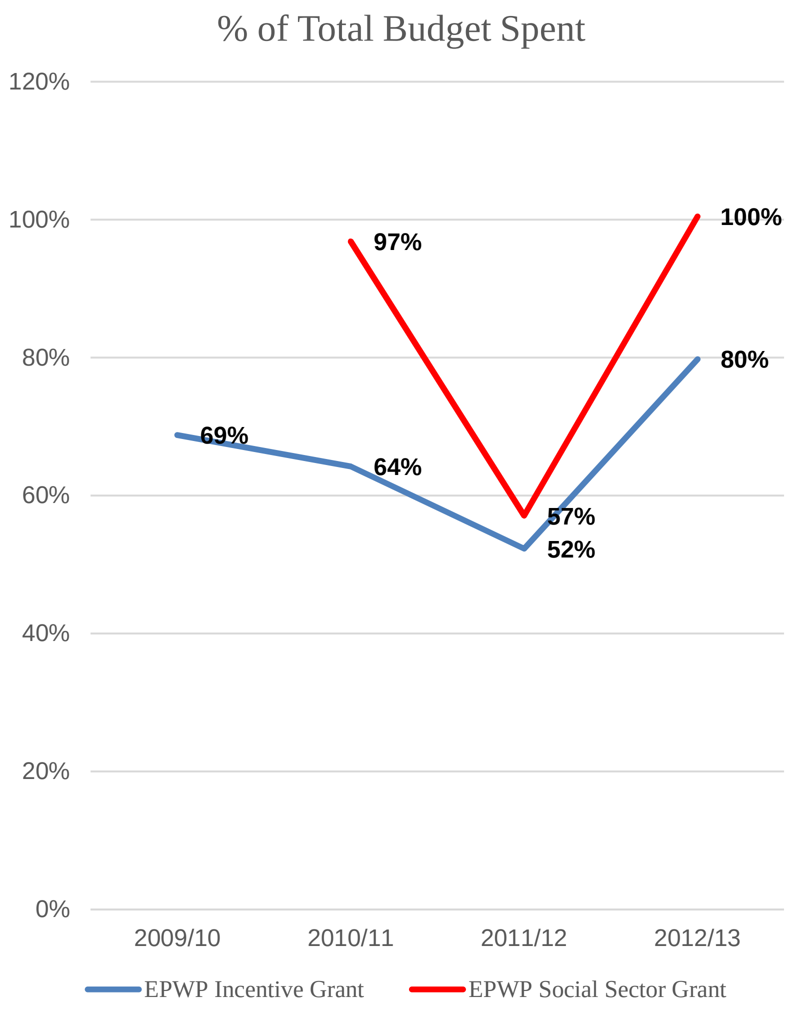
FINANCIAL AND FISCAL COMMISSION

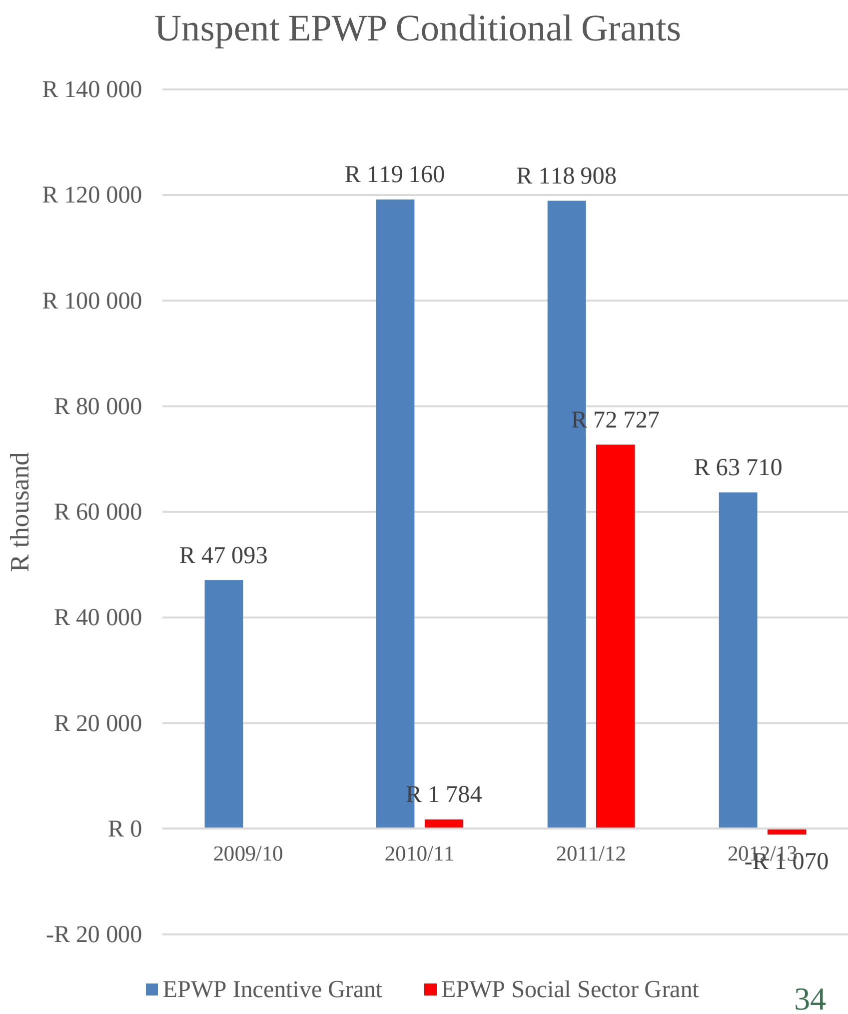
Spending Performance by Provinces on EPWP Conditional Grants

- The National Department of Public Works is the transferring agent for two EPWP conditional grants to provinces
- As the transferring agent, the responsibilities of the DPW are prescribed in the conditional grant framework contained in the Division of Revenue Act. These include (among others):
  - Determine eligibility of grant, monitor and provide support to provinces, audit provincial performance and report to national treasury on provincial progress

FINANCIAL AND FISCAL COMMISSION

EPWP Conditional Grants to Provinces





Summary of Performance on EPWP Grants to Provinces

- Over a four year period (2009/10 – 2012/13), provinces have been unable to spend more than 80% of its allocation to the EPWP Incentive Grant in any given year
- Except in 2011/12 where spending on both EPWP grants were below 60% of total, the EPWP Social Sector grant in general, performed better than the Incentive grant
  - Provinces have challenges relating to infrastructure, which affects the spending performance on the Incentive grant
- In many instances, provinces fail to comply with grant conditions stipulated in DORA, resulting in funds being withheld, thereby leaving funds unspent at the end of the year

CONCLUDING REMARKS

- Key issues emanating from analysis of DPW
  - Underspending of budget
  - Not meeting set targets
- For the sector to turnaround, the DPW should play a leadership role by providing the necessary support to the provinces and establishing minimum norms and standards to facilitate improvement in service delivery in the provinces
- Department to put in place proper systems to guide expenditure management, setting of appropriate key performance indicators and a plan to attract/retain skilled staff
  - Outcome of the Turnaround Project is key in facilitating progress – some improvements noted but far to go in putting DPW on stable footing

FINANCIAL AND FISCAL COMMISSION

FFC's Website: www.ffc.co.za

PORTFOLIO COMMITTEE ON PUBLIC WORKS

Financial and Fiscal Commission

25 September 2014

For an Equitable Sharing of National Revenue

PRESENTATION OUTLINE

1. Role and Function of the Financial and Fiscal Commission
2. Recommendations of the Commission that relate to Public Works
3. Departmental Analysis

FINANCIAL AND FISCAL COMMISSION

1. Role and Function of the Financial and Fiscal Commission

ROLE AND FUNCTION OF THE FFC

- The Financial and Fiscal Commission (FFC)
  - Is an independent, permanent, statutory institution established in terms of Section 220 of Constitution
  - Must function in terms of the FFC Act
- Mandate of Commission
  - To make recommendations, envisaged in Chapter 13 of the Constitution or in national legislation to Parliament, Provincial Legislatures, and any other organ of state determined by national legislation
- The Commission's focus is primarily on the equitable division of nationally collected revenue among the three spheres of government and any other financial and fiscal matters
  - Legislative provisions or executive decisions that affect either provincial or local government from a financial and/or fiscal perspective
  - Includes regulations associated with legislation that may amend or extend such legislation
  - Commission must be consulted in terms of the FFC Act
  - Current research strategy focuses on developmental impacts of IGFR

FINANCIAL AND FISCAL COMMISSION

How FFC Supports Policy

- Identify weakness within the IGFR system
- Propose evidence-based policy proposals
- Interact and participate with/in forums and institutions responsible for IGFR policy – TCF, Budget Council, Budget Forum
- Information dissemination – invitations from nine provincial legislatures and SALGA
- Interact with various committees within parliament

FINANCIAL AND FISCAL COMMISSION

PROCESSING OF RECOMMENDATIONS

- Recommendations of the Commission
  - Recommendations are made to Parliament so that the legislature can examine the financial and fiscal decisions of government against them and understand why they have been accepted or rejected
  - Section 4(4)(c) of the Money Bills Amendment Procedures and Related Matters Act (MBAPMA) requires Parliament to consider the recommendations of the Commission when deliberating on Money Bills
- Government is obligated through an Act of Parliament to explain how it has taken the FFC recommendations in arriving at the division of revenue for any particular year
  - The response is tabled in Annexure W1 of the DoR Bill and of the Budget Review

FINANCIAL AND FISCAL COMMISSION

How FFC can Support Parliament

DIRECT TRAINING AND INTERVENTION

- Training of members of parliamentary committees and councillors on request (e.g. in Bushbuckridge)
- Advice to municipalities (e.g. Tshwane merger)
- Inputs in various fora (e.g. SALGA)

NON TRAINING SUPPORT AND INTERVENTION

- Member of review committees (LES, Infrastructure Grants, Metro's Own Revenue)
- Public hearings (local government fiscal framework, housing and welfare)
- Inputs in benchmarking exercises
- Recommendations through Annual Submission on DoR, MTBPS, FF and Appropriations

VALUE ADD OF THE FFC

- FFC can provide advice, analysis and training to assist the work of the Committee
  - Specialised IGFR training to committee members and/or parliamentary researchers
  - Provision of recommendations that are founded on evidence based research
  - Technical support with respect to parliamentary fiscal oversight activities

FINANCIAL AND FISCAL COMMISSION

FINANCIAL
AND FISCAL
COMMISSION

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FINANCIAL AND FISCAL COMMISSION

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    - Identified as major risk area by Auditor-General – DPW capacity to process tenders eroded and has led to numerous instances of fraud/corruption. SCM has been major focus of the Special Investigating Unit (SIU). SCM is the key focus of turnaround project in DPW. A service provider appointed to assist with fundamental review of SCM
      - Irregular expenditure, R171 million in 2011/12; R874 million in 2012/13
  - Poor lease management
    - Numerous irregularities with respect to lease agreements – gives rise to legal risks. DPW reviewing all lease agreements

FINANCIAL AND FISCAL COMMISSION

KEY CHALLENGES CONFRONTING DPW [CONT.]

- Inadequate immovable asset register
  - Lack of compliant immovable asset register resulted in negative audit opinions. DPW now in process of rebuilding immovable asset register and building a model to revalue immovable assets
- Lack of built environment and property management skills
  - Lack of technical capacity to undertake direct construction/maintenance functions. Cooperating with DPSA and Higher Education and Training to address challenge

FINANCIAL AND FISCAL COMMISSION

Starting Point for Budget Analysis

- By vote
  - Compare different votes with each other
- By vote programme
  - Compare different programmes within a vote
- By sub-programme
- Compare different sub-programmes within a programme
- By province
- Compare different provinces with each other
- Use Outputs, Targets and Indicators to measure performance
- Use policy documents as a benchmark

FINANCIAL AND FISCAL COMMISSION

Useful Tools

- Percentage Share of Total Budget
- Growth in the Budget
  - Percentage Change
    - Reflecting increases/decreases in percentage form
  - Annual Growth Rate
    - How does the allocation change year on year
  - Real Percentage Change
    - Takes inflation into consideration
  - Variances and explanations
    - Investigating the reasons/drivers of change
  - Spending by economic classification
    - Distinguishes between various categories of current (goods and services, transfers and subsidies) and capital expenditure (acquisition of fixed capital assets, purchase of land)

Budget and Programmes of Public Works

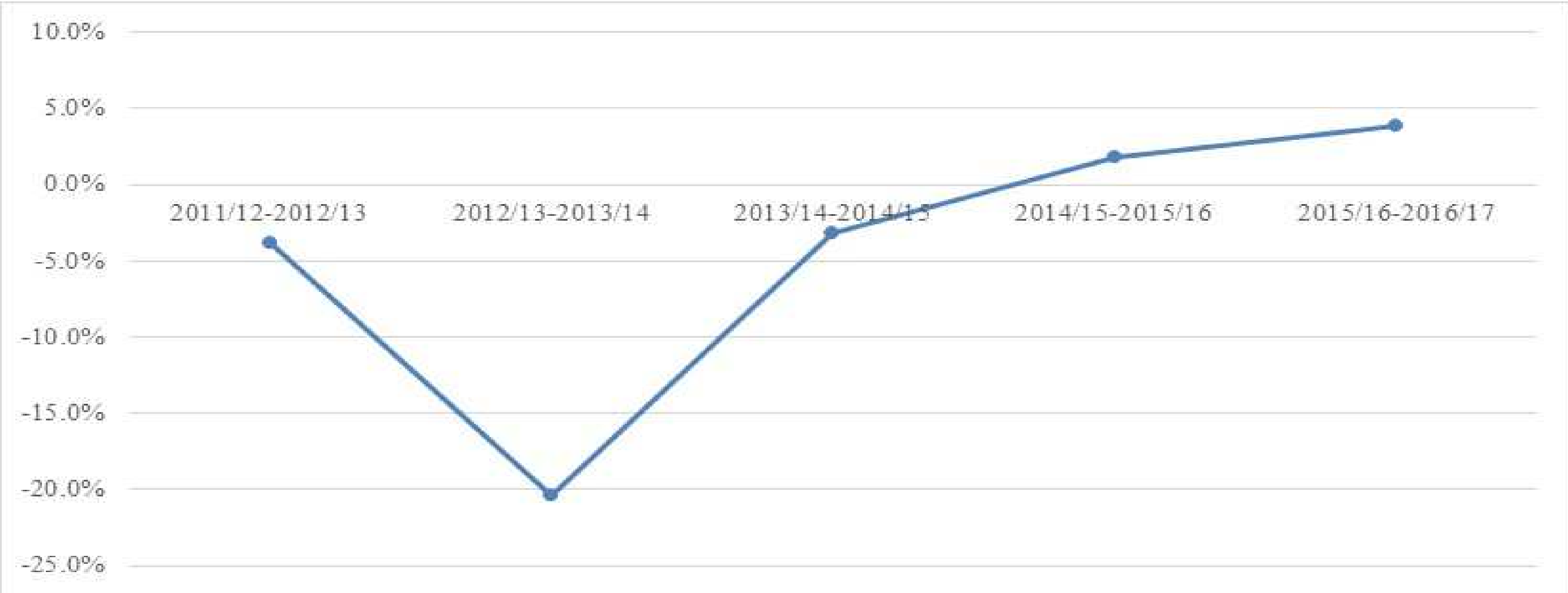
Nominal (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Real Annual Average Growth 2011/12-2013/14	Real Annual Average Growth 2014/15-2016/17
Administration	837.1	856.2	1 158.2	1 175.3	1 133.3	1 191.5	11.5%	-4.1%
Immovable Asset Management	5 001.7	4 563.5	2 831.8	2 861.4	3 308.1	3 450.0	-28.7%	4.6%
Expanded Public Works Programme	1 163.0	1 704.1	1 948.0	1 951.3	2 006.8	2 395.2	22.7%	5.5%
Property and Construction Industry Policy Regulation	34.4	26.9	36.7	41.5	43.4	45.9	-2.1%	0.1%
Auxiliary and Associated Services	25.2	53.3	50.7	91.8	53.7	56.6	34.4%	-25.2%
Total	**7 061.4**	**7 203.9**	**6 025.3**	**6 121.3**	**6 545.3**	**7 139.2**	**-12.5%**	**2.8%**

- Five programmes on Department of Public Works (DPW) budget
- Allocation reduced significantly in 2013/14, due to phasing out of Devolution of Property Rates Fund Grant to provinces and non-completion of various projects. As result of underspending, Cabinet approved reductions were effected
  - Following poor spending performance and audit outcomes, DPW implementing a Turnaround Project
- DPW budget projected to recover to just over R7.1 billion by end of 2014 medium term expenditure framework (MTEF) period
  - 2014 MTEF growth driven by additional allocation of R159 million in 2016/17 for Expanded Public Works Programme (EPWP)

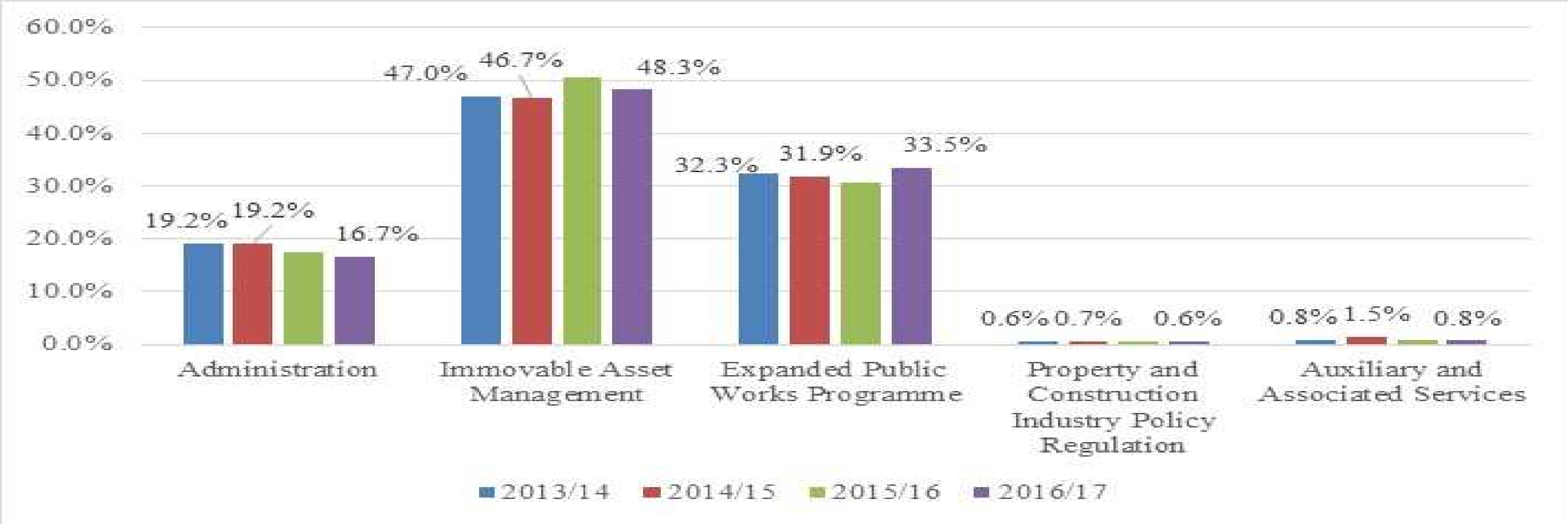
FINANCIAL AND FISCAL COMMISSION

REAL YEAR ON YEAR GROWTH OF PUBLIC WORKS BUDGET

- Significant decline in year on year growth in 2013/14
  - Though still declining in real terms in 2014/15, there is some improvement
- Over rest of 2014 MTEF period, positive growth projected
  - Focus will be on rehabilitating 34 state owned buildings, and ensuring that at least 100 buildings are made accessible to people with disabilities in each year of MTEF



BUDGET COMPOSITION ACROSS PROGRAMMES



- Immovable Asset Management Programme consumes largest share of DPW budget – by end of 2014 MTEF period this programme is projected to consume just under half of DPW budget
- Share allocated to Administration Programme consumers about one fifth of departmental budget – funding for Turnaround Project fall under Administration
  - Turnaround Project will support activities relating to the Special Investigating Unit, a technical support unit, a clean audit project, irregular expenditure management, internal audit support

FINANCIAL AND FISCAL COMMISSION

ECONOMIC CLASSIFICATION

Item (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Compensation of Employees	1 269.6	1 374.6	1 473.5	1 659.9	1 753.5	1 870.5
Goods and Services	1 032.9	977.0	1 379.6	1 302.1	1 202.9	1 269.0
Transfers and Subsidies	3 656.2	4 092.4	2 543.9	2 563.4	2 654.2	3 017.9
Payments for Capital Assets	1 099.1	756.8	628.4	595.9	934.8	981.7
Real Year on Year Growth (%)						
Compensation of Employees		2.1%	2.1%	7.3%	0.6%	1.6%
Goods and Services		-10.8%	34.5%	-10.1%	-12.0%	0.5%
Transfers and Subsidies		5.6%	-40.8%	-4.0%	-1.4%	8.3%
Payments for Capital Assets		-35.1%	-20.9%	-9.7%	49.4%	-0.003%

- Transfers and subsidies is the largest item
  - the decrease in 2013/14 due to phasing out of the Devolution of Property Rates Fund Grant to Provinces, hence reduction in transfers to provinces
- The increase in spending on Goods and Services in 2013/14 driven by spending on consultants – due to shortage of technical skills in property/project management and specialists as required for the DPW's turnaround project
- Payments for capital assets very erratic
- Relative to strong annual average growth between 2011/12 and 2013/14, growth in Goods and Service set to decline over the 2014 MTEF period

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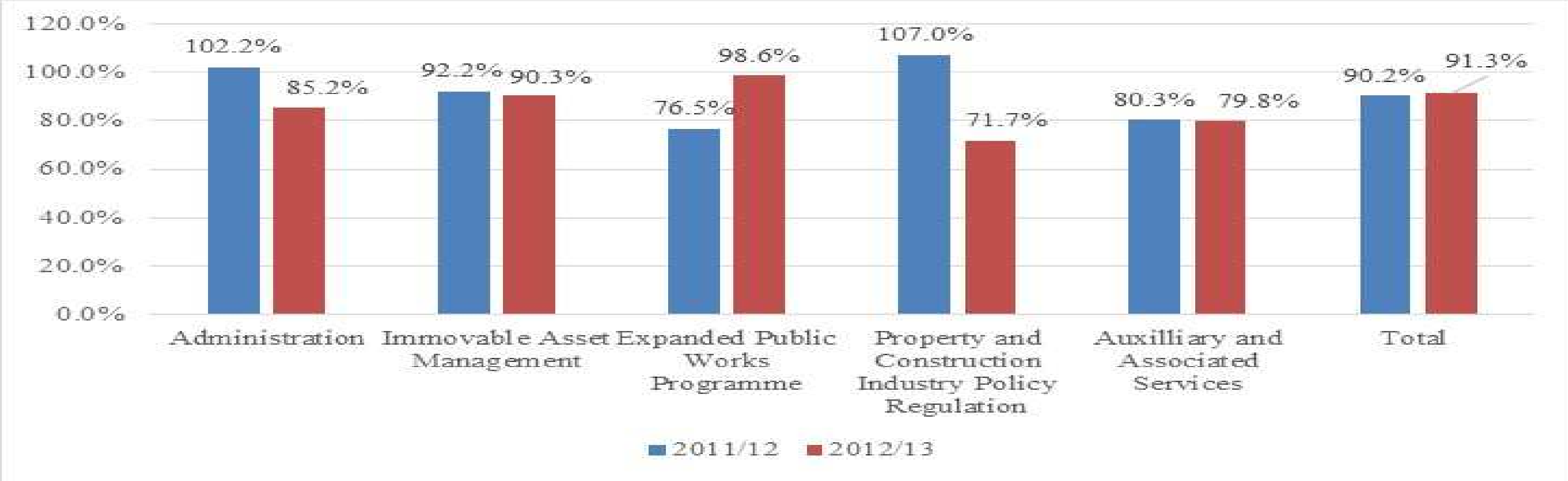
SPENDING PERFORMANCE (FISCAL DISCIPLINE)

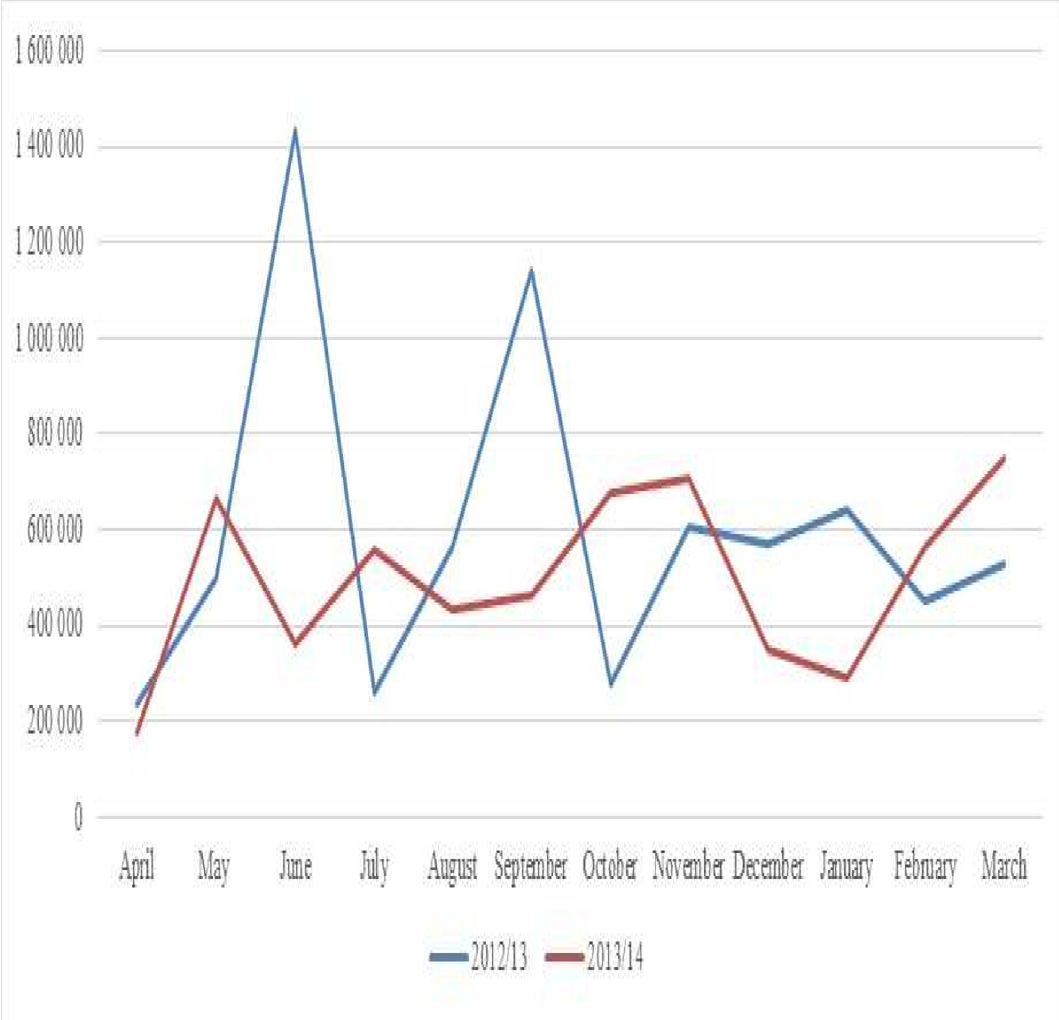


- DPW underspent in 2011/12 and 2012/13
- In 2011 underspending on EPWP and Auxilliary and Associated Services Programme
- In 2012, underspending is as a result of poor spending in Property and Construction Industry Policy Regulation Programme and again Auxilliary and Associated Services Programme
- Due to persistent underspending on capital, baseline reductions of R1.3 billion effected over 2014 MTEF period

FINANCIAL AND FISCAL COMMISSION

IN-YEAR EXPENDITURE

- 2012/13 in-year spending erratic
- Appears to be improving in 2013/14 – variances in monthly spending not as large as during 2012/13
- Concern with poor in-year spending is that it hints at unstable cash flow and disbursements



FINANCIAL AND FISCAL COMMISSION

Selected Sub-Programme Analysis: Immovable Asset Management Programme

Real Year on Year Growth	2011/12-2012/13	2012/13-2013/14	2013/14-2014/15	2014/15-2015/16	2015/16-2016/17
Infrastructure (Public Works)	-33.5%	-9.7%	-28.1%	57.5%	-0.1%
Strategic Asset Investment Analysis	-67.7%	149.1%	10.4%	0.2%	1.0%
Operation Management	1.6%	-0.3%	0.5%	-0.4%	2.7%
Prestige Management	-51.5%	44.0%	-27.0%	-1.0%	-28.5%
Special Projects	4.0%	47.6%	-24.7%	1.8%	0.4%
Construction Industry Development Board	-3.4%	2.0%	1.6%	0.4%	0.2%
Council for the Built Environment	-7.7%	28.8%	4.3%	1.4%	0.2%
Parliamentary Village Management Board	-0.6%	0.1%	1.1%	-0.4%	0.5%
Augmentation of the Property Management Trading Entity	-3.2%	0.5%	-6.0%	-0.1%	0.6%
Independent Development Trust	-68.1%	-6.3%	-4.7%	-4.8%	-100.0%
Total	**-14.0%**	**-37.8%**	**-8.6%**	**10.1%**	**-0.7%**

- Total programme growth declines over most of the period reviewed
  - Decline in 2012 and 2013 is due to phasing out of devolution of property rates fund grant to provinces, non-completion of projects and Cabinet approved reductions due to underspending
- Generally sub-programme trends are erratic, brings into question soundness of planning in DPW
- Lack of capacity a challenge in this programme – 10% vacancy rate

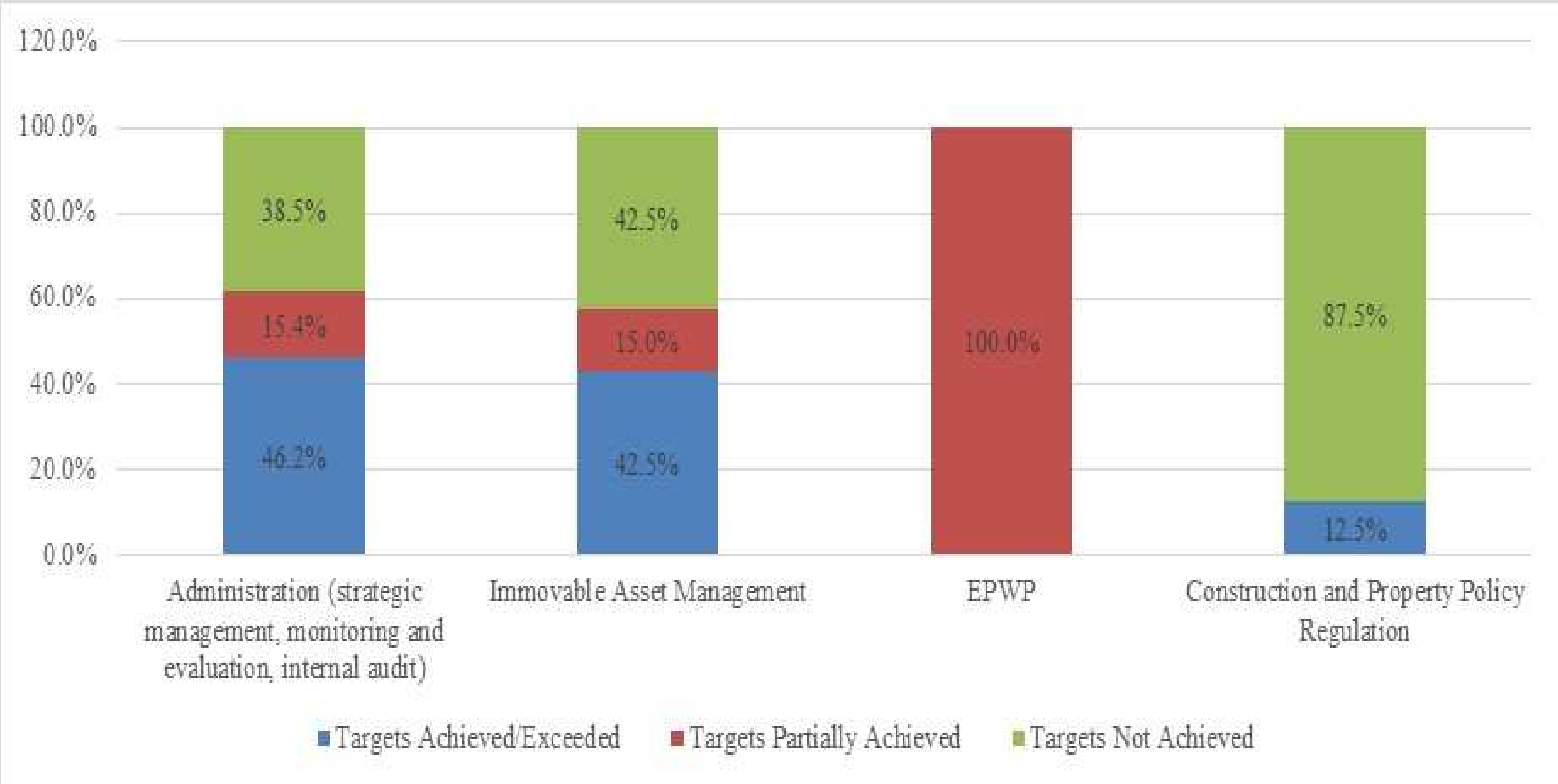
SELECTED SUB-PROGRAMME ANALYSIS: EXPANDED PUBLIC WORKS PROGRAMME

R million	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Expanded Public Works Programme	209.7	236.8	273.8	261.5	267.7	290.6
Performance Based Incentive Allocations	953.3	1 467.3	1 674.2	1 689.8	1 739.2	2 104.6
Total	**1 163.0**	**1 704.1**	**1 948.0**	**1 951.3**	**2 006.8**	**2 395.2**
Real Year on Year Growth		**2011/12-2012/13**	**2012/13-2013/14**	**2013/14-2014/15**	**2014/15-2015/16**	**2015/16-2016/17**
Expanded Public Works Programme		12.9%	15.6%	-4.5%	2.4%	8.6%
Performance Based Incentive Allocations		53.9%	14.1%	0.9%	2.9%	21.0%
Total		**46.5%**	**14.3%**	**0.2%**	**2.8%**	**19.4%**

- EPWP promotes use of government expenditure to create additional employment opportunities through the use of labour-intensive delivery methods
  - Increases in 2012/2013 due to appointment of service providers to support provinces and municipalities in design of infrastructure projects and reporting methods
- Performance Based Incentive Allocations is the largest sub-programme
  - Focus: disburses funds to provinces/municipalities and NGOs to ensure creation of work opportunities in infrastructure, environment, social sectors
  - Increases between 2012 and 2013 are due to additional funding allocated. However to give effect to Cabinet-approved reductions, growth in this sub programme slows in 2014 and 2015
- Overall between 2009/10 and 2012/13, just over 3 million jobs created (68% of target of 4.5 million jobs)

DEPARTMENTAL PERFORMANCE

- Department not adequately meeting targets set.
  - Number of targets partially met and totally unmet exceptionally high



DEPARTMENTAL PERFORMANCE [CONT.]

Programme	Explanation for Unmet Targets
Administration	Delays due to lack of capacity/high vacancy rate, unrealistic targets given financial resources, lengthy procurement processes that delay appointment of service providers
Immovable Asset Management	Appropriate supply chain management process not followed, unrealistic target setting, inadequate data collection to verify extent to which target was met
EPWP	Delays in project implementation, lack of technical capacity to implement projects, poor performance on part of municipalities/provinces to carry out projects
Construction and Property Policy Regulation	• Legislative framework for Built Environment Professionals: delays in internal consultation • Establish Agrement SA as public entity: delay in the approval of business case • Provide immovable asset lifecycle management guidelines to national and provincial custodians of immovable assets: delay in internal consultation prevented finalisation

Aspects Highlighted by the Auditor-General

- DPW audit outcomes:
  - 2009/10: qualified with findings
  - 2010/11:disclaimer
  - 2011/12: disclaimer
  - 2012/13: qualified with findings
- Key issues highlighted by Auditor-General that need to be addressed:
  - Inadequate internal controls in areas of leadership, financial management, performance management and governance
  - Areas that were identified for specific attention through the turnaround project include: lack of controls in supply chain management, poor lease management, inadequate immovable asset register, lack of built environment and property management skills

FINANCIAL AND FISCAL COMMISSION

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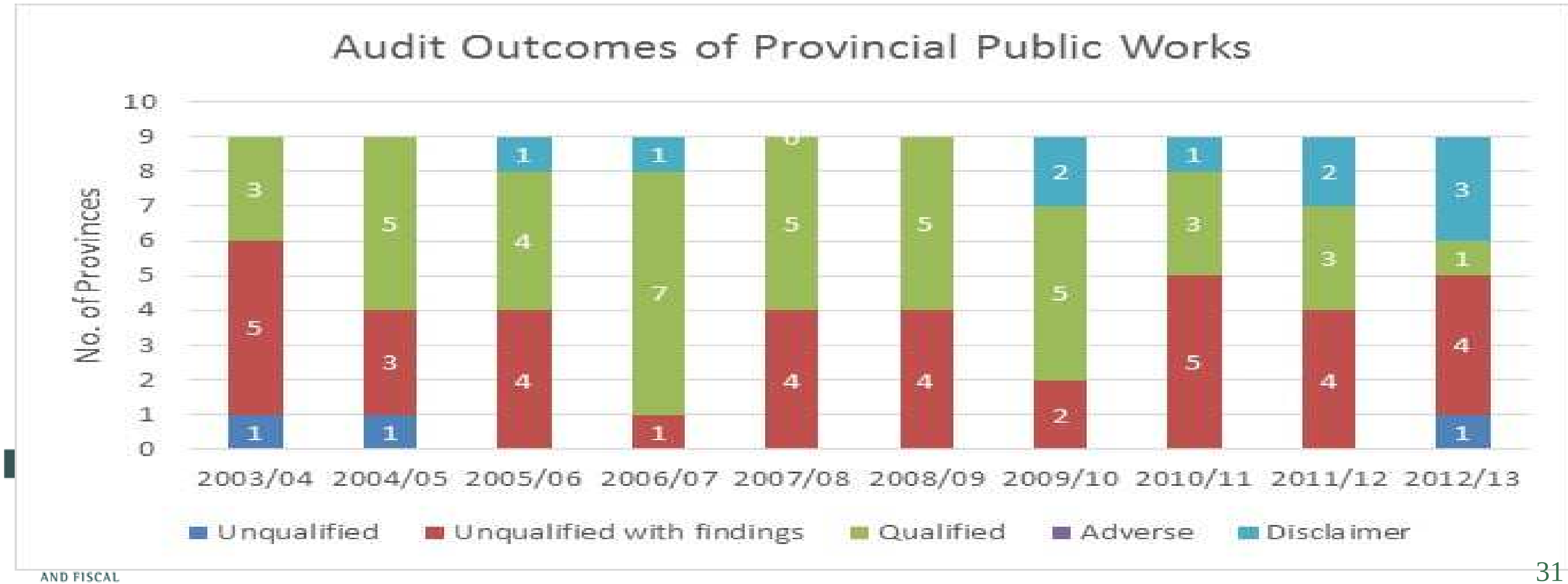
Public Works in the Provinces

PROVINCIAL AUDIT OUTCOMES

- Audit outcomes for provincial departments of public works have not considerably improved in since 2003/04
  - Four out of the nine provinces received a qualified opinion or disclaimer in 2012/13
  - Over a period of 10 years (i.e. 2003/4 – 2012/13), only 3 provincial departments of public works received an unqualified audit opinion



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PROVINCIAL AUDIT OUTCOMES [CONT.]

- The Auditor-General raised a number of matters that prevented provincial departments from achieving clean audits such as:
  - Instability in leadership and lack of human resources
  - Internal controls are ineffective
  - Action plans to implement improvement in audit outcomes are not timeously implemented
  - Inaccurate and incomplete fixed asset registers
  - Incomplete disclosures on unauthorized, irregular and fruitless, irregular and wasteful expenditure
  - Commitments by the national sector department to intervene and/or provide support were not honoured
- The Commission's view is that DPW should play a more active role, through the various intergovernmental forums, in providing the necessary support to provincial departments of public works

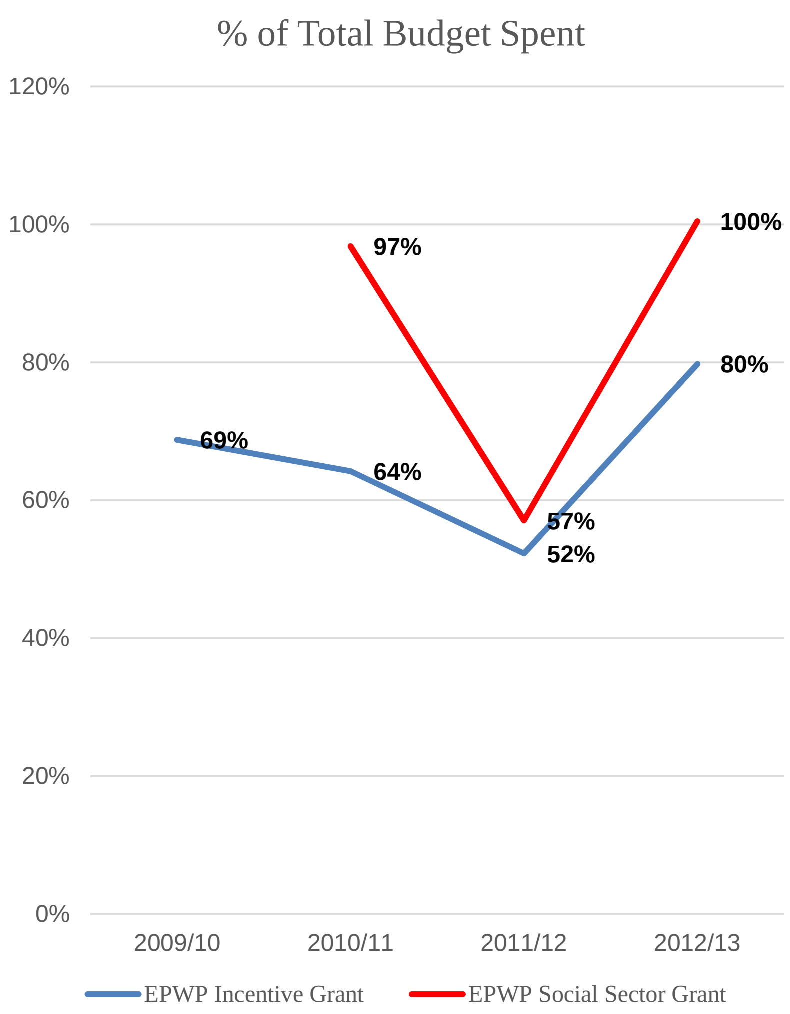
FINANCIAL AND FISCAL COMMISSION

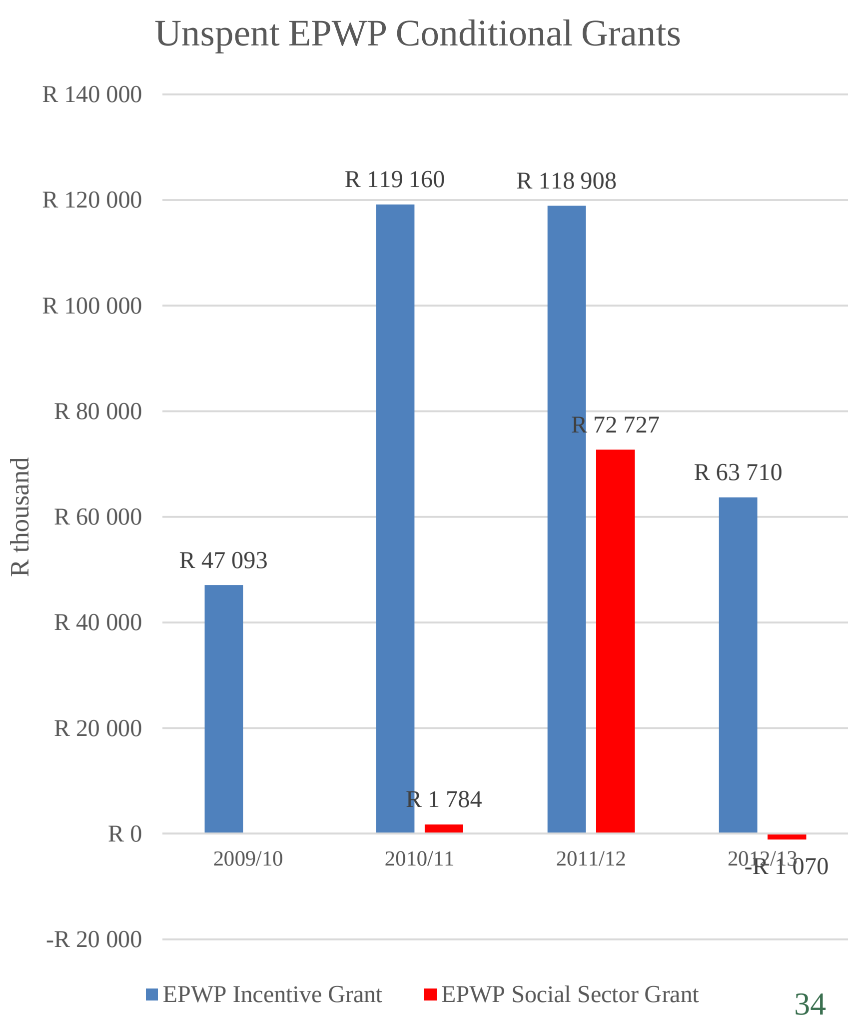
Spending Performance by Provinces on EPWP Conditional Grants

- The National Department of Public Works is the transferring agent for two EPWP conditional grants to provinces
- As the transferring agent, the responsibilities of the DPW are prescribed in the conditional grant framework contained in the Division of Revenue Act. These include (among others):
  – Determine eligibility of grant, monitor and provide support to provinces, audit provincial performance and report to national treasury on provincial progress

FINANCIAL AND FISCAL COMMISSION

EPWP Conditional Grants to Provinces





Summary of Performance on EPWP Grants to Provinces

- Over a four year period (2009/10 – 2012/13), provinces have been unable to spend more than 80% of its allocation to the EPWP Incentive Grant in any given year
- Except in 2011/12 where spending on both EPWP grants were below 60% of total, the EPWP Social Sector grant in general, performed better than the Incentive grant
  - Provinces have challenges relating to infrastructure, which affects the spending performance on the Incentive grant
- In many instances, provinces fail to comply with grant conditions stipulated in DORA, resulting in funds being withheld, thereby leaving funds unspent at the end of the year

FINANCIAL AND FISCAL COMMISSION

CONCLUDING REMARKS

- Key issues emanating from analysis of DPW
  - Underspending of budget
  - Not meeting set targets
- For the sector to turnaround, the DPW should play a leadership role by providing the necessary support to the provinces and establishing minimum norms and standards to facilitate improvement in service delivery in the provinces
- Department to put in place proper systems to guide expenditure management, setting of appropriate key performance indicators and a plan to attract/retain skilled staff
  - Outcome of the Turnaround Project is key in facilitating progress – some improvements noted but far to go in putting DPW on stable footing

FINANCIAL AND FISCAL COMMISSION

FFC's Website: www.ffc.co.za

PORTFOLIO COMMITTEE ON PUBLIC WORKS

Financial and Fiscal Commission

25 September 2014

For an Equitable Sharing of National Revenue

PRESENTATION OUTLINE

1. Role and Function of the Financial and Fiscal Commission
2. Recommendations of the Commission that relate to Public Works
3. Departmental Analysis

FINANCIAL AND FISCAL COMMISSION

FINANCIAL AND FISCAL COMMISSION

1. ROLE AND FUNCTION OF THE FINANCIAL AND FISCAL COMMISSION

Role and Function of the FFC

- The Financial and Fiscal Commission (FFC)
  - Is an independent, permanent, statutory institution established in terms of Section 220 of Constitution
  - Must function in terms of the FFC Act
- Mandate of Commission
  - To make recommendations, envisaged in Chapter 13 of the Constitution or in national legislation to Parliament, Provincial Legislatures, and any other organ of state determined by national legislation
- The Commission's focus is primarily on the equitable division of nationally collected revenue among the three spheres of government and any other financial and fiscal matters
  - Legislative provisions or executive decisions that affect either provincial or local government from a financial and/or fiscal perspective
  - Includes regulations associated with legislation that may amend or extend such legislation
  - Commission must be consulted in terms of the FFC Act
  - Current research strategy focuses on developmental impacts of IGFR

FINANCIAL AND FISCAL COMMISSION

How FFC Supports Policy

- Identify weakness within the IGFR system
- Propose evidence-based policy proposals
- Interact and participate with/in forums and institutions responsible for IGFR policy – TCF, Budget Council, Budget Forum
- Information dissemination – invitations from nine provincial legislatures and SALGA
- Interact with various committees within parliament

FINANCIAL AND FISCAL COMMISSION

PROCESSING OF RECOMMENDATIONS

- Recommendations of the Commission
  - Recommendations are made to Parliament so that the legislature can examine the financial and fiscal decisions of government against them and understand why they have been accepted or rejected
  - Section 4(4)(c) of the Money Bills Amendment Procedures and Related Matters Act (MBAPMA) requires Parliament to consider the recommendations of the Commission when deliberating on Money Bills
- Government is obligated through an Act of Parliament to explain how it has taken the FFC recommendations in arriving at the division of revenue for any particular year
  - The response is tabled in Annexure W1 of the DoR Bill and of the Budget Review

FINANCIAL AND FISCAL COMMISSION

How FFC can Support Parliament

DIRECT TRAINING AND INTERVENTION

- Training of members of parliamentary committees and councillors on request (e.g. in Bushbuckridge)
- Advice to municipalities (e.g. Tshwane merger)
- Inputs in various fora (e.g. SALGA)

NON TRAINING SUPPORT AND INTERVENTION

- Member of review committees (LES, Infrastructure Grants, Metro’s Own Revenue)
- Public hearings (local government fiscal framework, housing and welfare)
- Inputs in benchmarking exercises
- Recommendations through Annual Submission on DoR, MTBPS, FF and Appropriations

VALUE ADD OF THE FFC

- FFC can provide advice, analysis and training to assist the work of the Committee
  - Specialised IGFR training to committee members and/or parliamentary researchers
  - Provision of recommendations that are founded on evidence based research
  - Technical support with respect to parliamentary fiscal oversight activities

FINANCIAL AND FISCAL COMMISSION

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2. Recommendations that Relate to Public Works

FFC WORK RELATED TO DPW [CONT.]

Response to Division of Revenue Bill (DoRB) 2010	The Commission welcomed introduction of the *EPWP Incentive Grant for the Social Sector*. The Commission noted that there was a need to standardise the employment framework for the sector including conditions, wages and progression across provinces and municipalities. The Commission also raised concern regarding difficulties that were being experienced with the transfer of the EPWP Incentive Grant to Local and Provincial Governments. In the 2009/10 certain provinces (e.g. Western Cape) raised concern that they received transfers outside the ambit of the DoR and couldn't spend the money because it was not properly appropriated through various legislatures. At that point the general challenge with the grant was that provinces and municipalities found it difficult to integrate it through their infrastructure programmes. This problem persists because labour intensive infrastructure projects need to be planned, costed and scheduled properly. Not all projects yield the same labour intensity, so targets must be set by project type and category. Some projects will better lend themselves to labour intensive methods than others. This must be factored into the budget allocations and monitoring of the grant. *Current Commission analysis is that provinces continue to have challenges relating to labour intensive infrastructure, which affects the spending of the Incentive grant. In 2012/13 DPW appointed service providers to support provinces and municipalities in design of infrastructure projects and reporting methods.*

FFC Work Related to DPW [cont.]

Response to MTBPS 2011	In terms of the EPWP Incentive grant framework, provinces and municipalities must spend their budgets on EPWP projects and after that the grant will be paid by DPW quarterly as an incentive (after employment has been created). There has been general under-spending against budget since inception of the grant. Projected under-spending in financial year 2011 was 28.4%. In 2010, the actual under-spend was 38.4%. Despite poor spending performance, the annual growth of the budget was high. Expenditure reports on the grant performance at local government were inaccessible. DPW should explain how transfers are reconciled with actual expenditure. The grant should be streamlined to the Division of Revenue Act (DORA) requirements in terms of allocation and disbursements of funds. Punitive and incentive elements of the grant should be made transparent to all the stakeholders. *Current FFC analysis indicates that underspending persists. Between 2009/10 and 2012/13, provinces have been unable to spend more than 80% of their allocation*
Response to DoRB 2012	The Commission reiterated concerns raised in its Response to DoRB 2010 and Response to 2011 MTBPS regarding the challenges with the EPWP Incentive grant. The Commission maintained its view that the grant had not succeeded in achieving the intended goals within the specified time. There had also not been a formal assessment of the achievement of this grant both in terms of expenditure and service delivery outputs including how many direct and full times jobs had been created against the allocated funds. The Commission recommended that an independent review of the grant be undertaken, so that lessons can be drawn from past experience to avoid a replication of past mistakes. Government has since set up a team consisting of National Treasury, DPW, DCoG and SALGA that has been working on this. *This review is ongoing*

FFC Work Related to DPW [cont.]

Submission for the 2009/10 DoR	FFC found a need for reporting on EPWP outcomes to be more specific. In accordance with the requirements of the EPWP, job creation for target groups such as women, youth and people with disabilities should be included in the reporting requirements for all infrastructure conditional grants to provinces and municipalities GOVT. RESPONSE: The recommendation for reporting on targets is supported. Some of these indicators can possibly be reported on as part of the conditional grant frameworks prescribed in terms of the Division of Revenue Act
Submission for the 2007/08 DoR	The World Cup funding was crafted on the basis of requirements to meet FIFA standards of hosting cities, and that the major challenge faced by government was sustainability of built infrastructure. On the funding for the FIFA World Cup, FFC, examined the sustainability of built infrastructure, taking the escalation of construction costs into account. FFC's findings included that the escalation of construction costs be budgeted for, and that collaboration with the private sector should be encouraged. Also that a 2010 World Cup "Legacy Management Policy" should be introduced and prudent fiscal policy should be maintained leading to the World Cup GOVT. RESPONSE: Government is of the view that the costs relating to maintenance of constructed 2010 FIFA World Cup facilities should be provided by municipalities

FINANCIAL AND FISCAL COMMISSION

3. DEPARTMENTAL ANALYSIS

CONTEXTUALISING THE DEPARTMENT OF PUBLIC WORKS

- Aim of Department of Public Works (DPW):
  - provide for and manage accommodation, housing, land and infrastructure needs of national departments
  - Lead and direct implementation of the national expanded public works programme (EPWP)
  - Promote growth, job creation and transformation in the construction and property industries
- Public works is a concurrent function between national and provincial spheres of government
- DPW contribution to National Development Plan (NDP) achieved through:
  - Implementation of job creation initiatives
  - Transition to low cost carbon economy
  - Development of an inclusive and integrated rural economy
  - Fight against corruption

FINANCIAL AND FISCAL COMMISSION

KEY CHALLENGES CONFRONTING DPW

- Due to consistent trend of poor audit outcomes and generally poor performance, DPW implemented a turnaround project in November 2012
- Areas that were identified for specific attention through the turnaround project include:
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    - Identified as major risk area by Auditor-General – DPW capacity to process tenders eroded and has led to numerous instances of fraud/corruption. SCM has been major focus of the Special Investigating Unit (SIU). SCM is the key focus of turnaround project in DPW. A service provider appointed to assist with fundamental review of SCM
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FINANCIAL AND FISCAL COMMISSION

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FINANCIAL AND FISCAL COMMISSION

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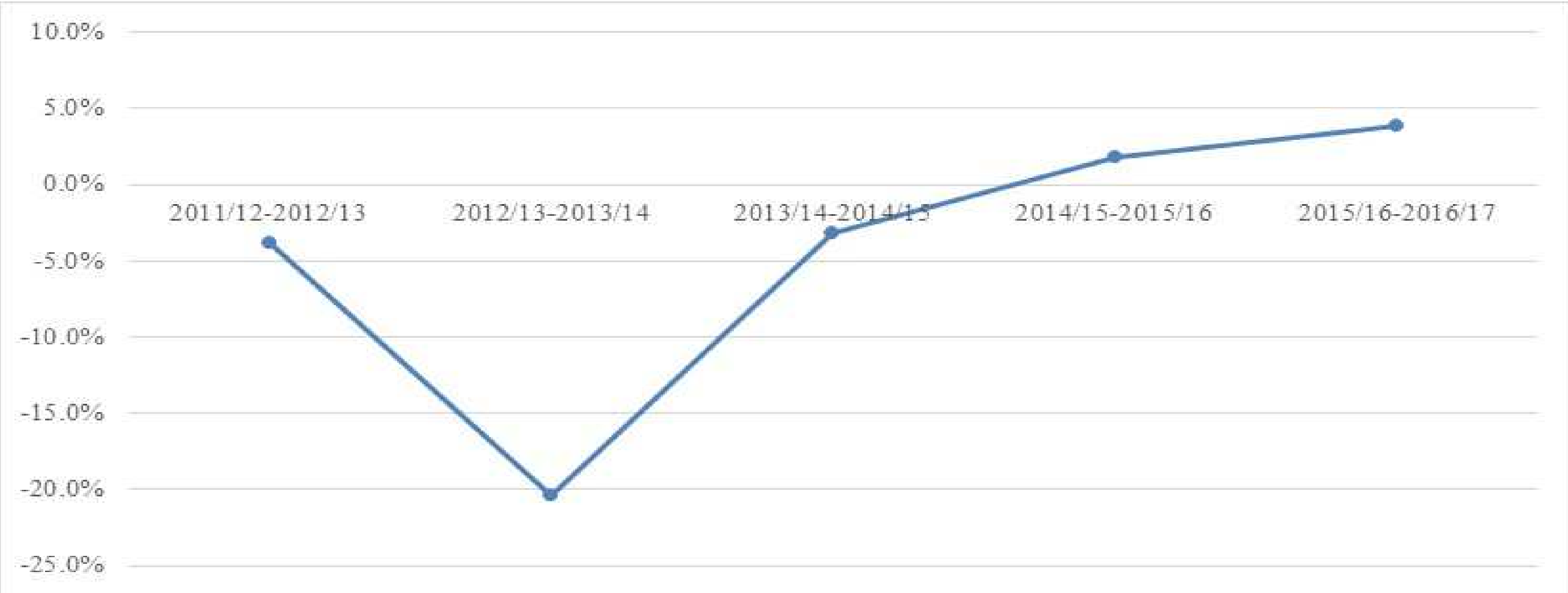
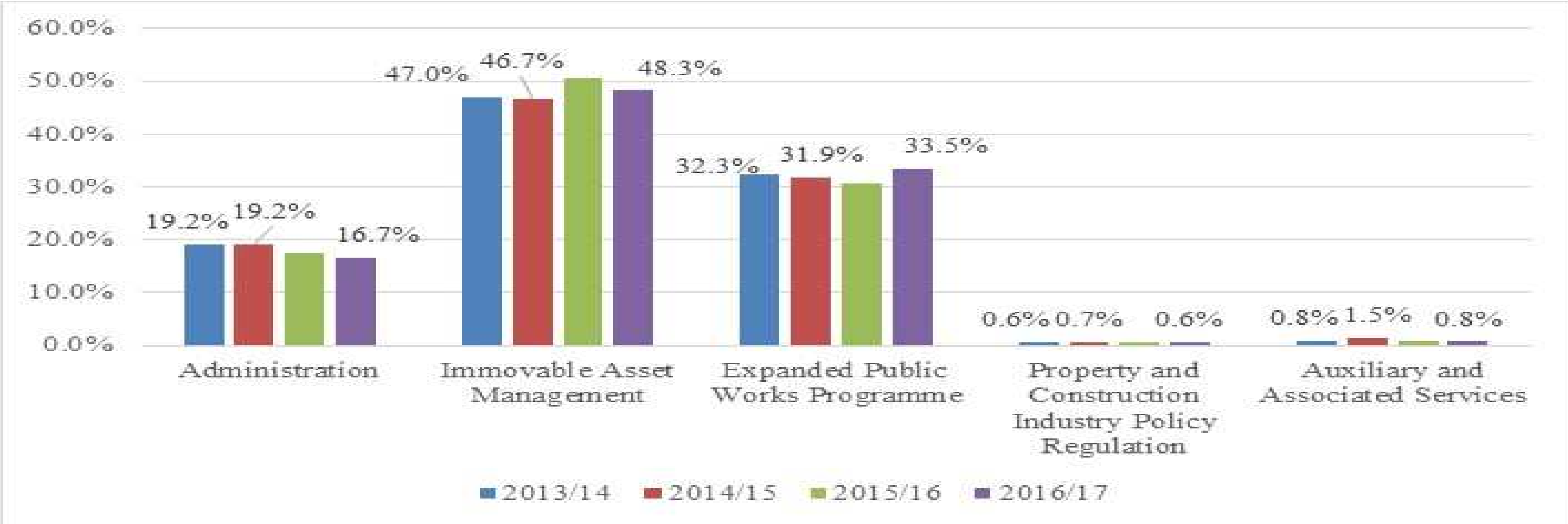
FINANCIAL AND FISCAL COMMISSION

REAL YEAR ON YEAR GROWTH OF PUBLIC WORKS BUDGET

- Significant decline in year on year growth in 2013/14
  - Though still declining in real terms in 2014/15, there is some improvement
- Over rest of 2014 MTEF period, positive growth projected
  - Focus will be on rehabilitating 34 state owned buildings, and ensuring that at least 100 buildings are made accessible to people with disabilities in each year of MTEF



BUDGET COMPOSITION ACROSS PROGRAMMES



- Immovable Asset Management Programme consumes largest share of DPW budget – by end of 2014 MTEF period this programme is projected to consume just under half of DPW budget
- Share allocated to Administration Programme consumers about one fifth of departmental budget – funding for Turnaround Project fall under Administration
  - Turnaround Project will support activities relating to the Special Investigating Unit, a technical support unit, a clean audit project, irregular expenditure management, internal audit support

FINANCIAL AND FISCAL COMMISSION

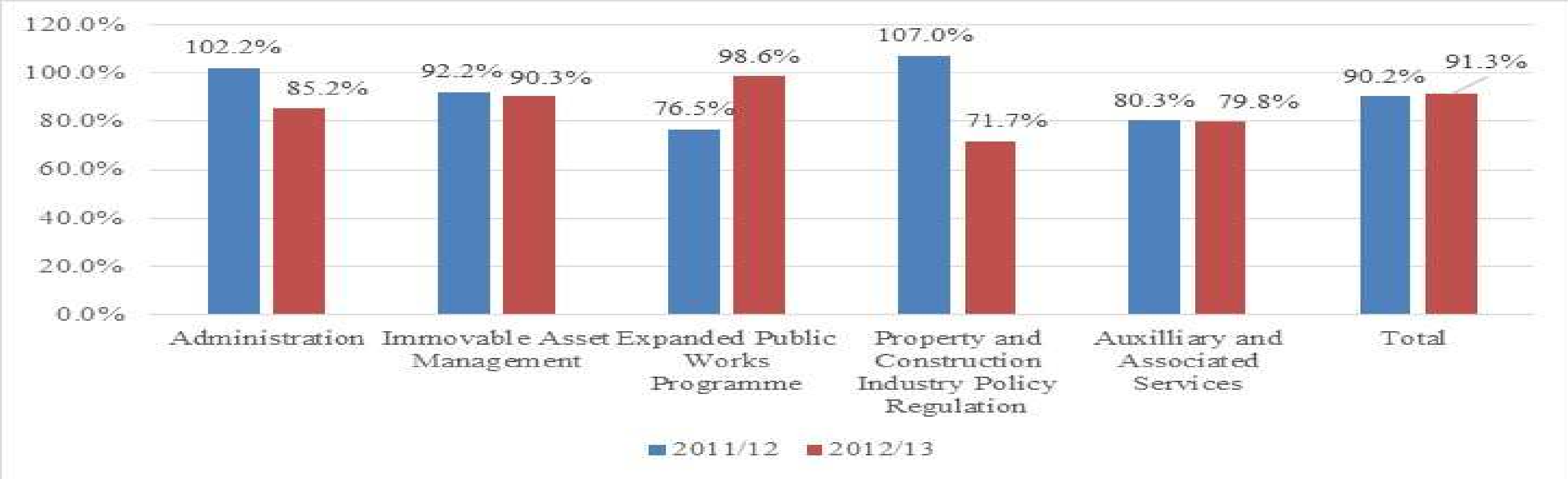
Economic Classification

Item (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Compensation of Employees	1 269.6	1 374.6	1 473.5	1 659.9	1 753.5	1 870.5
Goods and Services	1 032.9	977.0	1 379.6	1 302.1	1 202.9	1 269.0
Transfers and Subsidies	3 656.2	4 092.4	2 543.9	2 563.4	2 654.2	3 017.9
Payments for Capital Assets	1 099.1	756.8	628.4	595.9	934.8	981.7
Real Year on Year Growth (%)						
Compensation of Employees		2.1%	2.1%	7.3%	0.6%	1.6%
Goods and Services		-10.8%	34.5%	-10.1%	-12.0%	0.5%
Transfers and Subsidies		5.6%	-40.8%	-4.0%	-1.4%	8.3%
Payments for Capital Assets		-35.1%	-20.9%	-9.7%	49.4%	-0.003%

- Transfers and subsidies is the largest item
  - the decrease in 2013/14 due to phasing out of the Devolution of Property Rates Fund Grant to Provinces, hence reduction in transfers to provinces
- The increase in spending on Goods and Services in 2013/14 driven by spending on consultants – due to shortage of technical skills in property/project management and specialists as required for the DPW's turnaround project
- Payments for capital assets very erratic
- Relative to strong annual average growth between 2011/12 and 2013/14, growth in Goods and Service set to decline over the 2014 MTEF period

FINANCIAL AND FISCAL COMMISSION

SPENDING PERFORMANCE (FISCAL DISCIPLINE)

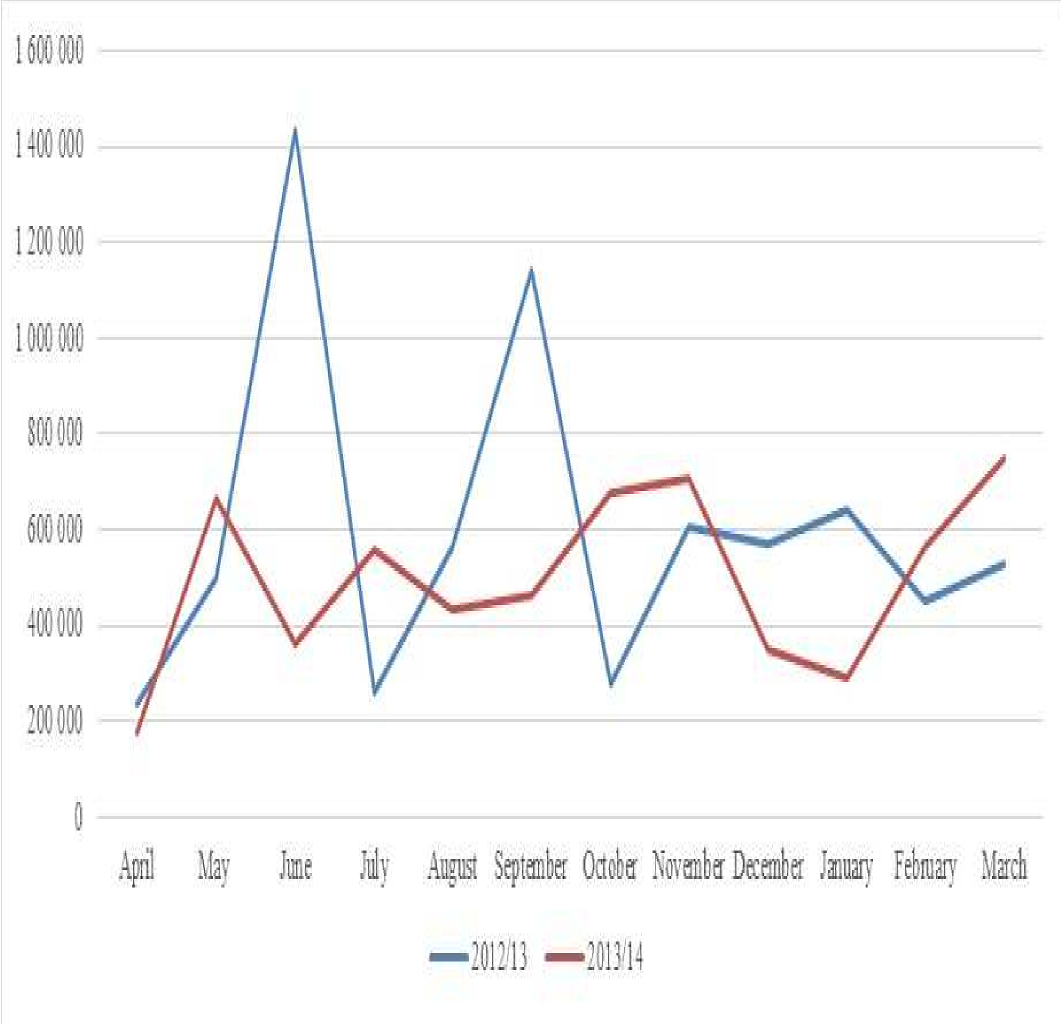


- DPW underspent in 2011/12 and 2012/13
- In 2011 underspending on EPWP and Auxilliary and Associated Services Programme
- In 2012, underspending is as a result of poor spending in Property and Construction Industry Policy Regulation Programme and again Auxilliary and Associated Services Programme
- Due to persistent underspending on capital, baseline reductions of R1.3 billion effected over 2014 MTEF period

FINANCIAL AND FISCAL COMMISSION

IN-YEAR EXPENDITURE

- 2012/13 in-year spending erratic
- Appears to be improving in 2013/14 – variances in monthly spending not as large as during 2012/13
- Concern with poor in-year spending is that it hints at unstable cash flow and disbursements



FINANCIAL AND FISCAL COMMISSION

Selected Sub-Programme Analysis: Immovable Asset Management Programme

Real Year on Year Growth	2011/12-2012/13	2012/13-2013/14	2013/14-2014/15	2014/15-2015/16	2015/16-2016/17
Infrastructure (Public Works)	-33.5%	-9.7%	-28.1%	57.5%	-0.1%
Strategic Asset Investment Analysis	-67.7%	149.1%	10.4%	0.2%	1.0%
Operation Management	1.6%	-0.3%	0.5%	-0.4%	2.7%
Prestige Management	-51.5%	44.0%	-27.0%	-1.0%	-28.5%
Special Projects	4.0%	47.6%	-24.7%	1.8%	0.4%
Construction Industry Development Board	-3.4%	2.0%	1.6%	0.4%	0.2%
Council for the Built Environment	-7.7%	28.8%	4.3%	1.4%	0.2%
Parliamentary Village Management Board	-0.6%	0.1%	1.1%	-0.4%	0.5%
Augmentation of the Property Management Trading Entity	-3.2%	0.5%	-6.0%	-0.1%	0.6%
Independent Development Trust	-68.1%	-6.3%	-4.7%	-4.8%	-100.0%
Total	**-14.0%**	**-37.8%**	**-8.6%**	**10.1%**	**-0.7%**

- Total programme growth declines over most of the period reviewed
  - Decline in 2012 and 2013 is due to phasing out of devolution of property rates fund grant to provinces, non-completion of projects and Cabinet approved reductions due to underspending
- Generally sub-programme trends are erratic, brings into question soundness of planning in DPW
- Lack of capacity a challenge in this programme – 10% vacancy rate

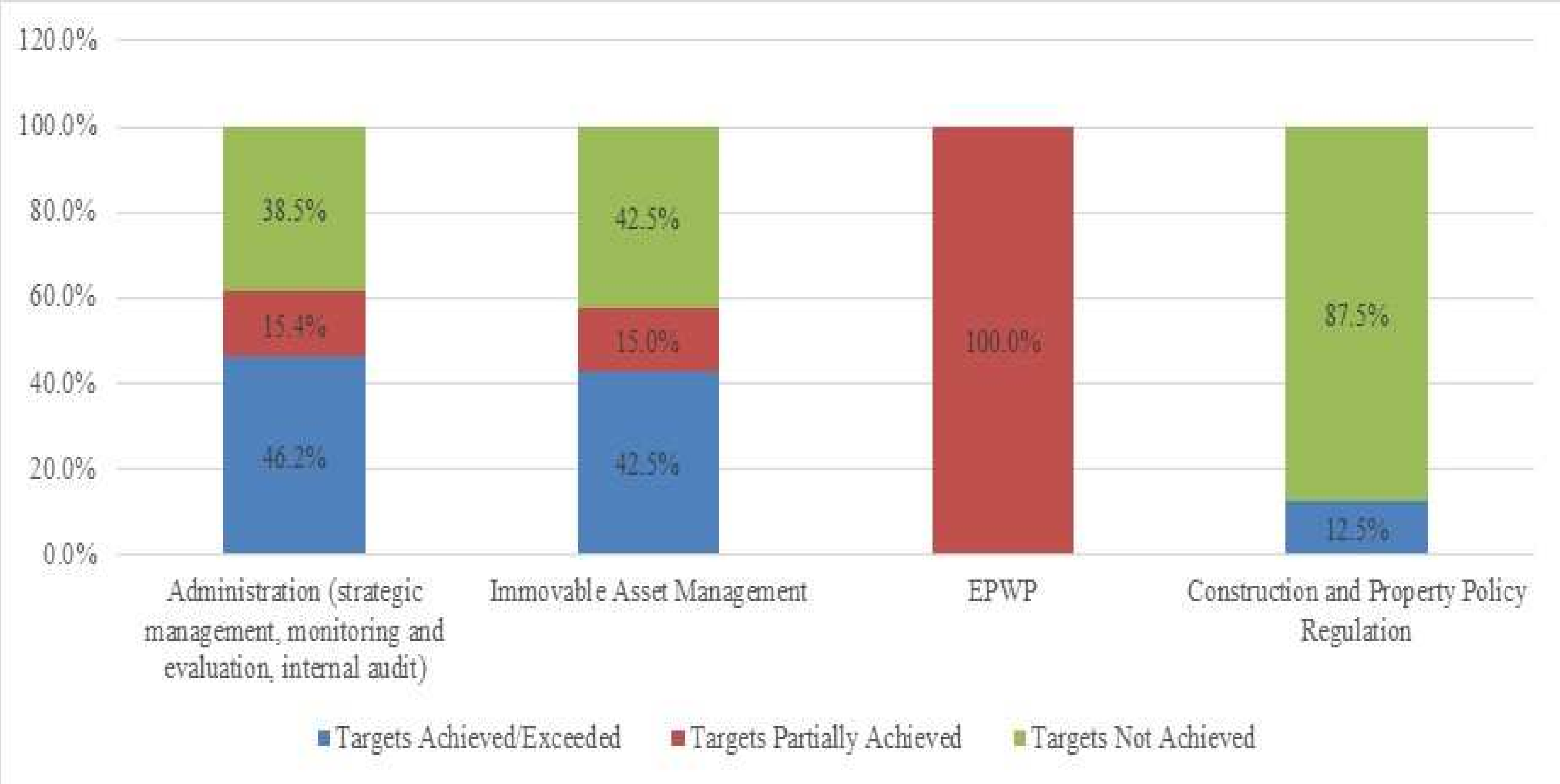
SELECTED SUB-PROGRAMME ANALYSIS: EXPANDED PUBLIC WORKS PROGRAMME

R million	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Expanded Public Works Programme	209.7	236.8	273.8	261.5	267.7	290.6
Performance Based Incentive Allocations	953.3	1 467.3	1 674.2	1 689.8	1 739.2	2 104.6
Total	**1 163.0**	**1 704.1**	**1 948.0**	**1 951.3**	**2 006.8**	**2 395.2**
Real Year on Year Growth		**2011/12-2012/13**	**2012/13-2013/14**	**2013/14-2014/15**	**2014/15-2015/16**	**2015/16-2016/17**
Expanded Public Works Programme		12.9%	15.6%	-4.5%	2.4%	8.6%
Performance Based Incentive Allocations		53.9%	14.1%	0.9%	2.9%	21.0%
Total		**46.5%**	**14.3%**	**0.2%**	**2.8%**	**19.4%**

- EPWP promotes use of government expenditure to create additional employment opportunities through the use of labour-intensive delivery methods
  - Increases in 2012/2013 due to appointment of service providers to support provinces and municipalities in design of infrastructure projects and reporting methods
- Performance Based Incentive Allocations is the largest sub-programme
  - Focus: disburses funds to provinces/municipalities and NGOs to ensure creation of work opportunities in infrastructure, environment, social sectors
  - Increases between 2012 and 2013 are due to additional funding allocated. However to give effect to Cabinet-approved reductions, growth in this sub programme slows in 2014 and 2015
- Overall between 2009/10 and 2012/13, just over 3 million jobs created (68% of target of 4.5 million jobs)

DEPARTMENTAL PERFORMANCE

- Department not adequately meeting targets set.
  - Number of targets partially met and totally unmet exceptionally high



Departmental Performance [cont.]

Programme	Explanation for Unmet Targets
Administration	Delays due to lack of capacity/high vacancy rate, unrealistic targets given financial resources, lengthy procurement processes that delay appointment of service providers
Immovable Asset Management	Appropriate supply chain management process not followed, unrealistic target setting, inadequate data collection to verify extent to which target was met
EPWP	Delays in project implementation, lack of technical capacity to implement projects, poor performance on part of municipalities/provinces to carry out projects
Construction and Property Policy Regulation	• Legislative framework for Built Environment Professionals: delays in internal consultation • Establish Agrement SA as public entity: delay in the approval of business case • Provide immovable asset lifecycle management guidelines to national and provincial custodians of immovable assets: delay in internal consultation prevented finalisation

ASPECTS HIGHLIGHTED BY THE AUDITOR-GENERAL

- DPW audit outcomes:
  - 2009/10: qualified with findings
  - 2010/11:disclaimer
  - 2011/12: disclaimer
  - 2012/13: qualified with findings
- Key issues highlighted by Auditor-General that need to be addressed:
  - Inadequate internal controls in areas of leadership, financial management, performance management and governance
  - Areas that were identified for specific attention through the turnaround project include: lack of controls in supply chain management, poor lease management, inadequate immovable asset register, lack of built environment and property management skills

FINANCIAL AND FISCAL COMMISSION

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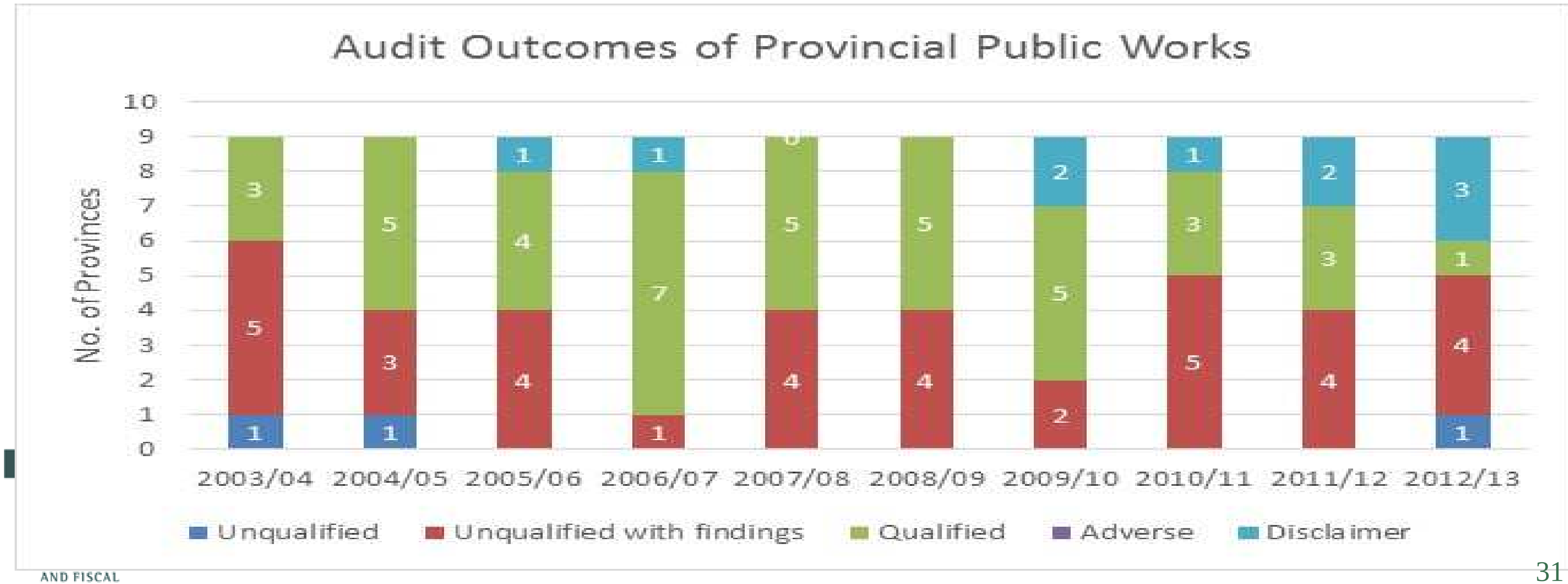
PUBLIC WORKS IN THE PROVINCES

PROVINCIAL AUDIT OUTCOMES

- Audit outcomes for provincial departments of public works have not considerably improved in since 2003/04
  - Four out of the nine provinces received a qualified opinion or disclaimer in 2012/13
  - Over a period of 10 years (i.e. 2003/4 – 2012/13), only 3 provincial departments of public works received an unqualified audit opinion



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PROVINCIAL AUDIT OUTCOMES [CONT.]

- The Auditor-General raised a number of matters that prevented provincial departments from achieving clean audits such as:
  - Instability in leadership and lack of human resources
  - Internal controls are ineffective
  - Action plans to implement improvement in audit outcomes are not timeously implemented
  - Inaccurate and incomplete fixed asset registers
  - Incomplete disclosures on unauthorized, irregular and fruitless, irregular and wasteful expenditure
  - Commitments by the national sector department to intervene and/or provide support were not honoured
- The Commission's view is that DPW should play a more active role, through the various intergovernmental forums, in providing the necessary support to provincial departments of public works

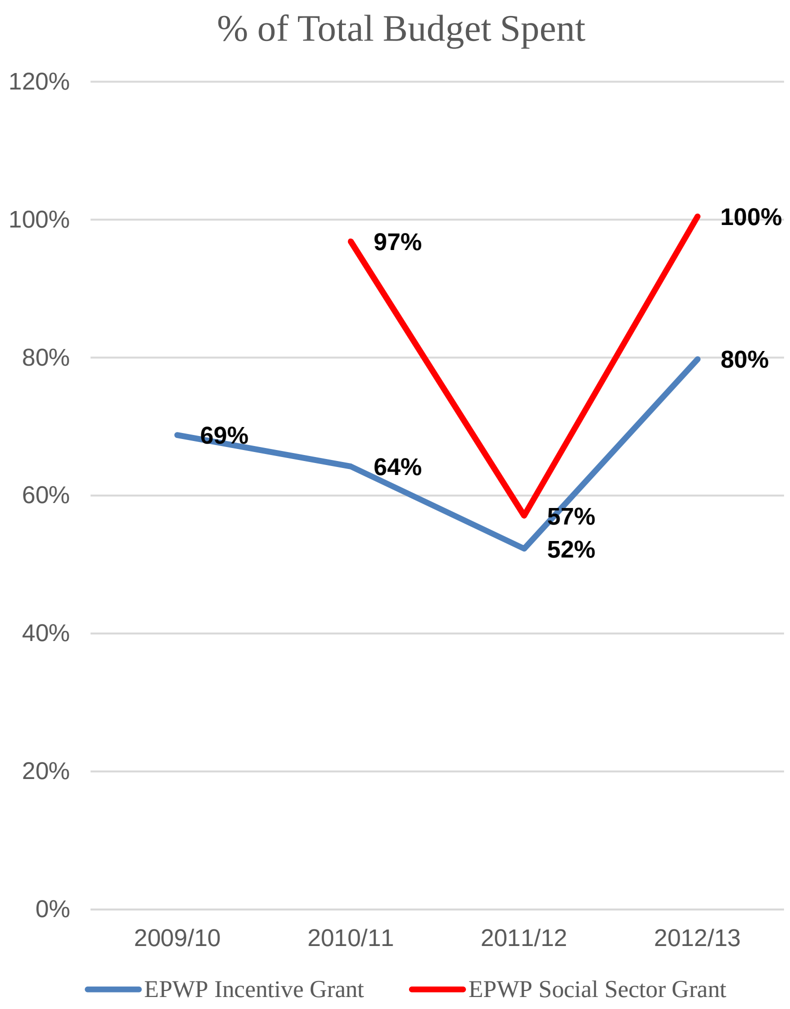
FINANCIAL AND FISCAL COMMISSION

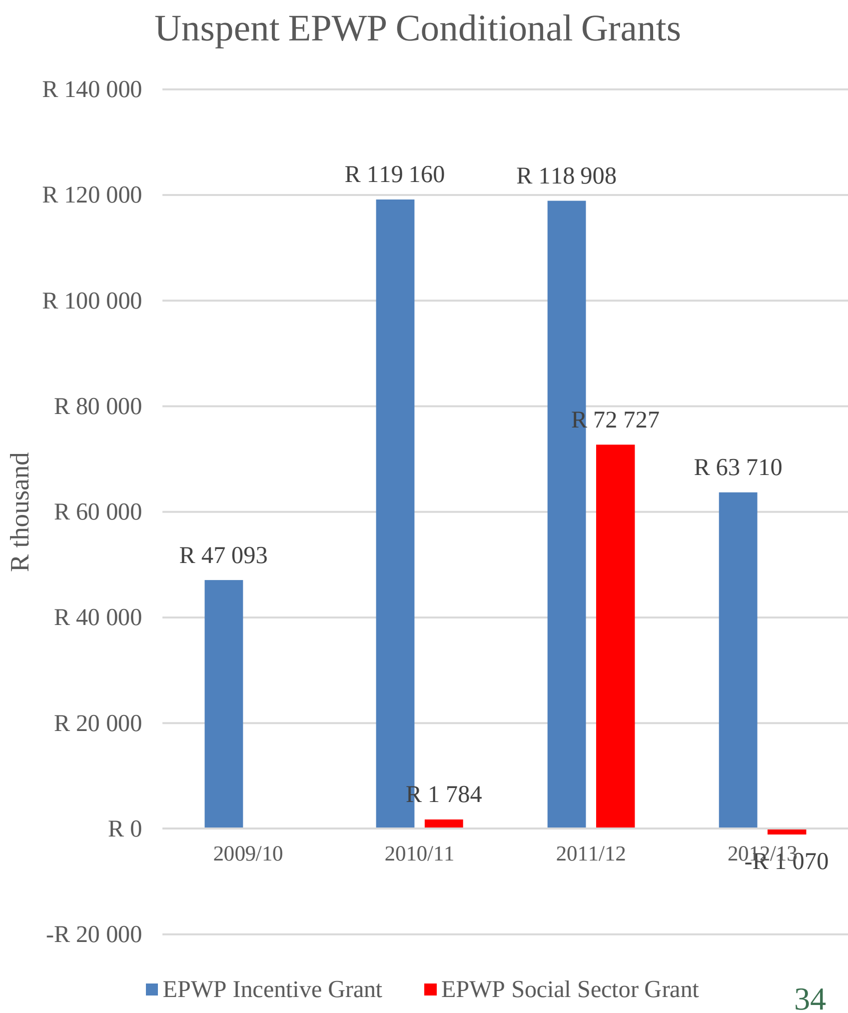
SPENDING PERFORMANCE BY PROVINCES ON EPWP CONDITIONAL GRANTS

- The National Department of Public Works is the transferring agent for two EPWP conditional grants to provinces
- As the transferring agent, the responsibilities of the DPW are prescribed in the conditional grant framework contained in the Division of Revenue Act. These include (among others):
  - Determine eligibility of grant, monitor and provide support to provinces, audit provincial performance and report to national treasury on provincial progress

FINANCIAL AND FISCAL COMMISSION

EPWP Conditional Grants to Provinces





SUMMARY OF PERFORMANCE ON EPWP GRANTS TO PROVINCES

- Over a four year period (2009/10 – 2012/13), provinces have been unable to spend more than 80% of its allocation to the EPWP Incentive Grant in any given year
- Except in 2011/12 where spending on both EPWP grants were below 60% of total, the EPWP Social Sector grant in general, performed better than the Incentive grant
  - Provinces have challenges relating to infrastructure, which affects the spending performance on the Incentive grant
- In many instances, provinces fail to comply with grant conditions stipulated in DORA, resulting in funds being withheld, thereby leaving funds unspent at the end of the year

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CONCLUDING REMARKS

- Key issues emanating from analysis of DPW
  - Underspending of budget
  - Not meeting set targets
- For the sector to turnaround, the DPW should play a leadership role by providing the necessary support to the provinces and establishing minimum norms and standards to facilitate improvement in service delivery in the provinces
- Department to put in place proper systems to guide expenditure management, setting of appropriate key performance indicators and a plan to attract/retain skilled staff
  - Outcome of the Turnaround Project is key in facilitating progress – some improvements noted but far to go in putting DPW on stable footing

FINANCIAL AND FISCAL COMMISSION

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Financial and Fiscal Commission
Intergovernmental Fiscal Relations Conference
11 - 13 August 2014
International Convention Centre, Cape Town, South Africa

2015/16 Submission | Housing Financing | Child Welfare Services | 2012/2013 Annual report

2015/16 SUBMISSION FOR THE DIVISION OF REVENUE

SUBMISSION FOR THE DIVISION OF REVENUE 2015/16

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

NEW!!!

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

UPCOMING EVENTS

FINANCIAL AND FISCAL COMMISSION

PORTFOLIO COMMITTEE ON PUBLIC WORKS

Financial and Fiscal Commission

25 September 2014

For an Equitable Sharing of National Revenue

PRESENTATION OUTLINE

1. Role and Function of the Financial and Fiscal Commission
2. Recommendations of the Commission that relate to Public Works
3. Departmental Analysis

FINANCIAL AND FISCAL COMMISSION

1. Role and Function of the Financial and Fiscal Commission

ROLE AND FUNCTION OF THE FFC

- The Financial and Fiscal Commission (FFC)
  - Is an independent, permanent, statutory institution established in terms of Section 220 of Constitution
  - Must function in terms of the FFC Act
- Mandate of Commission
  - To make recommendations, envisaged in Chapter 13 of the Constitution or in national legislation to Parliament, Provincial Legislatures, and any other organ of state determined by national legislation
- The Commission's focus is primarily on the equitable division of nationally collected revenue among the three spheres of government and any other financial and fiscal matters
  - Legislative provisions or executive decisions that affect either provincial or local government from a financial and/or fiscal perspective
  - Includes regulations associated with legislation that may amend or extend such legislation
  - Commission must be consulted in terms of the FFC Act
  - Current research strategy focuses on developmental impacts of IGFR

FINANCIAL AND FISCAL COMMISSION

How FFC Supports Policy

- Identify weakness within the IGFR system
- Propose evidence-based policy proposals
- Interact and participate with/in forums and institutions responsible for IGFR policy – TCF, Budget Council, Budget Forum
- Information dissemination – invitations from nine provincial legislatures and SALGA
- Interact with various committees within parliament

FINANCIAL AND FISCAL COMMISSION

PROCESSING OF RECOMMENDATIONS

- Recommendations of the Commission
  - Recommendations are made to Parliament so that the legislature can examine the financial and fiscal decisions of government against them and understand why they have been accepted or rejected
  - Section 4(4)(c) of the Money Bills Amendment Procedures and Related Matters Act (MBAPMA) requires Parliament to consider the recommendations of the Commission when deliberating on Money Bills
- Government is obligated through an Act of Parliament to explain how it has taken the FFC recommendations in arriving at the division of revenue for any particular year
  - The response is tabled in Annexure W1 of the DoR Bill and of the Budget Review

FINANCIAL AND FISCAL COMMISSION

How FFC can Support Parliament

DIRECT TRAINING AND INTERVENTION

- Training of members of parliamentary committees and councillors on request (e.g. in Bushbuckridge)
- Advice to municipalities (e.g. Tshwane merger)
- Inputs in various fora (e.g. SALGA)

NON TRAINING SUPPORT AND INTERVENTION

- Member of review committees (LES, Infrastructure Grants, Metro's Own Revenue)
- Public hearings (local government fiscal framework, housing and welfare)
- Inputs in benchmarking exercises
- Recommendations through Annual Submission on DoR, MTBPS, FF and Appropriations

VALUE ADD OF THE FFC

- FFC can provide advice, analysis and training to assist the work of the Committee
  - Specialised IGFR training to committee members and/or parliamentary researchers
  - Provision of recommendations that are founded on evidence based research
  - Technical support with respect to parliamentary fiscal oversight activities

FINANCIAL AND FISCAL COMMISSION

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COMMISSION

2. RECOMMENDATIONS THAT RELATE TO PUBLIC WORKS

FFC Work Related to DPW [cont.]

Response to Division of Revenue Bill (DoRB) 2010	The Commission welcomed introduction of the *EPWP Incentive Grant for the Social Sector*. The Commission noted that there was a need to standardise the employment framework for the sector including conditions, wages and progression across provinces and municipalities. The Commission also raised concern regarding difficulties that were being experienced with the transfer of the EPWP Incentive Grant to Local and Provincial Governments. In the 2009/10 certain provinces (e.g. Western Cape) raised concern that they received transfers outside the ambit of the DoR and couldn't spend the money because it was not properly appropriated through various legislatures. At that point the general challenge with the grant was that provinces and municipalities found it difficult to integrate it through their infrastructure programmes. This problem persists because labour intensive infrastructure projects need to be planned, costed and scheduled properly. Not all projects yield the same labour intensity, so targets must be set by project type and category. Some projects will better lend themselves to labour intensive methods than others. This must be factored into the budget allocations and monitoring of the grant. *Current Commission analysis is that provinces continue to have challenges relating to labour intensive infrastructure, which affects the spending of the Incentive grant. In 2012/13 DPW appointed service providers to support provinces and municipalities in design of infrastructure projects and reporting methods.*

FFC Work Related to DPW [cont.]

Response to MTBPS 2011	In terms of the EPWP Incentive grant framework, provinces and municipalities must spend their budgets on EPWP projects and after that the grant will be paid by DPW quarterly as an incentive (after employment has been created). There has been general under-spending against budget since inception of the grant. Projected under-spending in financial year 2011 was 28.4%. In 2010, the actual under-spend was 38.4%. Despite poor spending performance, the annual growth of the budget was high. Expenditure reports on the grant performance at local government were inaccessible. DPW should explain how transfers are reconciled with actual expenditure. The grant should be streamlined to the Division of Revenue Act (DORA) requirements in terms of allocation and disbursements of funds. Punitive and incentive elements of the grant should be made transparent to all the stakeholders. *Current FFC analysis indicates that underspending persists. Between 2009/10 and 2012/13, provinces have been unable to spend more than 80% of their allocation*
Response to DoRB 2012	The Commission reiterated concerns raised in its Response to DoRB 2010 and Response to 2011 MTBPS regarding the challenges with the EPWP Incentive grant. The Commission maintained its view that the grant had not succeeded in achieving the intended goals within the specified time. There had also not been a formal assessment of the achievement of this grant both in terms of expenditure and service delivery outputs including how many direct and full times jobs had been created against the allocated funds. The Commission recommended that an independent review of the grant be undertaken, so that lessons can be drawn from past experience to avoid a replication of past mistakes. Government has since set up a team consisting of National Treasury, DPW, DCoG and SALGA that has been working on this. *This review is ongoing*

FFC Work Related to DPW [cont.]

Submission for the 2009/10 DoR	FFC found a need for reporting on EPWP outcomes to be more specific. In accordance with the requirements of the EPWP, job creation for target groups such as women, youth and people with disabilities should be included in the reporting requirements for all infrastructure conditional grants to provinces and municipalities GOVT. RESPONSE: The recommendation for reporting on targets is supported. Some of these indicators can possibly be reported on as part of the conditional grant frameworks prescribed in terms of the Division of Revenue Act
Submission for the 2007/08 DoR	The World Cup funding was crafted on the basis of requirements to meet FIFA standards of hosting cities, and that the major challenge faced by government was sustainability of built infrastructure. On the funding for the FIFA World Cup, FFC, examined the sustainability of built infrastructure, taking the escalation of construction costs into account. FFC's findings included that the escalation of construction costs be budgeted for, and that collaboration with the private sector should be encouraged. Also that a 2010 World Cup "Legacy Management Policy" should be introduced and prudent fiscal policy should be maintained leading to the World Cup GOVT. RESPONSE: Government is of the view that the costs relating to maintenance of constructed 2010 FIFA World Cup facilities should be provided by municipalities

FINANCIAL
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COMMISSION

3. Departmental Analysis

Contextualising the Department of Public works

- Aim of Department of Public Works (DPW):
  - provide for and manage accommodation, housing, land and infrastructure needs of national departments
  - Lead and direct implementation of the national expanded public works programme (EPWP)
  - Promote growth, job creation and transformation in the construction and property industries
- Public works is a concurrent function between national and provincial spheres of government
- DPW contribution to National Development Plan (NDP) achieved through:
  - Implementation of job creation initiatives
  - Transition to low cost carbon economy
  - Development of an inclusive and integrated rural economy
  - Fight against corruption

FINANCIAL AND FISCAL COMMISSION

KEY CHALLENGES CONFRONTING DPW

- Due to consistent trend of poor audit outcomes and generally poor performance, DPW implemented a turnaround project in November 2012
- Areas that were identified for specific attention through the turnaround project include:
  - Lack of controls in supply chain management (SCM)
    - Identified as major risk area by Auditor-General – DPW capacity to process tenders eroded and has led to numerous instances of fraud/corruption. SCM has been major focus of the Special Investigating Unit (SIU). SCM is the key focus of turnaround project in DPW. A service provider appointed to assist with fundamental review of SCM
      - Irregular expenditure, R171 million in 2011/12; R874 million in 2012/13
  - Poor lease management
    - Numerous irregularities with respect to lease agreements – gives rise to legal risks. DPW reviewing all lease agreements

FINANCIAL AND FISCAL COMMISSION

KEY CHALLENGES CONFRONTING DPW [CONT.]

- Inadequate immovable asset register
  - Lack of compliant immovable asset register resulted in negative audit opinions. DPW now in process of rebuilding immovable asset register and building a model to revalue immovable assets
- Lack of built environment and property management skills
  - Lack of technical capacity to undertake direct construction/maintenance functions. Cooperating with DPSA and Higher Education and Training to address challenge

FINANCIAL AND FISCAL COMMISSION

STARTING POINT FOR BUDGET ANALYSIS

- By vote
  - Compare different votes with each other
- By vote programme
  - Compare different programmes within a vote
- By sub-programme
- Compare different sub-programmes within a programme
- By province
- Compare different provinces with each other
- Use Outputs, Targets and Indicators to measure performance
- Use policy documents as a benchmark

FINANCIAL AND FISCAL COMMISSION

USEFUL TOOLS

- Percentage Share of Total Budget
- Growth in the Budget
  - Percentage Change
    - Reflecting increases/decreases in percentage form
  - Annual Growth Rate
    - How does the allocation change year on year
  - Real Percentage Change
    - Takes inflation into consideration
  - Variances and explanations
    - Investigating the reasons/drivers of change
  - Spending by economic classification
    - Distinguishes between various categories of current (goods and services, transfers and subsidies) and capital expenditure (acquisition of fixed capital assets, purchase of land)

FINANCIAL AND FISCAL COMMISSION

Budget and Programmes of Public Works

Nominal (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Real Annual Average Growth 2011/12-2013/14	Real Annual Average Growth 2014/15-2016/17
Administration	837.1	856.2	1 158.2	1 175.3	1 133.3	1 191.5	11.5%	-4.1%
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Expanded Public Works Programme	1 163.0	1 704.1	1 948.0	1 951.3	2 006.8	2 395.2	22.7%	5.5%
Property and Construction Industry Policy Regulation	34.4	26.9	36.7	41.5	43.4	45.9	-2.1%	0.1%
Auxiliary and Associated Services	25.2	53.3	50.7	91.8	53.7	56.6	34.4%	-25.2%
Total	**7 061.4**	**7 203.9**	**6 025.3**	**6 121.3**	**6 545.3**	**7 139.2**	**-12.5%**	**2.8%**

- Five programmes on Department of Public Works (DPW) budget
- Allocation reduced significantly in 2013/14, due to phasing out of Devolution of Property Rates Fund Grant to provinces and non-completion of various projects. As result of underspending, Cabinet approved reductions were effected
  - Following poor spending performance and audit outcomes, DPW implementing a Turnaround Project
- DPW budget projected to recover to just over R7.1 billion by end of 2014 medium term expenditure framework (MTEF) period
  - 2014 MTEF growth driven by additional allocation of R159 million in 2016/17 for Expanded Public Works Programme (EPWP)

FINANCIAL AND FISCAL COMMISSION

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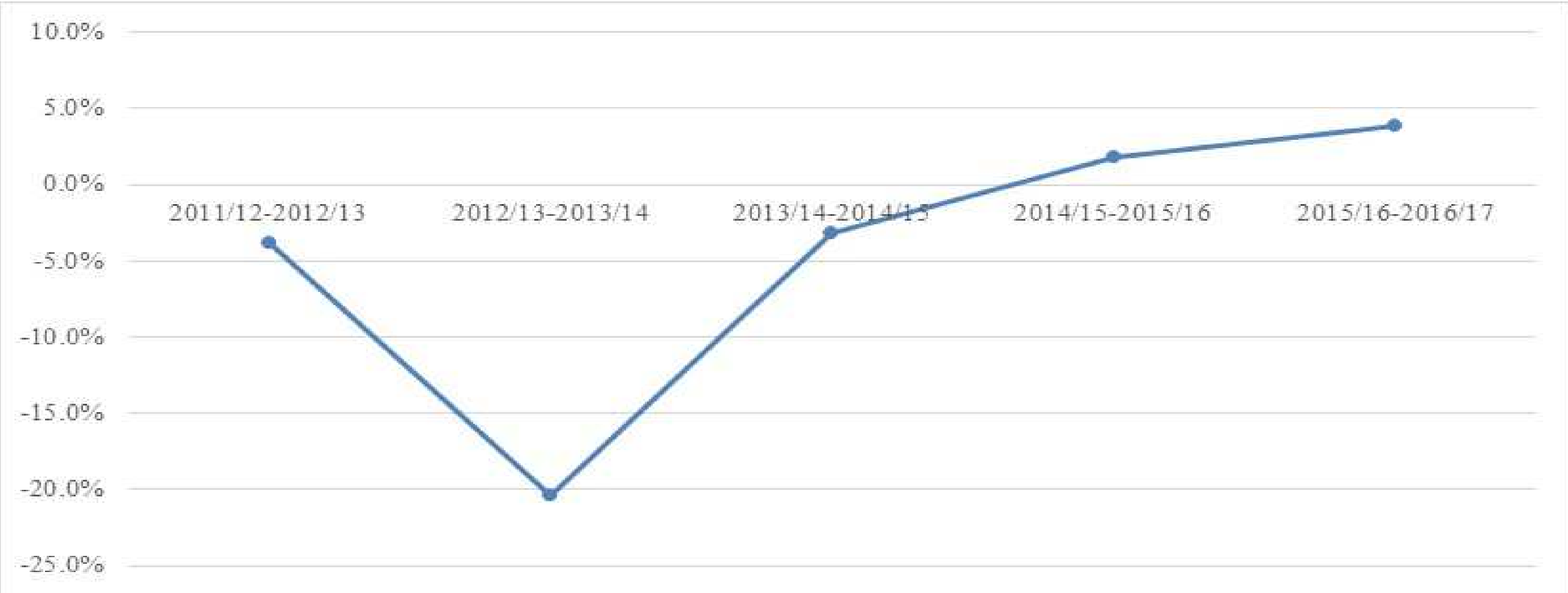

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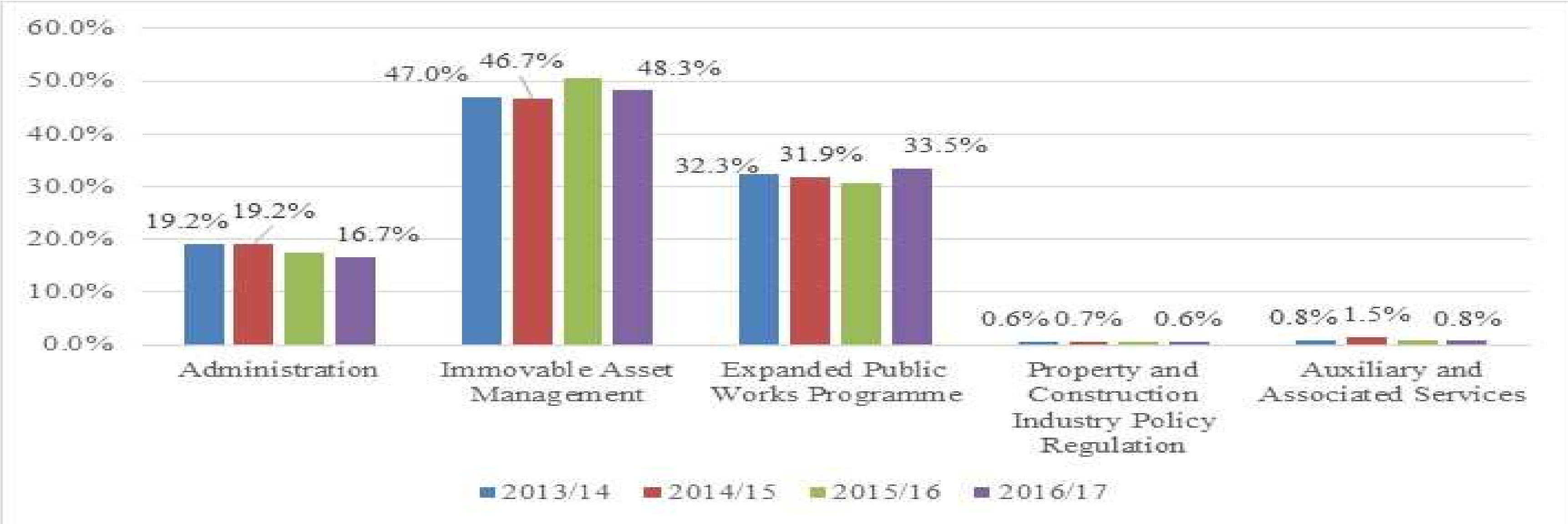

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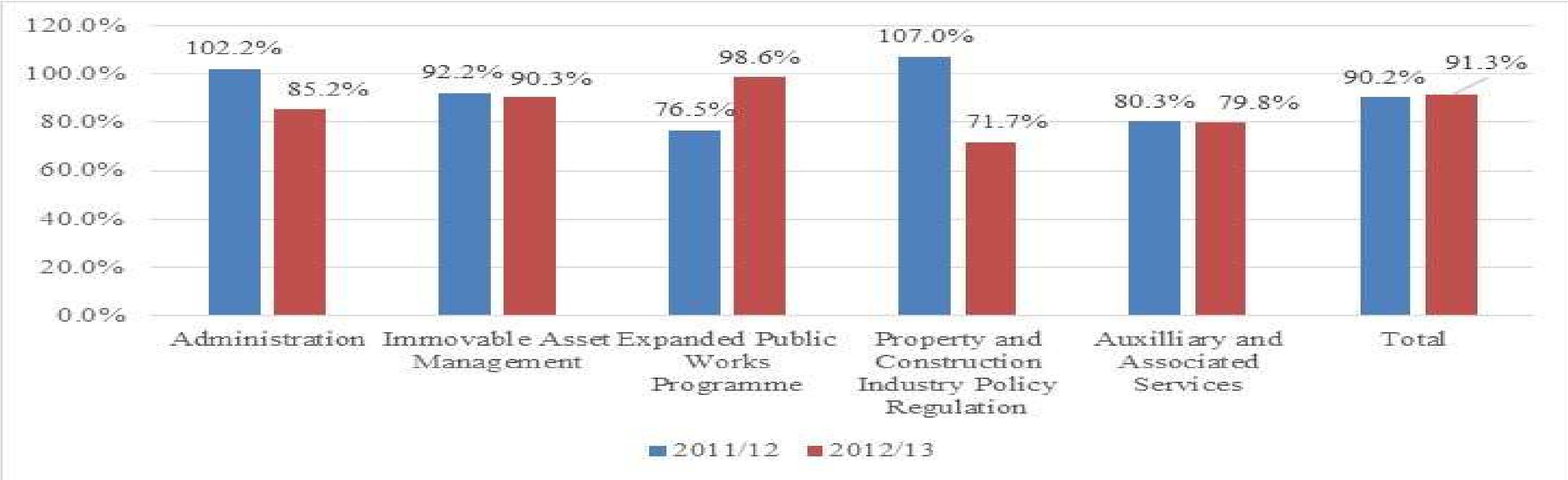
Transfers and Subsidies	3 656.2	4 092.4	2 543.9	2 563.4	2 654.2	3 017.9
Payments for Capital Assets	1 099.1	756.8	628.4	595.9	934.8	981.7
Real Year on Year Growth (%)						
Compensation of Employees		2.1%	2.1%	7.3%	0.6%	1.6%
Goods and Services		-10.8%	34.5%	-10.1%	-12.0%	0.5%
Transfers and Subsidies		5.6%	-40.8%	-4.0%	-1.4%	8.3%
Payments for Capital Assets		-35.1%	-20.9%	-9.7%	49.4%	-0.003%

- Transfers and subsidies is the largest item
  - the decrease in 2013/14 due to phasing out of the Devolution of Property Rates Fund Grant to Provinces, hence reduction in transfers to provinces
- The increase in spending on Goods and Services in 2013/14 driven by spending on consultants – due to shortage of technical skills in property/project management and specialists as required for the DPW's turnaround project
- Payments for capital assets very erratic
- Relative to strong annual average growth between 2011/12 and 2013/14, growth in Goods and Service set to decline over the 2014 MTEF period

FINANCIAL AND FISCAL COMMISSION

SPENDING PERFORMANCE (FISCAL DISCIPLINE)

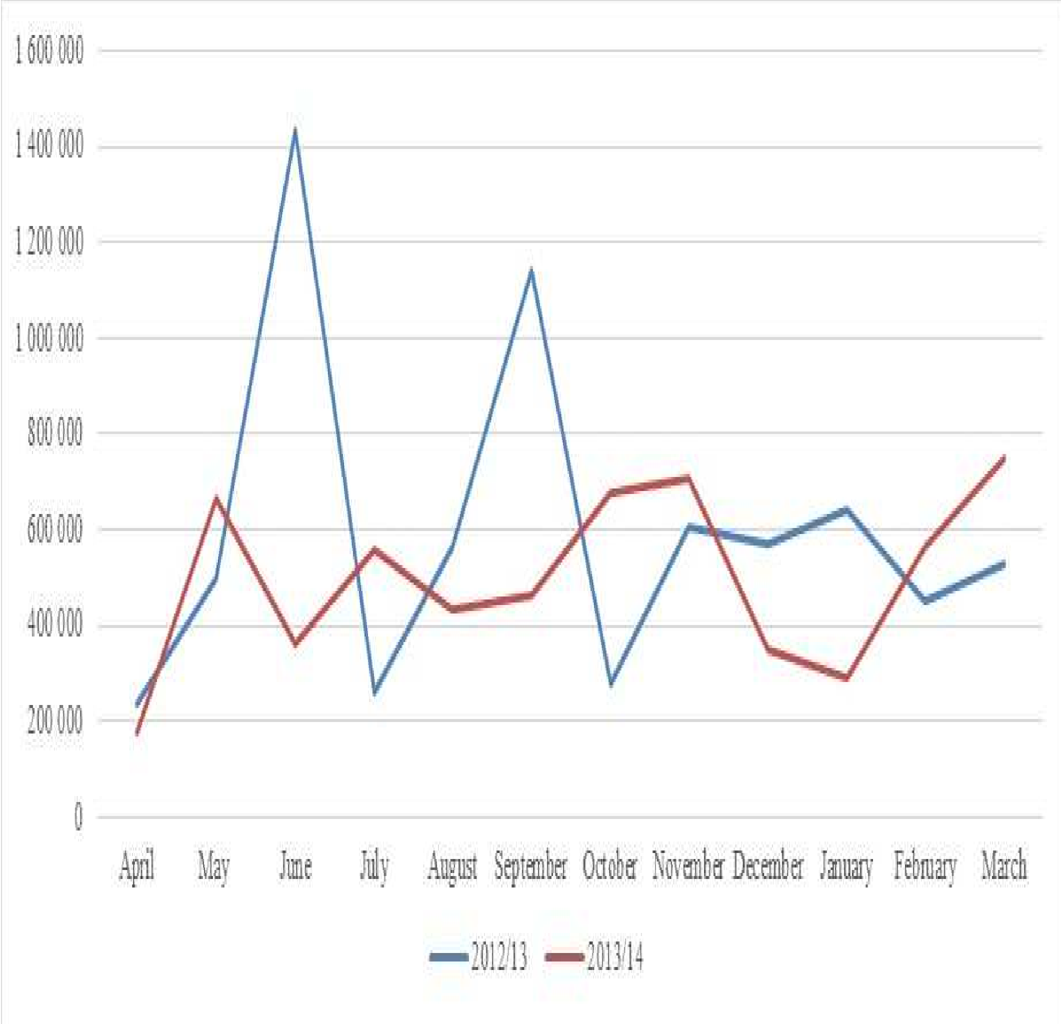


- DPW underspent in 2011/12 and 2012/13
- In 2011 underspending on EPWP and Auxilliary and Associated Services Programme
- In 2012, underspending is as a result of poor spending in Property and Construction Industry Policy Regulation Programme and again Auxilliary and Associated Services Programme
- Due to persistent underspending on capital, baseline reductions of R1.3 billion effected over 2014 MTEF period

FINANCIAL AND FISCAL COMMISSION

IN-YEAR EXPENDITURE

- 2012/13 in-year spending erratic
- Appears to be improving in 2013/14 – variances in monthly spending not as large as during 2012/13
- Concern with poor in-year spending is that it hints at unstable cash flow and disbursements



FINANCIAL AND FISCAL COMMISSION

Selected Sub-Programme Analysis: Immovable Asset Management Programme

Real Year on Year Growth	2011/12-2012/13	2012/13-2013/14	2013/14-2014/15	2014/15-2015/16	2015/16-2016/17
Infrastructure (Public Works)	-33.5%	-9.7%	-28.1%	57.5%	-0.1%
Strategic Asset Investment Analysis	-67.7%	149.1%	10.4%	0.2%	1.0%
Operation Management	1.6%	-0.3%	0.5%	-0.4%	2.7%
Prestige Management	-51.5%	44.0%	-27.0%	-1.0%	-28.5%
Special Projects	4.0%	47.6%	-24.7%	1.8%	0.4%
Construction Industry Development Board	-3.4%	2.0%	1.6%	0.4%	0.2%
Council for the Built Environment	-7.7%	28.8%	4.3%	1.4%	0.2%
Parliamentary Village Management Board	-0.6%	0.1%	1.1%	-0.4%	0.5%
Augmentation of the Property Management Trading Entity	-3.2%	0.5%	-6.0%	-0.1%	0.6%
Independent Development Trust	-68.1%	-6.3%	-4.7%	-4.8%	-100.0%
Total	**-14.0%**	**-37.8%**	**-8.6%**	**10.1%**	**-0.7%**

- Total programme growth declines over most of the period reviewed
  - Decline in 2012 and 2013 is due to phasing out of devolution of property rates fund grant to provinces, non-completion of projects and Cabinet approved reductions due to underspending
- Generally sub-programme trends are erratic, brings into question soundness of planning in DPW
- Lack of capacity a challenge in this programme – 10% vacancy rate

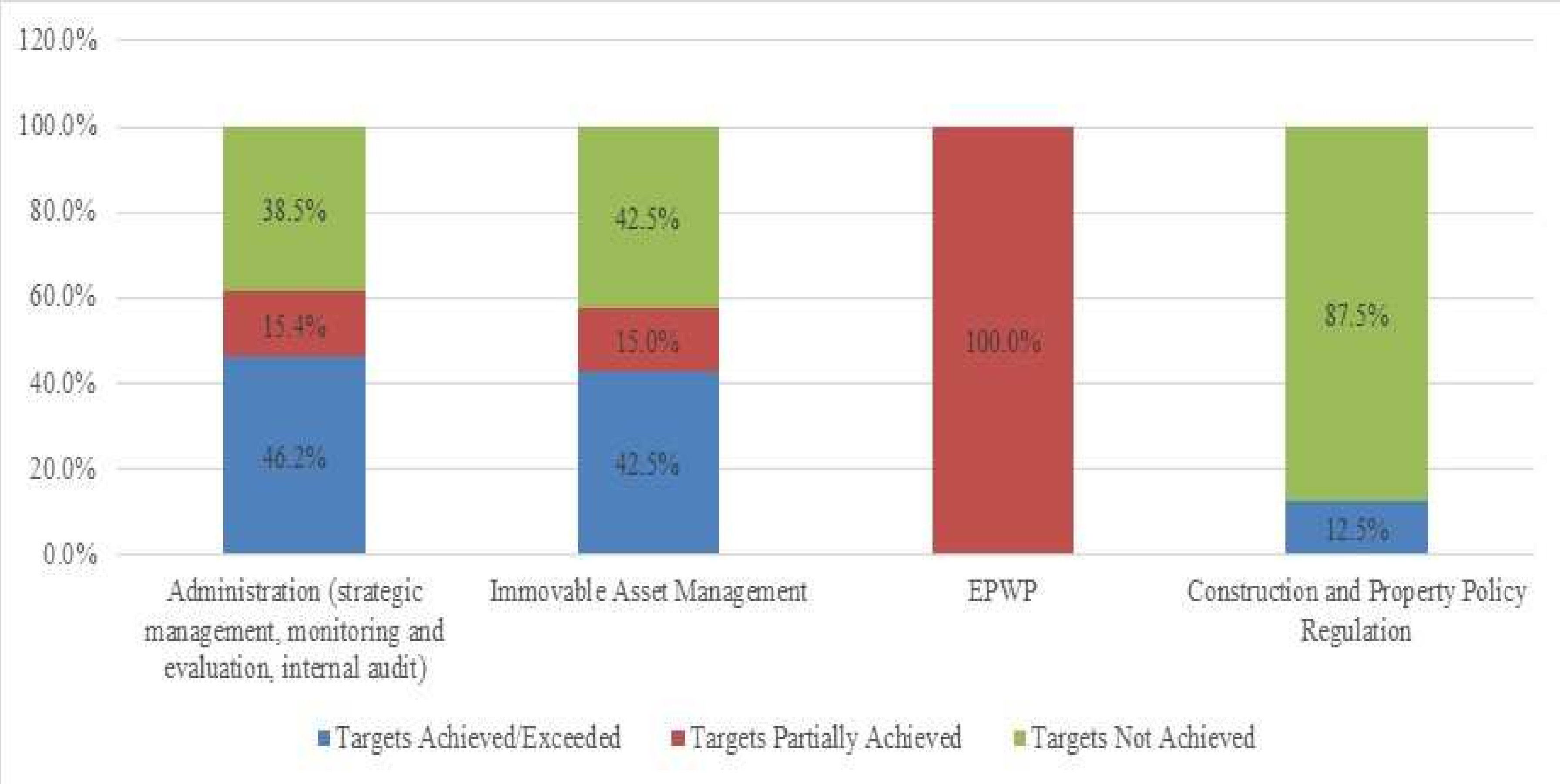
SELECTED SUB-PROGRAMME ANALYSIS: EXPANDED PUBLIC WORKS PROGRAMME

R million	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**
Expanded Public Works Programme	209.7	236.8	273.8	261.5	267.7	290.6
Performance Based Incentive Allocations	953.3	1 467.3	1 674.2	1 689.8	1 739.2	2 104.6
Total	**1 163.0**	**1 704.1**	**1 948.0**	**1 951.3**	**2 006.8**	**2 395.2**
Real Year on Year Growth		**2011/12-2012/13**	**2012/13-2013/14**	**2013/14-2014/15**	**2014/15-2015/16**	**2015/16-2016/17**
Expanded Public Works Programme		12.9%	15.6%	-4.5%	2.4%	8.6%
Performance Based Incentive Allocations		53.9%	14.1%	0.9%	2.9%	21.0%
Total		**46.5%**	**14.3%**	**0.2%**	**2.8%**	**19.4%**

- EPWP promotes use of government expenditure to create additional employment opportunities through the use of labour-intensive delivery methods
  - Increases in 2012/2013 due to appointment of service providers to support provinces and municipalities in design of infrastructure projects and reporting methods
- Performance Based Incentive Allocations is the largest sub-programme
  - Focus: disburses funds to provinces/municipalities and NGOs to ensure creation of work opportunities in infrastructure, environment, social sectors
  - Increases between 2012 and 2013 are due to additional funding allocated. However to give effect to Cabinet-approved reductions, growth in this sub programme slows in 2014 and 2015
- Overall between 2009/10 and 2012/13, just over 3 million jobs created (68% of target of 4.5 million jobs)

DEPARTMENTAL PERFORMANCE

- Department not adequately meeting targets set.
  - Number of targets partially met and totally unmet exceptionally high



DEPARTMENTAL PERFORMANCE [CONT.]

Programme	Explanation for Unmet Targets
Administration	Delays due to lack of capacity/high vacancy rate, unrealistic targets given financial resources, lengthy procurement processes that delay appointment of service providers
Immovable Asset Management	Appropriate supply chain management process not followed, unrealistic target setting, inadequate data collection to verify extent to which target was met
EPWP	Delays in project implementation, lack of technical capacity to implement projects, poor performance on part of municipalities/provinces to carry out projects
Construction and Property Policy Regulation	• Legislative framework for Built Environment Professionals: delays in internal consultation • Establish Agrement SA as public entity: delay in the approval of business case • Provide immovable asset lifecycle management guidelines to national and provincial custodians of immovable assets: delay in internal consultation prevented finalisation

Aspects Highlighted by the Auditor-General

- DPW audit outcomes:
  - 2009/10: qualified with findings
  - 2010/11:disclaimer
  - 2011/12: disclaimer
  - 2012/13: qualified with findings
- Key issues highlighted by Auditor-General that need to be addressed:
  - Inadequate internal controls in areas of leadership, financial management, performance management and governance
  - Areas that were identified for specific attention through the turnaround project include: lack of controls in supply chain management, poor lease management, inadequate immovable asset register, lack of built environment and property management skills

FINANCIAL AND FISCAL COMMISSION

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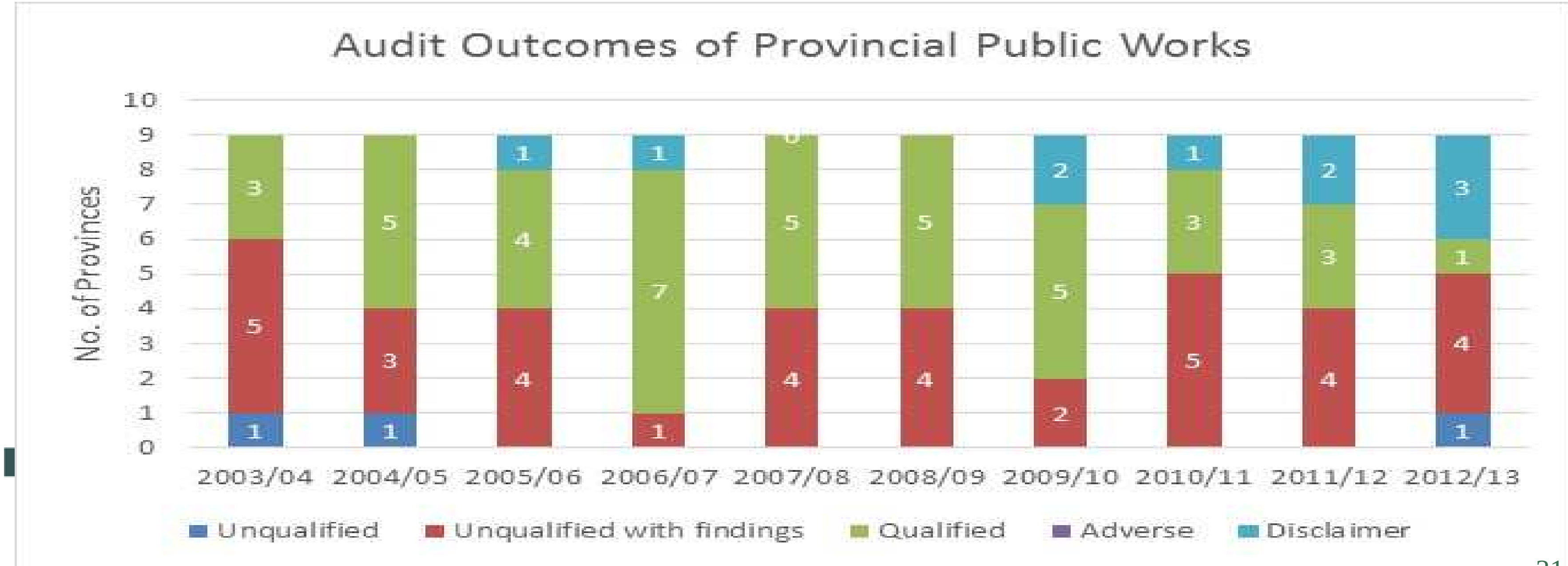
PUBLIC WORKS IN THE PROVINCES

PROVINCIAL AUDIT OUTCOMES

- Audit outcomes for provincial departments of public works have not considerably improved in since 2003/04
  - Four out of the nine provinces received a qualified opinion or disclaimer in 2012/13
  - Over a period of 10 years (i.e. 2003/4 – 2012/13), only 3 provincial departments of public works received an unqualified audit opinion



PROVINCIAL AUDIT OUTCOMES [CONT.]

- The Auditor-General raised a number of matters that prevented provincial departments from achieving clean audits such as:
  – Instability in leadership and lack of human resources
  – Internal controls are ineffective
  – Action plans to implement improvement in audit outcomes are not timeously implemented
  – Inaccurate and incomplete fixed asset registers
  – Incomplete disclosures on unauthorized, irregular and fruitless, irregular and wasteful expenditure
  – Commitments by the national sector department to intervene and/or provide support were not honoured
- The Commission's view is that DPW should play a more active role, through the various intergovernmental forums, in providing the necessary support to provincial departments of public works

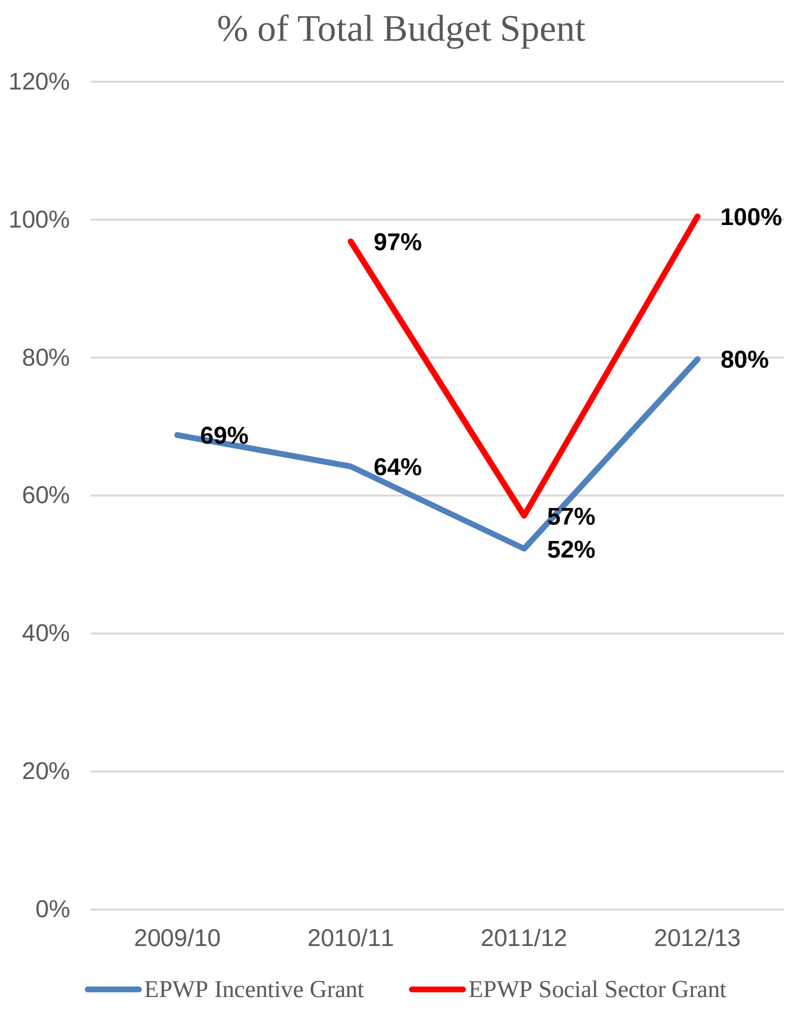
FINANCIAL AND FISCAL COMMISSION

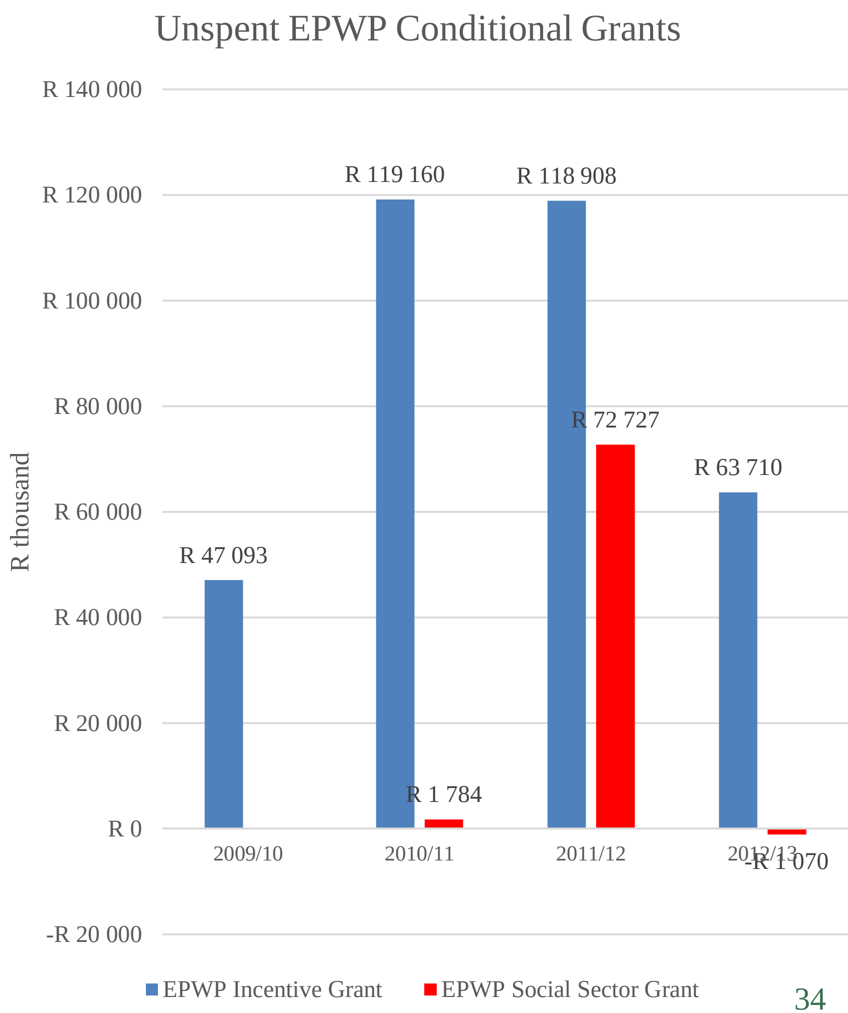
SPENDING PERFORMANCE BY PROVINCES ON EPWP CONDITIONAL GRANTS

- The National Department of Public Works is the transferring agent for two EPWP conditional grants to provinces
- As the transferring agent, the responsibilities of the DPW are prescribed in the conditional grant framework contained in the Division of Revenue Act. These include (among others):
  - Determine eligibility of grant, monitor and provide support to provinces, audit provincial performance and report to national treasury on provincial progress

FINANCIAL AND FISCAL COMMISSION

EPWP Conditional Grants to Provinces





Summary of Performance on EPWP Grants to Provinces

- Over a four year period (2009/10 – 2012/13), provinces have been unable to spend more than 80% of its allocation to the EPWP Incentive Grant in any given year
- Except in 2011/12 where spending on both EPWP grants were below 60% of total, the EPWP Social Sector grant in general, performed better than the Incentive grant
  - Provinces have challenges relating to infrastructure, which affects the spending performance on the Incentive grant
- In many instances, provinces fail to comply with grant conditions stipulated in DORA, resulting in funds being withheld, thereby leaving funds unspent at the end of the year

FINANCIAL AND FISCAL COMMISSION

Concluding Remarks

- Key issues emanating from analysis of DPW
  - Underspending of budget
  - Not meeting set targets
- For the sector to turnaround, the DPW should play a leadership role by providing the necessary support to the provinces and establishing minimum norms and standards to facilitate improvement in service delivery in the provinces
- Department to put in place proper systems to guide expenditure management, setting of appropriate key performance indicators and a plan to attract/retain skilled staff
  - Outcome of the Turnaround Project is key in facilitating progress – some improvements noted but far to go in putting DPW on stable footing

FINANCIAL AND FISCAL COMMISSION

FFC's Website: www.ffc.co.za

FINANCIAL AND FISCAL COMMISSION

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Financial and Fiscal Commission
Intergovernmental Fiscal Relations Conference
11 - 13 August 2014
International Convention Centre, Cape Town, South Africa

2015/16 Submission | Housing Financing | Child Welfare Services | 2012/2013 Annual report

SUBMISSION FOR THE DIVISION OF REVENUE 2015/16

2015/16 SUBMISSION FOR THE DIVISION OF REVENUE

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

NEW!!!

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

UPCOMING EVENTS

PORTFOLIO COMMITTEE ON PUBLIC WORKS

Financial and Fiscal Commission

25 September 2014

For an Equitable Sharing of National Revenue

PRESENTATION OUTLINE

1. Role and Function of the Financial and Fiscal Commission
2. Recommendations of the Commission that relate to Public Works
3. Departmental Analysis

FINANCIAL AND FISCAL COMMISSION

1. Role and Function of the Financial and Fiscal Commission

Role and Function of the FFC

- The Financial and Fiscal Commission (FFC)
  - Is an independent, permanent, statutory institution established in terms of Section 220 of Constitution
  - Must function in terms of the FFC Act
- Mandate of Commission
  - To make recommendations, envisaged in Chapter 13 of the Constitution or in national legislation to Parliament, Provincial Legislatures, and any other organ of state determined by national legislation
- The Commission's focus is primarily on the equitable division of nationally collected revenue among the three spheres of government and any other financial and fiscal matters
  - Legislative provisions or executive decisions that affect either provincial or local government from a financial and/or fiscal perspective
  - Includes regulations associated with legislation that may amend or extend such legislation
  - Commission must be consulted in terms of the FFC Act
  - Current research strategy focuses on developmental impacts of IGFR

FINANCIAL AND FISCAL COMMISSION

How FFC Supports Policy

- Identify weakness within the IGFR system
- Propose evidence-based policy proposals
- Interact and participate with/in forums and institutions responsible for IGFR policy – TCF, Budget Council, Budget Forum
- Information dissemination – invitations from nine provincial legislatures and SALGA
- Interact with various committees within parliament

FINANCIAL AND FISCAL COMMISSION

PROCESSING OF RECOMMENDATIONS

- Recommendations of the Commission
  - Recommendations are made to Parliament so that the legislature can examine the financial and fiscal decisions of government against them and understand why they have been accepted or rejected
  - Section 4(4)(c) of the Money Bills Amendment Procedures and Related Matters Act (MBAPMA) requires Parliament to consider the recommendations of the Commission when deliberating on Money Bills
- Government is obligated through an Act of Parliament to explain how it has taken the FFC recommendations in arriving at the division of revenue for any particular year
  - The response is tabled in Annexure W1 of the DoR Bill and of the Budget Review

FINANCIAL AND FISCAL COMMISSION

How FFC can Support Parliament

DIRECT TRAINING AND INTERVENTION

- Training of members of parliamentary committees and councillors on request (e.g. in Bushbuckridge)
- Advice to municipalities (e.g. Tshwane merger)
- Inputs in various fora (e.g. SALGA)

NON TRAINING SUPPORT AND INTERVENTION

- Member of review committees (LES, Infrastructure Grants, Metro’s Own Revenue)
- Public hearings (local government fiscal framework, housing and welfare)
- Inputs in benchmarking exercises
- Recommendations through Annual Submission on DoR, MTBPS, FF and Appropriations

VALUE ADD OF THE FFC

- FFC can provide advice, analysis and training to assist the work of the Committee
  - Specialised IGFR training to committee members and/or parliamentary researchers
  - Provision of recommendations that are founded on evidence based research
  - Technical support with respect to parliamentary fiscal oversight activities

FINANCIAL AND FISCAL COMMISSION

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2. Recommendations that Relate to Public Works

FFC Work Related to DPW [cont.]

Response to Division of Revenue Bill (DoRB) 2010	The Commission welcomed introduction of the *EPWP Incentive Grant for the Social Sector*. The Commission noted that there was a need to standardise the employment framework for the sector including conditions, wages and progression across provinces and municipalities. The Commission also raised concern regarding difficulties that were being experienced with the transfer of the EPWP Incentive Grant to Local and Provincial Governments. In the 2009/10 certain provinces (e.g. Western Cape) raised concern that they received transfers outside the ambit of the DoR and couldn't spend the money because it was not properly appropriated through various legislatures. At that point the general challenge with the grant was that provinces and municipalities found it difficult to integrate it through their infrastructure programmes. This problem persists because labour intensive infrastructure projects need to be planned, costed and scheduled properly. Not all projects yield the same labour intensity, so targets must be set by project type and category. Some projects will better lend themselves to labour intensive methods than others. This must be factored into the budget allocations and monitoring of the grant. *Current Commission analysis is that provinces continue to have challenges relating to labour intensive infrastructure, which affects the spending of the Incentive grant. In 2012/13 DPW appointed service providers to support provinces and municipalities in design of infrastructure projects and reporting methods.*

FFC Work Related to DPW [cont.]

Response to MTBPS 2011	In terms of the EPWP Incentive grant framework, provinces and municipalities must spend their budgets on EPWP projects and after that the grant will be paid by DPW quarterly as an incentive (after employment has been created). There has been general under-spending against budget since inception of the grant. Projected under-spending in financial year 2011 was 28.4%. In 2010, the actual under-spend was 38.4%. Despite poor spending performance, the annual growth of the budget was high. Expenditure reports on the grant performance at local government were inaccessible. DPW should explain how transfers are reconciled with actual expenditure. The grant should be streamlined to the Division of Revenue Act (DORA) requirements in terms of allocation and disbursements of funds. Punitive and incentive elements of the grant should be made transparent to all the stakeholders. *Current FFC analysis indicates that underspending persists. Between 2009/10 and 2012/13, provinces have been unable to spend more than 80% of their allocation*
Response to DoRB 2012	The Commission reiterated concerns raised in its Response to DoRB 2010 and Response to 2011 MTBPS regarding the challenges with the EPWP Incentive grant. The Commission maintained its view that the grant had not succeeded in achieving the intended goals within the specified time. There had also not been a formal assessment of the achievement of this grant both in terms of expenditure and service delivery outputs including how many direct and full times jobs had been created against the allocated funds. The Commission recommended that an independent review of the grant be undertaken, so that lessons can be drawn from past experience to avoid a replication of past mistakes. Government has since set up a team consisting of National Treasury, DPW, DCoG and SALGA that has been working on this. *This review is ongoing*

FFC WORK RELATED TO DPW [CONT.]

Submission for the 2009/10 DoR	FFC found a need for reporting on EPWP outcomes to be more specific. In accordance with the requirements of the EPWP, job creation for target groups such as women, youth and people with disabilities should be included in the reporting requirements for all infrastructure conditional grants to provinces and municipalities GOVT. RESPONSE: The recommendation for reporting on targets is supported. Some of these indicators can possibly be reported on as part of the conditional grant frameworks prescribed in terms of the Division of Revenue Act
Submission for the 2007/08 DoR	The World Cup funding was crafted on the basis of requirements to meet FIFA standards of hosting cities, and that the major challenge faced by government was sustainability of built infrastructure. On the funding for the FIFA World Cup, FFC, examined the sustainability of built infrastructure, taking the escalation of construction costs into account. FFC's findings included that the escalation of construction costs be budgeted for, and that collaboration with the private sector should be encouraged. Also that a 2010 World Cup "Legacy Management Policy" should be introduced and prudent fiscal policy should be maintained leading to the World Cup GOVT. RESPONSE: Government is of the view that the costs relating to maintenance of constructed 2010 FIFA World Cup facilities should be provided by municipalities

3. DEPARTMENTAL ANALYSIS

CONTEXTUALISING THE DEPARTMENT OF PUBLIC WORKS

- Aim of Department of Public Works (DPW):
  - provide for and manage accommodation, housing, land and infrastructure needs of national departments
  - Lead and direct implementation of the national expanded public works programme (EPWP)
  - Promote growth, job creation and transformation in the construction and property industries
- Public works is a concurrent function between national and provincial spheres of government
- DPW contribution to National Development Plan (NDP) achieved through:
  - Implementation of job creation initiatives
  - Transition to low cost carbon economy
  - Development of an inclusive and integrated rural economy
  - Fight against corruption

FINANCIAL AND FISCAL COMMISSION

KEY CHALLENGES CONFRONTING DPW

- Due to consistent trend of poor audit outcomes and generally poor performance, DPW implemented a turnaround project in November 2012
- Areas that were identified for specific attention through the turnaround project include:
  - Lack of controls in supply chain management (SCM)
    - Identified as major risk area by Auditor-General – DPW capacity to process tenders eroded and has led to numerous instances of fraud/corruption. SCM has been major focus of the Special Investigating Unit (SIU). SCM is the key focus of turnaround project in DPW. A service provider appointed to assist with fundamental review of SCM
      - Irregular expenditure, R171 million in 2011/12; R874 million in 2012/13
  - Poor lease management
    - Numerous irregularities with respect to lease agreements – gives rise to legal risks. DPW reviewing all lease agreements

FINANCIAL AND FISCAL COMMISSION

KEY CHALLENGES CONFRONTING DPW [CONT.]

- Inadequate immovable asset register
  - Lack of compliant immovable asset register resulted in negative audit opinions. DPW now in process of rebuilding immovable asset register and building a model to revalue immovable assets
- Lack of built environment and property management skills
  - Lack of technical capacity to undertake direct construction/maintenance functions. Cooperating with DPSA and Higher Education and Training to address challenge

FINANCIAL AND FISCAL COMMISSION

STARTING POINT FOR BUDGET ANALYSIS

- By vote
  - Compare different votes with each other
- By vote programme
  - Compare different programmes within a vote
- By sub-programme
- Compare different sub-programmes within a programme
- By province
- Compare different provinces with each other
- Use Outputs, Targets and Indicators to measure performance
- Use policy documents as a benchmark

FINANCIAL AND FISCAL COMMISSION

Useful Tools

- Percentage Share of Total Budget
- Growth in the Budget
  - Percentage Change
    - Reflecting increases/decreases in percentage form
  - Annual Growth Rate
    - How does the allocation change year on year
  - Real Percentage Change
    - Takes inflation into consideration
  - Variances and explanations
    - Investigating the reasons/drivers of change
  - Spending by economic classification
    - Distinguishes between various categories of current (goods and services, transfers and subsidies) and capital expenditure (acquisition of fixed capital assets, purchase of land)

FINANCIAL AND FISCAL COMMISSION

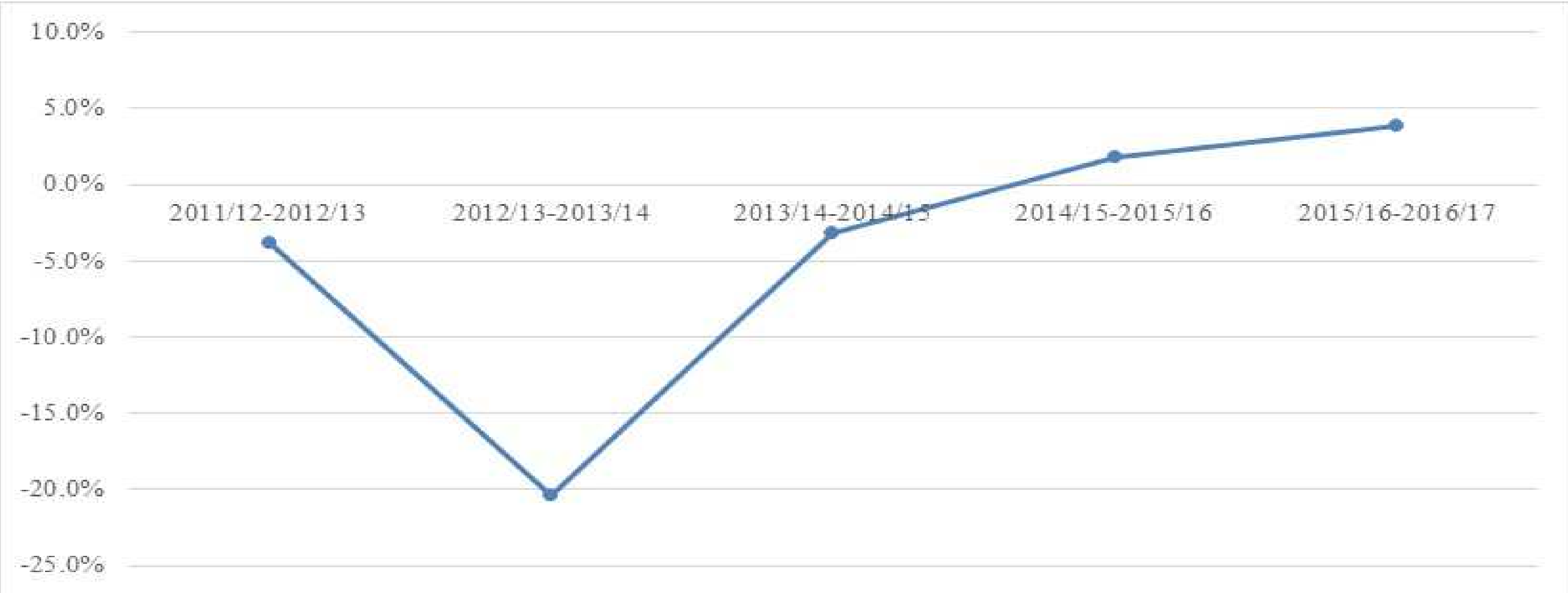
Budget and Programmes of Public Works

Nominal (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Real Annual Average Growth 2011/12-2013/14	Real Annual Average Growth 2014/15-2016/17
Administration	837.1	856.2	1 158.2	1 175.3	1 133.3	1 191.5	11.5%	-4.1%
Immovable Asset Management	5 001.7	4 563.5	2 831.8	2 861.4	3 308.1	3 450.0	-28.7%	4.6%
Expanded Public Works Programme	1 163.0	1 704.1	1 948.0	1 951.3	2 006.8	2 395.2	22.7%	5.5%
Property and Construction Industry Policy Regulation	34.4	26.9	36.7	41.5	43.4	45.9	-2.1%	0.1%
Auxiliary and Associated Services	25.2	53.3	50.7	91.8	53.7	56.6	34.4%	-25.2%
Total	**7 061.4**	**7 203.9**	**6 025.3**	**6 121.3**	**6 545.3**	**7 139.2**	**-12.5%**	**2.8%**

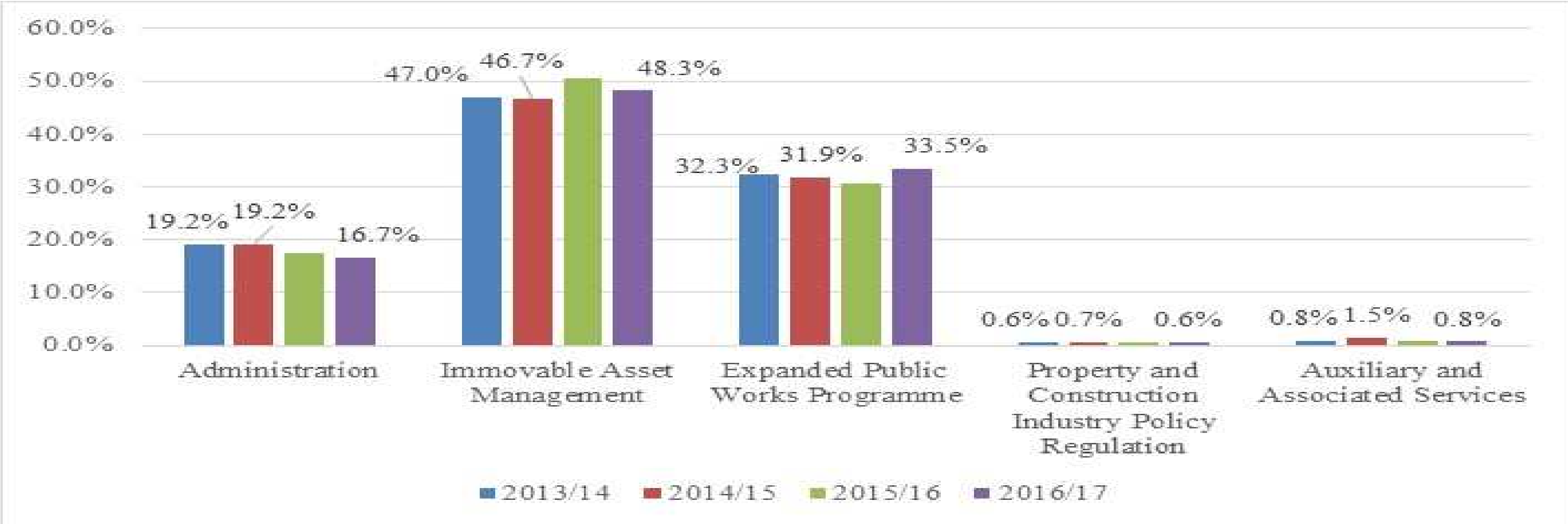
- Five programmes on Department of Public Works (DPW) budget
- Allocation reduced significantly in 2013/14, due to phasing out of Devolution of Property Rates Fund Grant to provinces and non-completion of various projects. As result of underspending, Cabinet approved reductions were effected
  - Following poor spending performance and audit outcomes, DPW implementing a Turnaround Project
- DPW budget projected to recover to just over R7.1 billion by end of 2014 medium term expenditure framework (MTEF) period
  - 2014 MTEF growth driven by additional allocation of R159 million in 2016/17 for Expanded Public Works Programme (EPWP)

REAL YEAR ON YEAR GROWTH OF PUBLIC WORKS BUDGET

- Significant decline in year on year growth in 2013/14
  - Though still declining in real terms in 2014/15, there is some improvement
- Over rest of 2014 MTEF period, positive growth projected
  - Focus will be on rehabilitating 34 state owned buildings, and ensuring that at least 100 buildings are made accessible to people with disabilities in each year of MTEF



BUDGET COMPOSITION ACROSS PROGRAMMES



- Immovable Asset Management Programme consumes largest share of DPW budget – by end of 2014 MTEF period this programme is projected to consume just under half of DPW budget
- Share allocated to Administration Programme consumers about one fifth of departmental budget – funding for Turnaround Project fall under Administration
  – Turnaround Project will support activities relating to the Special Investigating Unit, a technical support unit, a clean audit project, irregular expenditure management, internal audit support

FINANCIAL AND FISCAL COMMISSION

Economic Classification

Item (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Compensation of Employees	1 269.6	1 374.6	1 473.5	1 659.9	1 753.5	1 870.5
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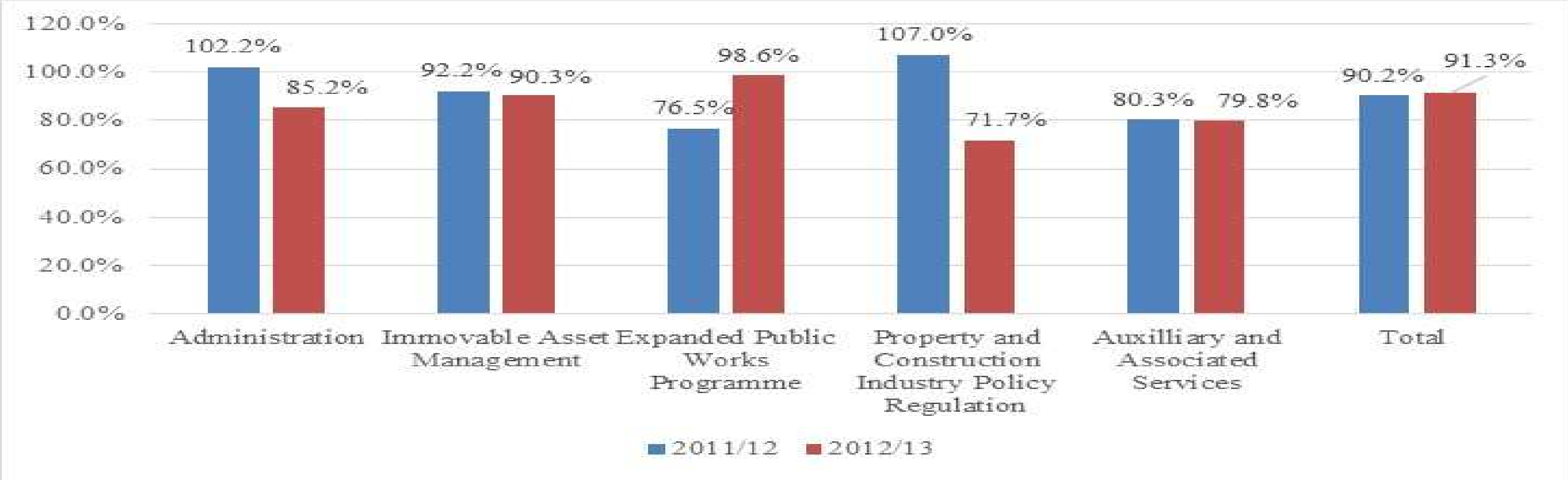
FINANCIAL AND FISCAL COMMISSION

SPENDING PERFORMANCE (FISCAL DISCIPLINE)



- DPW underspent in 2011/12 and 2012/13
- In 2011 underspending on EPWP and Auxilliary and Associated Services Programme
- In 2012, underspending is as a result of poor spending in Property and Construction Industry Policy Regulation Programme and again Auxilliary and Associated Services Programme
- Due to persistent underspending on capital, baseline reductions of R1.3 billion effected over 2014 MTEF period

FINANCIAL AND FISCAL COMMISSION

IN-YEAR EXPENDITURE

- 2012/13 in-year spending erratic
- Appears to be improving in 2013/14 – variances in monthly spending not as large as during 2012/13
- Concern with poor in-year spending is that it hints at unstable cash flow and disbursements

FINANCIAL AND FISCAL COMMISSION

Selected Sub-Programme Analysis: Immovable Asset Management Programme

Real Year on Year Growth	2011/12-2012/13	2012/13-2013/14	2013/14-2014/15	2014/15-2015/16	2015/16-2016/17
Infrastructure (Public Works)	-33.5%	-9.7%	-28.1%	57.5%	-0.1%
Strategic Asset Investment Analysis	-67.7%	149.1%	10.4%	0.2%	1.0%
Operation Management	1.6%	-0.3%	0.5%	-0.4%	2.7%
Prestige Management	-51.5%	44.0%	-27.0%	-1.0%	-28.5%
Special Projects	4.0%	47.6%	-24.7%	1.8%	0.4%
Construction Industry Development Board	-3.4%	2.0%	1.6%	0.4%	0.2%
Council for the Built Environment	-7.7%	28.8%	4.3%	1.4%	0.2%
Parliamentary Village Management Board	-0.6%	0.1%	1.1%	-0.4%	0.5%
Augmentation of the Property Management Trading Entity	-3.2%	0.5%	-6.0%	-0.1%	0.6%
Independent Development Trust	-68.1%	-6.3%	-4.7%	-4.8%	-100.0%
Total	**-14.0%**	**-37.8%**	**-8.6%**	**10.1%**	**-0.7%**

- Total programme growth declines over most of the period reviewed
  - Decline in 2012 and 2013 is due to phasing out of devolution of property rates fund grant to provinces, non-completion of projects and Cabinet approved reductions due to underspending
- Generally sub-programme trends are erratic, brings into question soundness of planning in DPW
- Lack of capacity a challenge in this programme – 10% vacancy rate

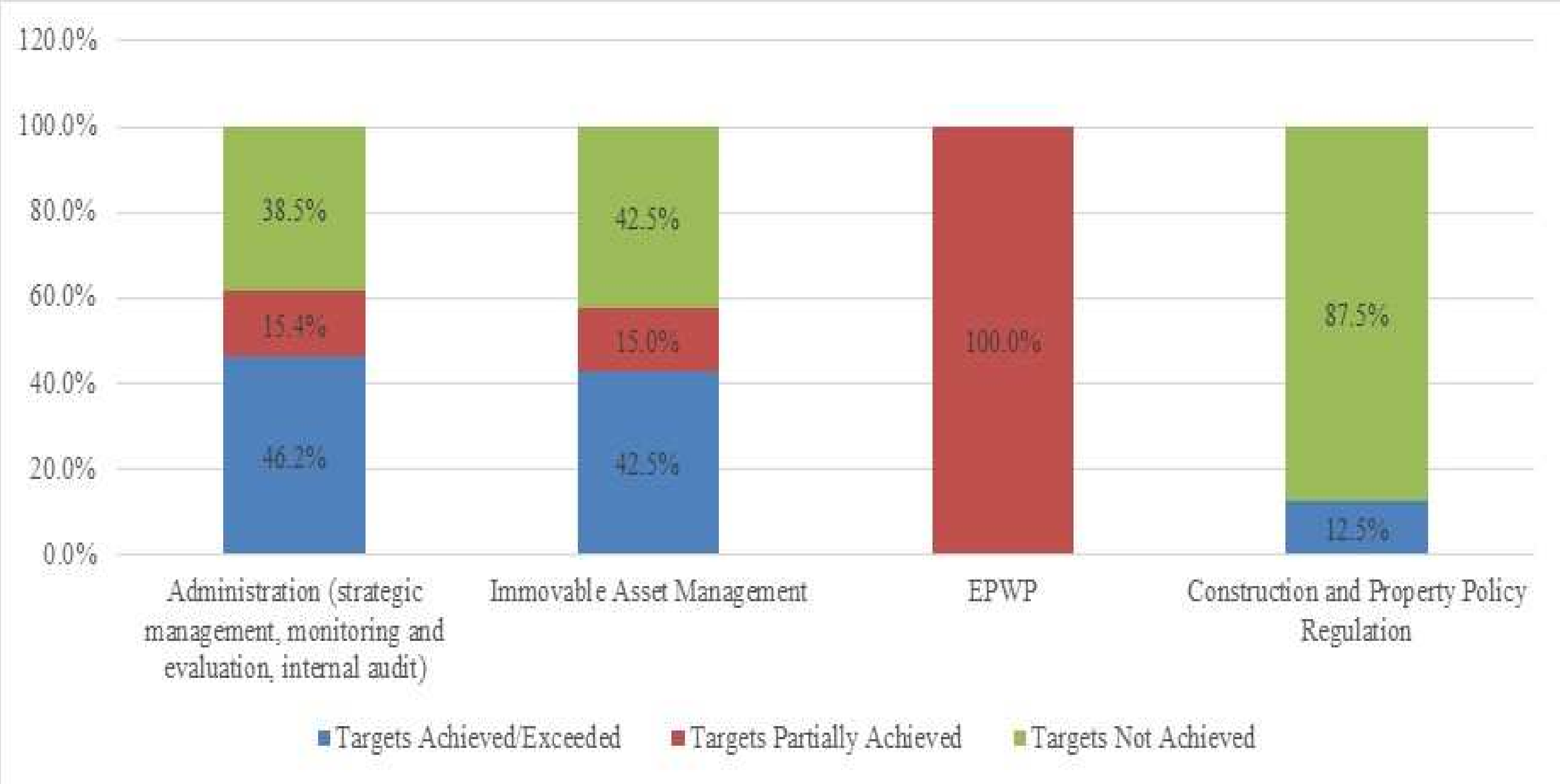
Selected Sub-Programme Analysis: Expanded Public Works Programme

R million	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Expanded Public Works Programme	209.7	236.8	273.8	261.5	267.7	290.6
Performance Based Incentive Allocations	953.3	1 467.3	1 674.2	1 689.8	1 739.2	2 104.6
Total	**1 163.0**	**1 704.1**	**1 948.0**	**1 951.3**	**2 006.8**	**2 395.2**
Real Year on Year Growth		**2011/12-2012/13**	**2012/13-2013/14**	**2013/14-2014/15**	**2014/15-2015/16**	**2015/16-2016/17**
Expanded Public Works Programme		12.9%	15.6%	-4.5%	2.4%	8.6%
Performance Based Incentive Allocations		53.9%	14.1%	0.9%	2.9%	21.0%
Total		**46.5%**	**14.3%**	**0.2%**	**2.8%**	**19.4%**

- EPWP promotes use of government expenditure to create additional employment opportunities through the use of labour-intensive delivery methods
  - Increases in 2012/2013 due to appointment of service providers to support provinces and municipalities in design of infrastructure projects and reporting methods
- Performance Based Incentive Allocations is the largest sub-programme
  - Focus: disburses funds to provinces/municipalities and NGOs to ensure creation of work opportunities in infrastructure, environment, social sectors
  - Increases between 2012 and 2013 are due to additional funding allocated. However to give effect to Cabinet-approved reductions, growth in this sub programme slows in 2014 and 2015
- Overall between 2009/10 and 2012/13, just over 3 million jobs created (68% of target of 4.5 million jobs)

DEPARTMENTAL PERFORMANCE

- Department not adequately meeting targets set.
  - Number of targets partially met and totally unmet exceptionally high



Departmental Performance [cont.]

Programme	Explanation for Unmet Targets
Administration	Delays due to lack of capacity/high vacancy rate, unrealistic targets given financial resources, lengthy procurement processes that delay appointment of service providers
Immovable Asset Management	Appropriate supply chain management process not followed, unrealistic target setting, inadequate data collection to verify extent to which target was met
EPWP	Delays in project implementation, lack of technical capacity to implement projects, poor performance on part of municipalities/provinces to carry out projects
Construction and Property Policy Regulation	• Legislative framework for Built Environment Professionals: delays in internal consultation • Establish Agrement SA as public entity: delay in the approval of business case • Provide immovable asset lifecycle management guidelines to national and provincial custodians of immovable assets: delay in internal consultation prevented finalisation

Aspects Highlighted by the Auditor-General

- DPW audit outcomes:
  - 2009/10: qualified with findings
  - 2010/11:disclaimer
  - 2011/12: disclaimer
  - 2012/13: qualified with findings
- Key issues highlighted by Auditor-General that need to be addressed:
  - Inadequate internal controls in areas of leadership, financial management, performance management and governance
  - Areas that were identified for specific attention through the turnaround project include: lack of controls in supply chain management, poor lease management, inadequate immovable asset register, lack of built environment and property management skills

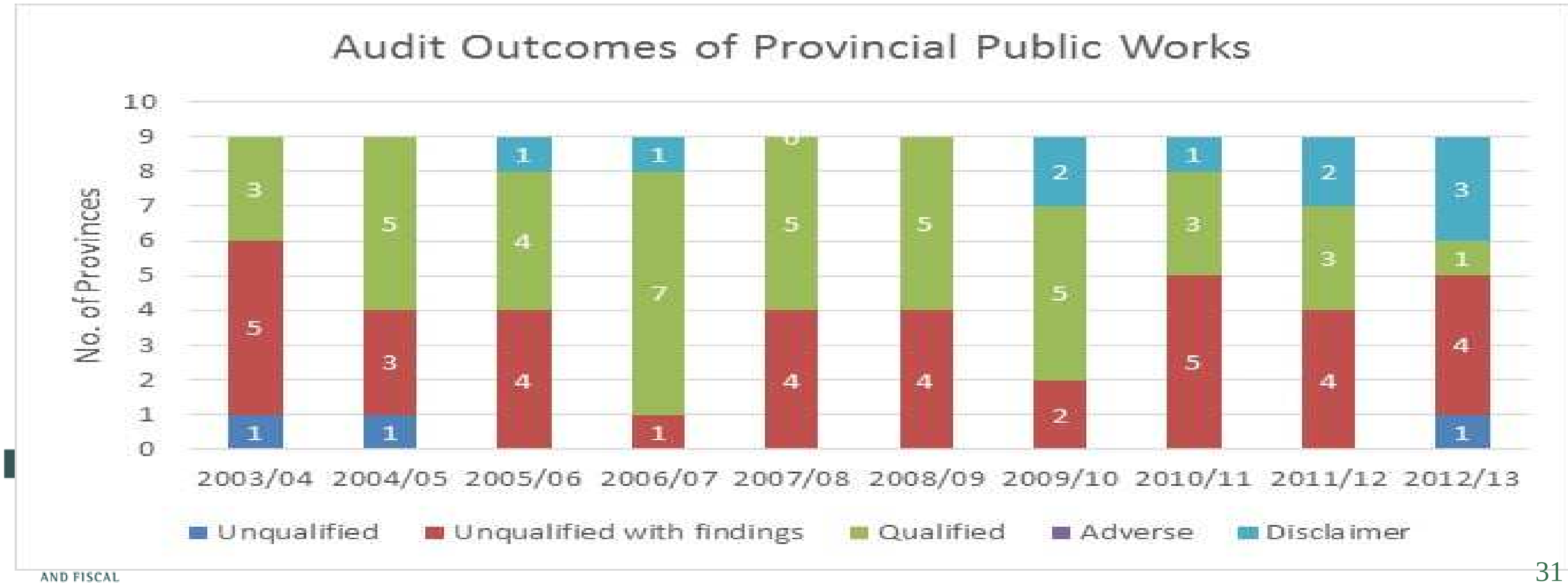
FINANCIAL AND FISCAL COMMISSION

FINANCIAL
AND FISCAL
COMMISSION

PUBLIC WORKS IN THE PROVINCES

PROVINCIAL AUDIT OUTCOMES

- Audit outcomes for provincial departments of public works have not considerably improved in since 2003/04
  - Four out of the nine provinces received a qualified opinion or disclaimer in 2012/13
  - Over a period of 10 years (i.e. 2003/4 – 2012/13), only 3 provincial departments of public works received an unqualified audit opinion



PROVINCIAL AUDIT OUTCOMES [CONT.]

- The Auditor-General raised a number of matters that prevented provincial departments from achieving clean audits such as:
  - Instability in leadership and lack of human resources
  - Internal controls are ineffective
  - Action plans to implement improvement in audit outcomes are not timeously implemented
  - Inaccurate and incomplete fixed asset registers
  - Incomplete disclosures on unauthorized, irregular and fruitless, irregular and wasteful expenditure
  - Commitments by the national sector department to intervene and/or provide support were not honoured
- The Commission's view is that DPW should play a more active role, through the various intergovernmental forums, in providing the necessary support to provincial departments of public works

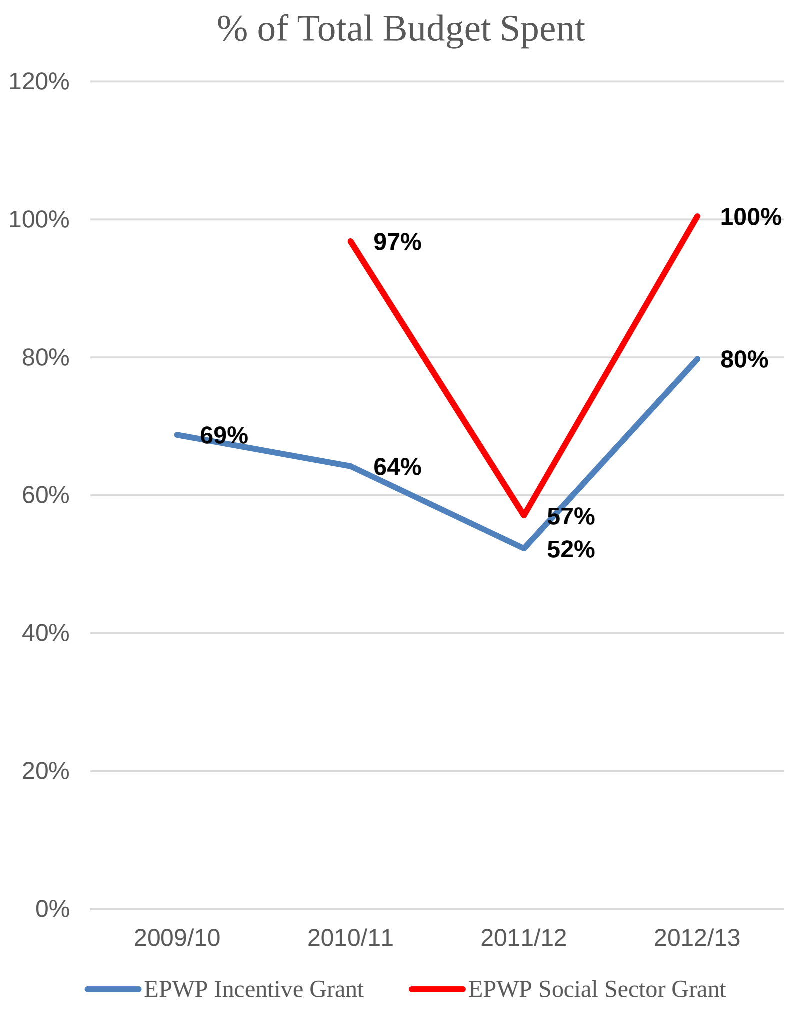
FINANCIAL AND FISCAL COMMISSION

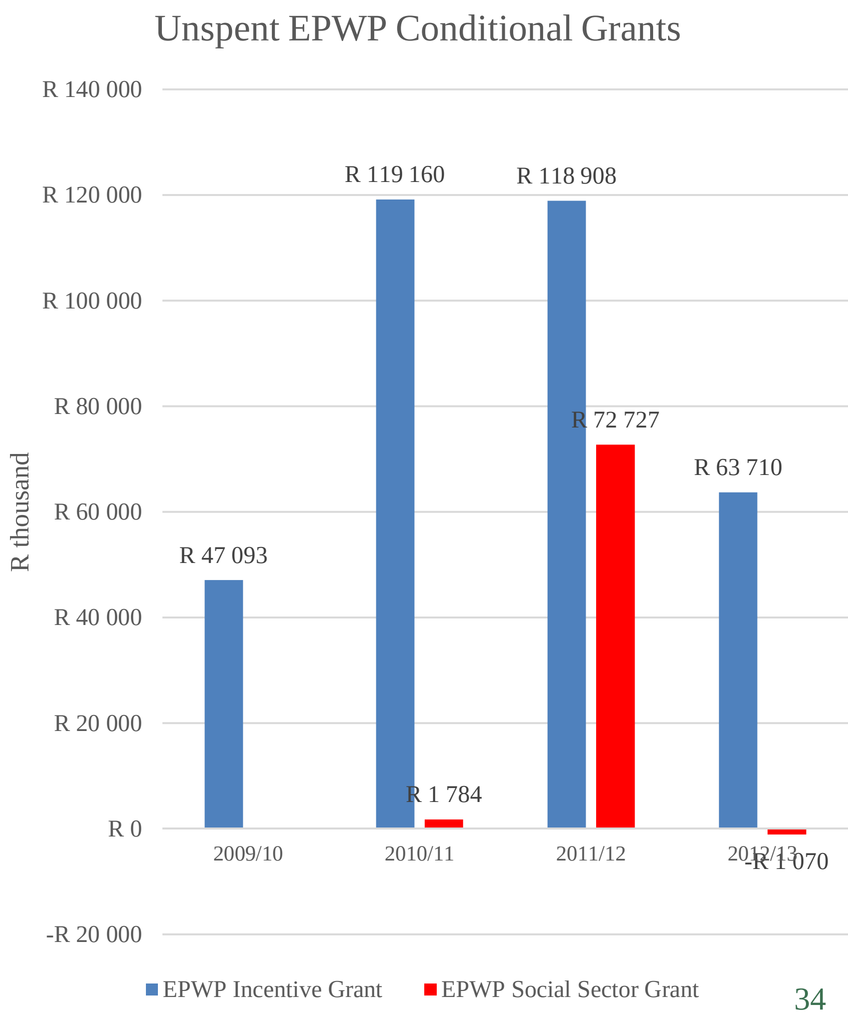
SPENDING PERFORMANCE BY PROVINCES ON EPWP CONDITIONAL GRANTS

- The National Department of Public Works is the transferring agent for two EPWP conditional grants to provinces
- As the transferring agent, the responsibilities of the DPW are prescribed in the conditional grant framework contained in the Division of Revenue Act. These include (among others):
  - Determine eligibility of grant, monitor and provide support to provinces, audit provincial performance and report to national treasury on provincial progress

FINANCIAL AND FISCAL COMMISSION

EPWP CONDITIONAL GRANTS TO PROVINCES





Summary of Performance on EPWP Grants to Provinces

- Over a four year period (2009/10 – 2012/13), provinces have been unable to spend more than 80% of its allocation to the EPWP Incentive Grant in any given year
- Except in 2011/12 where spending on both EPWP grants were below 60% of total, the EPWP Social Sector grant in general, performed better than the Incentive grant
  - Provinces have challenges relating to infrastructure, which affects the spending performance on the Incentive grant
- In many instances, provinces fail to comply with grant conditions stipulated in DORA, resulting in funds being withheld, thereby leaving funds unspent at the end of the year

FINANCIAL AND FISCAL COMMISSION

Concluding Remarks

- Key issues emanating from analysis of DPW
  - Underspending of budget
  - Not meeting set targets
- For the sector to turnaround, the DPW should play a leadership role by providing the necessary support to the provinces and establishing minimum norms and standards to facilitate improvement in service delivery in the provinces
- Department to put in place proper systems to guide expenditure management, setting of appropriate key performance indicators and a plan to attract/retain skilled staff
  - Outcome of the Turnaround Project is key in facilitating progress – some improvements noted but far to go in putting DPW on stable footing

FINANCIAL AND FISCAL COMMISSION

FFC's Website: www.ffc.co.za

PORTFOLIO COMMITTEE ON PUBLIC WORKS

Financial and Fiscal Commission

25 September 2014

For an Equitable Sharing of National Revenue

PRESENTATION OUTLINE

1. Role and Function of the Financial and Fiscal Commission
2. Recommendations of the Commission that relate to Public Works
3. Departmental Analysis

FINANCIAL AND FISCAL COMMISSION

FINANCIAL AND FISCAL COMMISSION

1. Role and Function of the Financial and Fiscal Commission

ROLE AND FUNCTION OF THE FFC

- The Financial and Fiscal Commission (FFC)
  - Is an independent, permanent, statutory institution established in terms of Section 220 of Constitution
  - Must function in terms of the FFC Act
- Mandate of Commission
  - To make recommendations, envisaged in Chapter 13 of the Constitution or in national legislation to Parliament, Provincial Legislatures, and any other organ of state determined by national legislation
- The Commission's focus is primarily on the equitable division of nationally collected revenue among the three spheres of government and any other financial and fiscal matters
  - Legislative provisions or executive decisions that affect either provincial or local government from a financial and/or fiscal perspective
  - Includes regulations associated with legislation that may amend or extend such legislation
  - Commission must be consulted in terms of the FFC Act
  - Current research strategy focuses on developmental impacts of IGFR

FINANCIAL AND FISCAL COMMISSION

HOW FFC SUPPORTS POLICY

- Identify weakness within the IGFR system
- Propose evidence-based policy proposals
- Interact and participate with/in forums and institutions responsible for IGFR policy – TCF, Budget Council, Budget Forum
- Information dissemination – invitations from nine provincial legislatures and SALGA
- Interact with various committees within parliament

FINANCIAL AND FISCAL COMMISSION

PROCESSING OF RECOMMENDATIONS

- Recommendations of the Commission
  - Recommendations are made to Parliament so that the legislature can examine the financial and fiscal decisions of government against them and understand why they have been accepted or rejected
  - Section 4(4)(c) of the Money Bills Amendment Procedures and Related Matters Act (MBAPMA) requires Parliament to consider the recommendations of the Commission when deliberating on Money Bills
- Government is obligated through an Act of Parliament to explain how it has taken the FFC recommendations in arriving at the division of revenue for any particular year
  - The response is tabled in Annexure W1 of the DoR Bill and of the Budget Review

FINANCIAL AND FISCAL COMMISSION

How FFC can Support Parliament

DIRECT TRAINING AND INTERVENTION

- Training of members of parliamentary committees and councillors on request (e.g. in Bushbuckridge)
- Advice to municipalities (e.g. Tshwane merger)
- Inputs in various fora (e.g. SALGA)

NON TRAINING SUPPORT AND INTERVENTION

- Member of review committees (LES, Infrastructure Grants, Metro's Own Revenue)
- Public hearings (local government fiscal framework, housing and welfare)
- Inputs in benchmarking exercises
- Recommendations through Annual Submission on DoR, MTBPS, FF and Appropriations

VALUE ADD OF THE FFC

- FFC can provide advice, analysis and training to assist the work of the Committee
  - Specialised IGFR training to committee members and/or parliamentary researchers
  - Provision of recommendations that are founded on evidence based research
  - Technical support with respect to parliamentary fiscal oversight activities

FINANCIAL AND FISCAL COMMISSION

FINANCIAL AND FISCAL COMMISSION

2. Recommendations that Relate to Public Works

FFC Work Related to DPW [cont.]

Response to Division of Revenue Bill (DoRB) 2010	The Commission welcomed introduction of the *EPWP Incentive Grant for the Social Sector*. The Commission noted that there was a need to standardise the employment framework for the sector including conditions, wages and progression across provinces and municipalities. The Commission also raised concern regarding difficulties that were being experienced with the transfer of the EPWP Incentive Grant to Local and Provincial Governments. In the 2009/10 certain provinces (e.g. Western Cape) raised concern that they received transfers outside the ambit of the DoR and couldn’t spend the money because it was not properly appropriated through various legislatures. At that point the general challenge with the grant was that provinces and municipalities found it difficult to integrate it through their infrastructure programmes. This problem persists because labour intensive infrastructure projects need to be planned, costed and scheduled properly. Not all projects yield the same labour intensity, so targets must be set by project type and category. Some projects will better lend themselves to labour intensive methods than others. This must be factored into the budget allocations and monitoring of the grant. *Current Commission analysis is that provinces continue to have challenges relating to labour intensive infrastructure, which affects the spending of the Incentive grant. In 2012/13 DPW appointed service providers to support provinces and municipalities in design of infrastructure projects and reporting methods.*

FFC Work Related to DPW [cont.]

Response to MTBPS 2011	In terms of the EPWP Incentive grant framework, provinces and municipalities must spend their budgets on EPWP projects and after that the grant will be paid by DPW quarterly as an incentive (after employment has been created). There has been general under-spending against budget since inception of the grant. Projected under-spending in financial year 2011 was 28.4%. In 2010, the actual under-spend was 38.4%. Despite poor spending performance, the annual growth of the budget was high. Expenditure reports on the grant performance at local government were inaccessible. DPW should explain how transfers are reconciled with actual expenditure. The grant should be streamlined to the Division of Revenue Act (DORA) requirements in terms of allocation and disbursements of funds. Punitive and incentive elements of the grant should be made transparent to all the stakeholders. *Current FFC analysis indicates that underspending persists. Between 2009/10 and 2012/13, provinces have been unable to spend more than 80% of their allocation*
Response to DoRB 2012	The Commission reiterated concerns raised in its Response to DoRB 2010 and Response to 2011 MTBPS regarding the challenges with the EPWP Incentive grant. The Commission maintained its view that the grant had not succeeded in achieving the intended goals within the specified time. There had also not been a formal assessment of the achievement of this grant both in terms of expenditure and service delivery outputs including how many direct and full times jobs had been created against the allocated funds. The Commission recommended that an independent review of the grant be undertaken, so that lessons can be drawn from past experience to avoid a replication of past mistakes. Government has since set up a team consisting of National Treasury, DPW, DCoG and SALGA that has been working on this. *This review is ongoing*

FFC Work Related to DPW [cont.]

Submission for the 2009/10 DoR	FFC found a need for reporting on EPWP outcomes to be more specific. In accordance with the requirements of the EPWP, job creation for target groups such as women, youth and people with disabilities should be included in the reporting requirements for all infrastructure conditional grants to provinces and municipalities GOVT. RESPONSE: The recommendation for reporting on targets is supported. Some of these indicators can possibly be reported on as part of the conditional grant frameworks prescribed in terms of the Division of Revenue Act
Submission for the 2007/08 DoR	The World Cup funding was crafted on the basis of requirements to meet FIFA standards of hosting cities, and that the major challenge faced by government was sustainability of built infrastructure. On the funding for the FIFA World Cup, FFC, examined the sustainability of built infrastructure, taking the escalation of construction costs into account. FFC's findings included that the escalation of construction costs be budgeted for, and that collaboration with the private sector should be encouraged. Also that a 2010 World Cup "Legacy Management Policy" should be introduced and prudent fiscal policy should be maintained leading to the World Cup GOVT. RESPONSE: Government is of the view that the costs relating to maintenance of constructed 2010 FIFA World Cup facilities should be provided by municipalities

3. Departmental Analysis

CONTEXTUALISING THE DEPARTMENT OF PUBLIC WORKS

- Aim of Department of Public Works (DPW):
  - provide for and manage accommodation, housing, land and infrastructure needs of national departments
  - Lead and direct implementation of the national expanded public works programme (EPWP)
  - Promote growth, job creation and transformation in the construction and property industries
- Public works is a concurrent function between national and provincial spheres of government
- DPW contribution to National Development Plan (NDP) achieved through:
  - Implementation of job creation initiatives
  - Transition to low cost carbon economy
  - Development of an inclusive and integrated rural economy
  - Fight against corruption

FINANCIAL AND FISCAL COMMISSION

KEY CHALLENGES CONFRONTING DPW

- Due to consistent trend of poor audit outcomes and generally poor performance, DPW implemented a turnaround project in November 2012
- Areas that were identified for specific attention through the turnaround project include:
  - Lack of controls in supply chain management (SCM)
    - Identified as major risk area by Auditor-General – DPW capacity to process tenders eroded and has led to numerous instances of fraud/corruption. SCM has been major focus of the Special Investigating Unit (SIU). SCM is the key focus of turnaround project in DPW. A service provider appointed to assist with fundamental review of SCM
      - Irregular expenditure, R171 million in 2011/12; R874 million in 2012/13
  - Poor lease management
    - Numerous irregularities with respect to lease agreements – gives rise to legal risks. DPW reviewing all lease agreements

FINANCIAL AND FISCAL COMMISSION

KEY CHALLENGES CONFRONTING DPW [CONT.]

- Inadequate immovable asset register
  - Lack of compliant immovable asset register resulted in negative audit opinions. DPW now in process of rebuilding immovable asset register and building a model to revalue immovable assets
- Lack of built environment and property management skills
  - Lack of technical capacity to undertake direct construction/maintenance functions. Cooperating with DPSA and Higher Education and Training to address challenge

FINANCIAL AND FISCAL COMMISSION

STARTING POINT FOR BUDGET ANALYSIS

- By vote
  - Compare different votes with each other
- By vote programme
  - Compare different programmes within a vote
- By sub-programme
- Compare different sub-programmes within a programme
- By province
- Compare different provinces with each other
- Use Outputs, Targets and Indicators to measure performance
- Use policy documents as a benchmark

FINANCIAL AND FISCAL COMMISSION

USEFUL TOOLS

- Percentage Share of Total Budget
- Growth in the Budget
  - Percentage Change
    - Reflecting increases/decreases in percentage form
  - Annual Growth Rate
    - How does the allocation change year on year
  - Real Percentage Change
    - Takes inflation into consideration
  - Variances and explanations
    - Investigating the reasons/drivers of change
  - Spending by economic classification
    - Distinguishes between various categories of current (goods and services, transfers and subsidies) and capital expenditure (acquisition of fixed capital assets, purchase of land)

FINANCIAL AND FISCAL COMMISSION

Budget and Programmes of Public Works

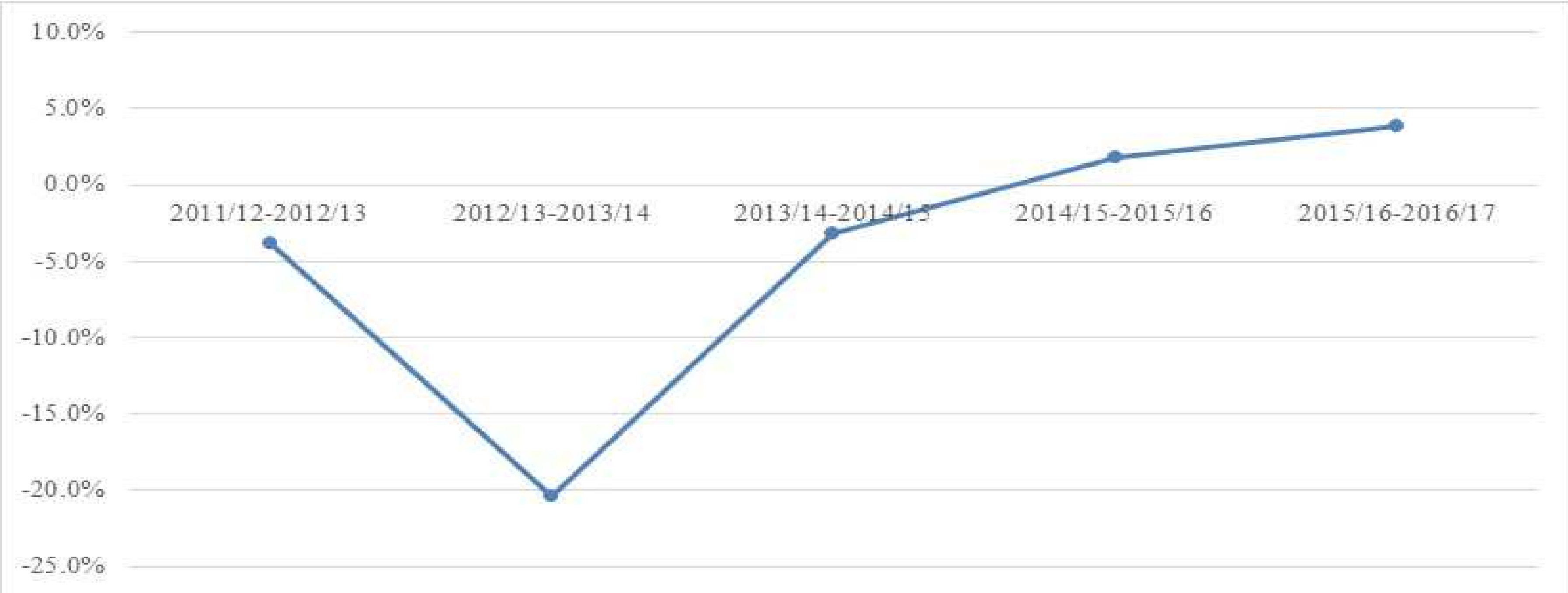
Nominal (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Real Annual Average Growth 2011/12-2013/14	Real Annual Average Growth 2014/15-2016/17
Administration	837.1	856.2	1 158.2	1 175.3	1 133.3	1 191.5	11.5%	-4.1%
Immovable Asset Management	5 001.7	4 563.5	2 831.8	2 861.4	3 308.1	3 450.0	-28.7%	4.6%
Expanded Public Works Programme	1 163.0	1 704.1	1 948.0	1 951.3	2 006.8	2 395.2	22.7%	5.5%
Property and Construction Industry Policy Regulation	34.4	26.9	36.7	41.5	43.4	45.9	-2.1%	0.1%
Auxiliary and Associated Services	25.2	53.3	50.7	91.8	53.7	56.6	34.4%	-25.2%
Total	**7 061.4**	**7 203.9**	**6 025.3**	**6 121.3**	**6 545.3**	**7 139.2**	**-12.5%**	**2.8%**

- Five programmes on Department of Public Works (DPW) budget
- Allocation reduced significantly in 2013/14, due to phasing out of Devolution of Property Rates Fund Grant to provinces and non-completion of various projects. As result of underspending, Cabinet approved reductions were effected
  - Following poor spending performance and audit outcomes, DPW implementing a Turnaround Project
- DPW budget projected to recover to just over R7.1 billion by end of 2014 medium term expenditure framework (MTEF) period
  - 2014 MTEF growth driven by additional allocation of R159 million in 2016/17 for Expanded Public Works Programme (EPWP)

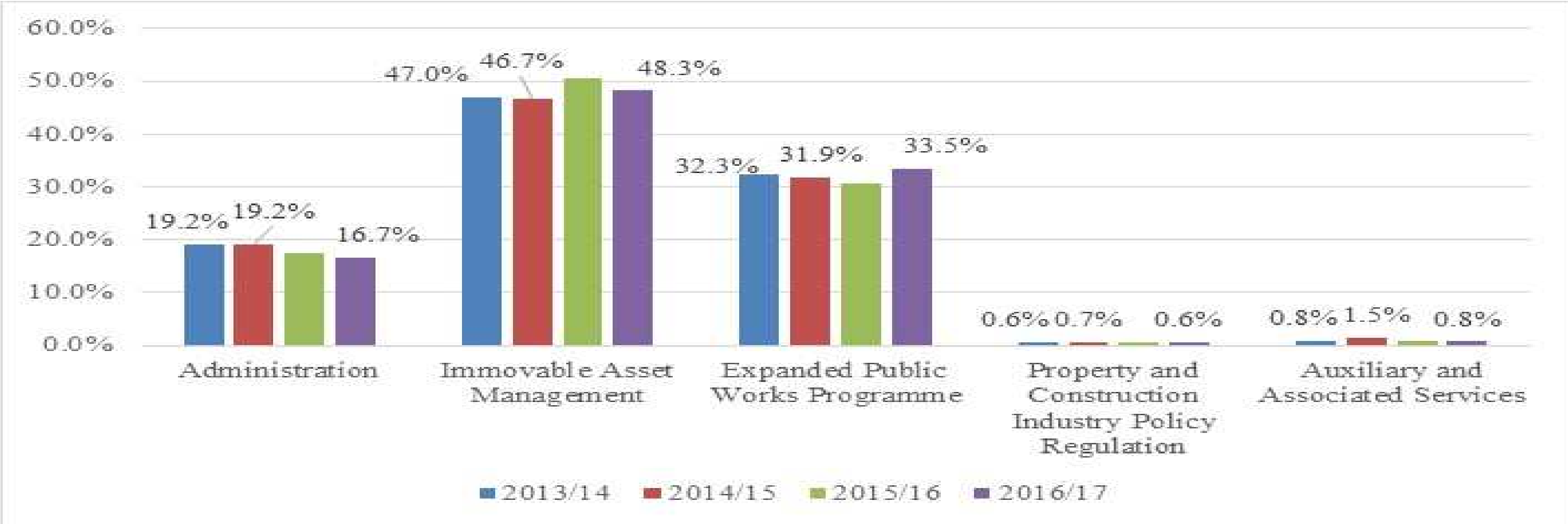
FINANCIAL AND FISCAL COMMISSION

REAL YEAR ON YEAR GROWTH OF PUBLIC WORKS BUDGET

- Significant decline in year on year growth in 2013/14
  - Though still declining in real terms in 2014/15, there is some improvement
- Over rest of 2014 MTEF period, positive growth projected
  - Focus will be on rehabilitating 34 state owned buildings, and ensuring that at least 100 buildings are made accessible to people with disabilities in each year of MTEF



BUDGET COMPOSITION ACROSS PROGRAMMES



- Immovable Asset Management Programme consumes largest share of DPW budget – by end of 2014 MTEF period this programme is projected to consume just under half of DPW budget
- Share allocated to Administration Programme consumers about one fifth of departmental budget – funding for Turnaround Project fall under Administration
  – Turnaround Project will support activities relating to the Special Investigating Unit, a technical support unit, a clean audit project, irregular expenditure management, internal audit support

FINANCIAL AND FISCAL COMMISSION

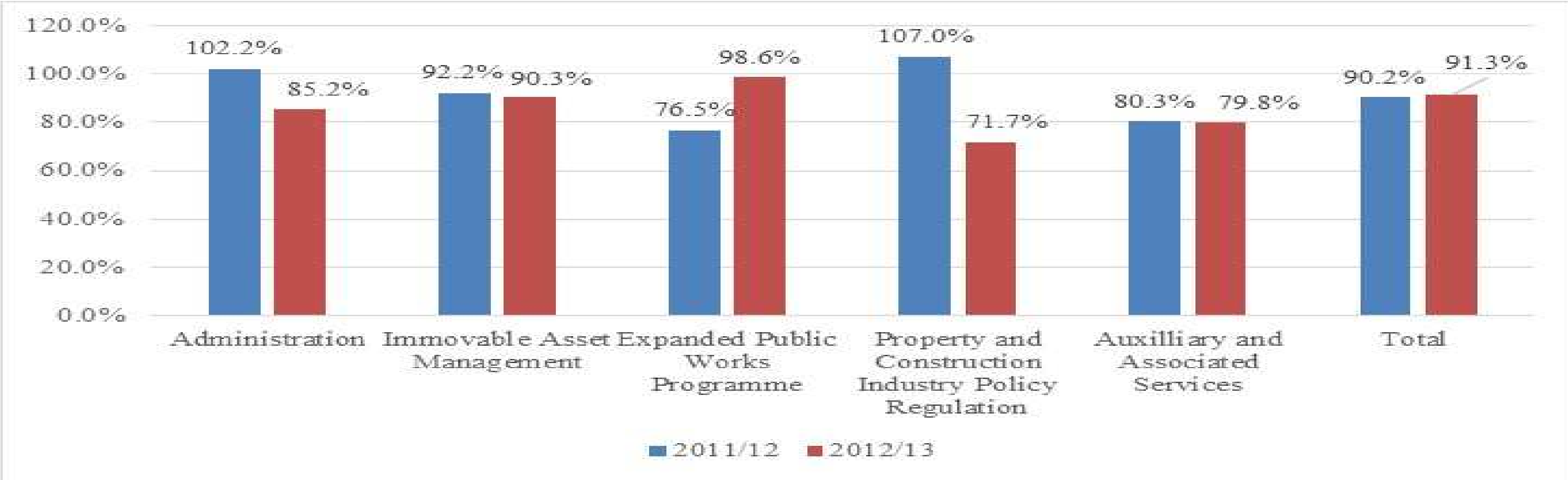
ECONOMIC CLASSIFICATION

Item (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Compensation of Employees	1 269.6	1 374.6	1 473.5	1 659.9	1 753.5	1 870.5
Goods and Services	1 032.9	977.0	1 379.6	1 302.1	1 202.9	1 269.0
Transfers and Subsidies	3 656.2	4 092.4	2 543.9	2 563.4	2 654.2	3 017.9
Payments for Capital Assets	1 099.1	756.8	628.4	595.9	934.8	981.7
Real Year on Year Growth (%)						
Compensation of Employees		2.1%	2.1%	7.3%	0.6%	1.6%
Goods and Services		-10.8%	34.5%	-10.1%	-12.0%	0.5%
Transfers and Subsidies		5.6%	-40.8%	-4.0%	-1.4%	8.3%
Payments for Capital Assets		-35.1%	-20.9%	-9.7%	49.4%	-0.003%

- Transfers and subsidies is the largest item
  - the decrease in 2013/14 due to phasing out of the Devolution of Property Rates Fund Grant to Provinces, hence reduction in transfers to provinces
- The increase in spending on Goods and Services in 2013/14 driven by spending on consultants – due to shortage of technical skills in property/project management and specialists as required for the DPW’s turnaround project
- Payments for capital assets very erratic
- Relative to strong annual average growth between 2011/12 and 2013/14, growth in Goods and Service set to decline over the 2014 MTEF period

FINANCIAL AND FISCAL COMMISSION

SPENDING PERFORMANCE (FISCAL DISCIPLINE)



- DPW underspent in 2011/12 and 2012/13
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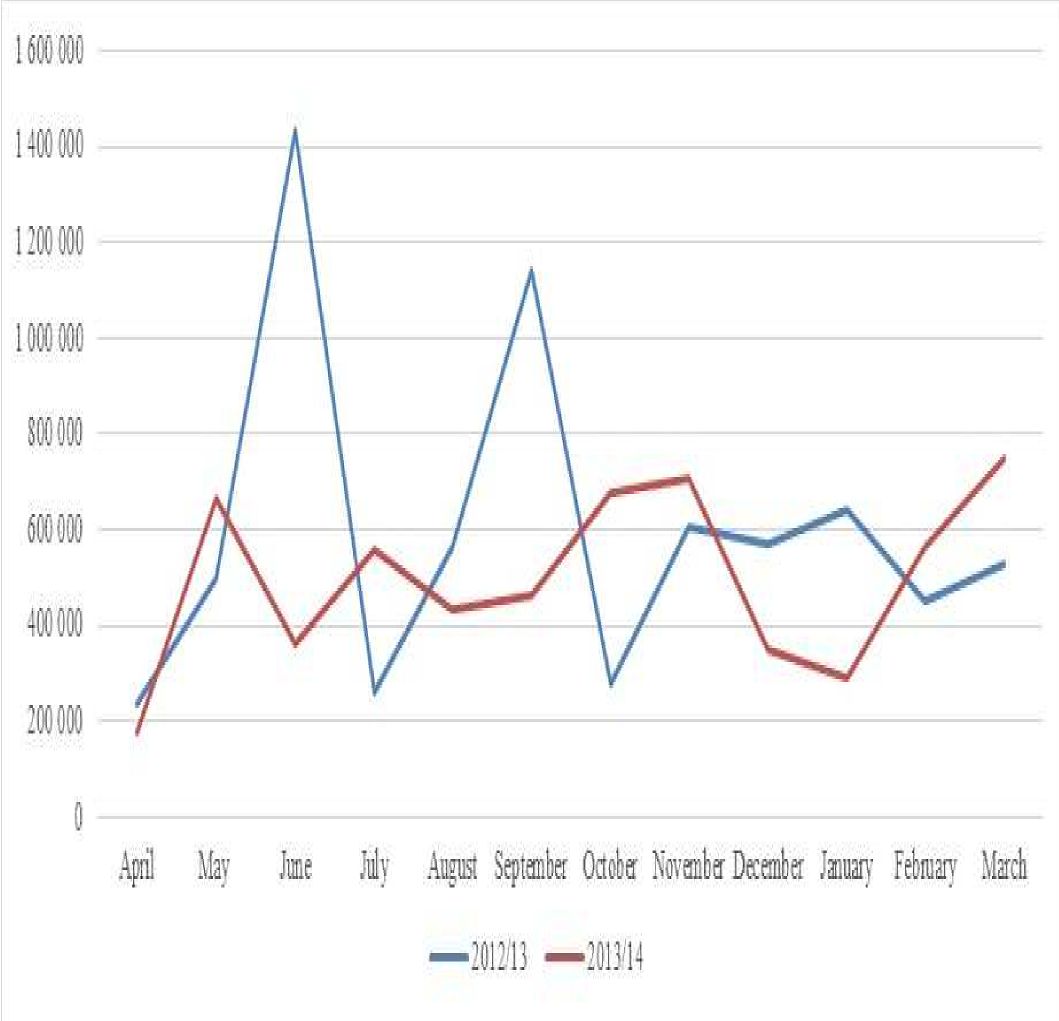
- Due to persistent underspending on capital, baseline reductions of R1.3 billion effected over 2014 MTEF period

FINANCIAL AND FISCAL COMMISSION

IN-YEAR EXPENDITURE

- 2012/13 in-year spending erratic
- Appears to be improving in 2013/14 – variances in monthly spending not as large as during 2012/13
- Concern with poor in-year spending is that it hints at unstable cash flow and disbursements



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Total	**-14.0%**	**-37.8%**	**-8.6%**	**10.1%**	**-0.7%**

- Total programme growth declines over most of the period reviewed
  - Decline in 2012 and 2013 is due to phasing out of devolution of property rates fund grant to provinces, non-completion of projects and Cabinet approved reductions due to underspending
- Generally sub-programme trends are erratic, brings into question soundness of planning in DPW
- Lack of capacity a challenge in this programme – 10% vacancy rate

SELECTED SUB-PROGRAMME ANALYSIS: EXPANDED PUBLIC WORKS PROGRAMME

R million	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**
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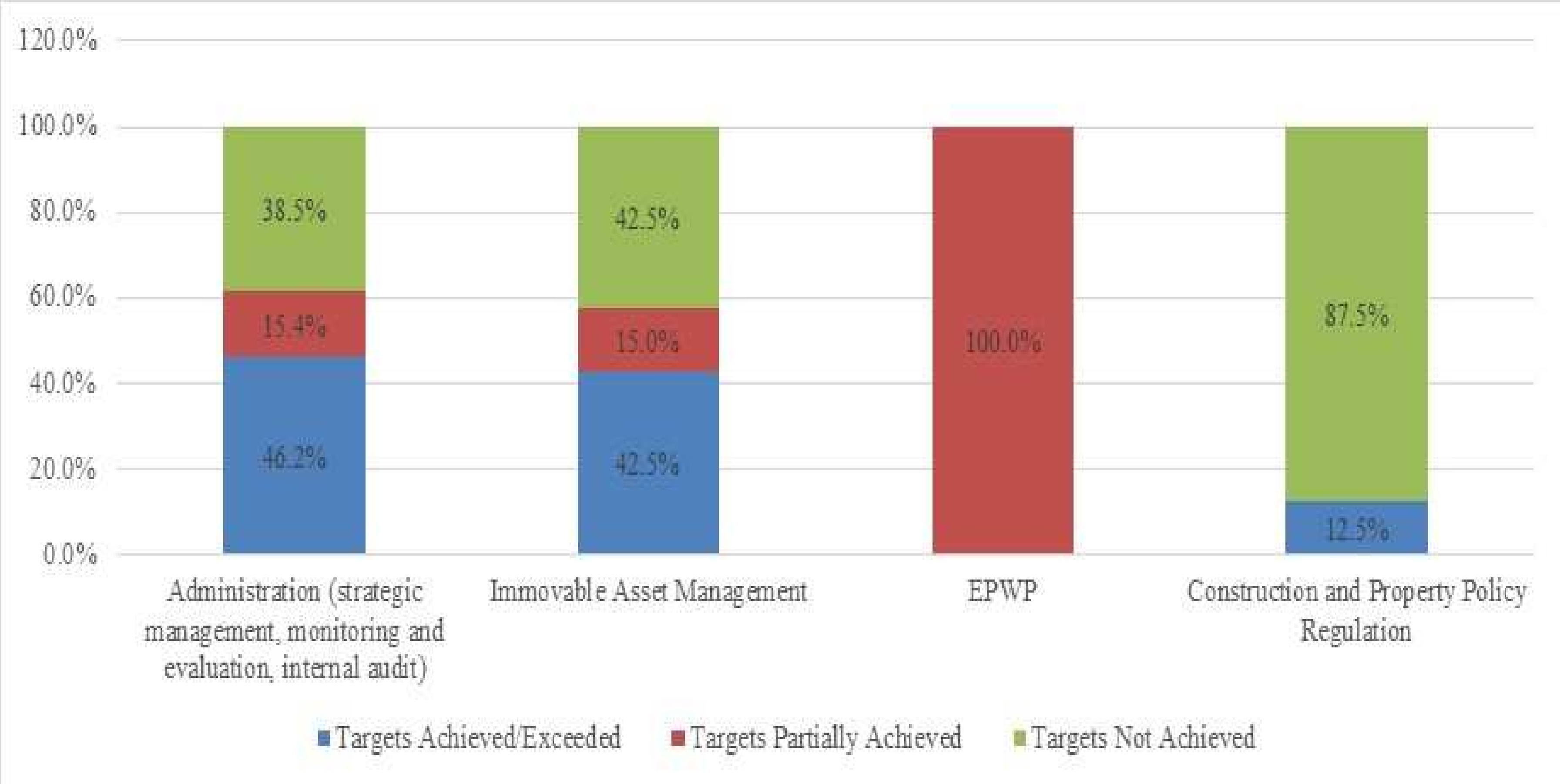
Total		**46.5%**	**14.3%**	**0.2%**	**2.8%**	**19.4%**

- EPWP promotes use of government expenditure to create additional employment opportunities through the use of labour-intensive delivery methods
  - Increases in 2012/2013 due to appointment of service providers to support provinces and municipalities in design of infrastructure projects and reporting methods
- Performance Based Incentive Allocations is the largest sub-programme
  - Focus: disburses funds to provinces/municipalities and NGOs to ensure creation of work opportunities in infrastructure, environment, social sectors
  - Increases between 2012 and 2013 are due to additional funding allocated. However to give effect to Cabinet-approved reductions, growth in this sub programme slows in 2014 and 2015
- Overall between 2009/10 and 2012/13, just over 3 million jobs created (68% of target of 4.5 million jobs)

DEPARTMENTAL PERFORMANCE

- Department not adequately meeting targets set.
  - Number of targets partially met and totally unmet exceptionally high



DEPARTMENTAL PERFORMANCE [CONT.]

Programme	Explanation for Unmet Targets
Administration	Delays due to lack of capacity/high vacancy rate, unrealistic targets given financial resources, lengthy procurement processes that delay appointment of service providers
Immovable Asset Management	Appropriate supply chain management process not followed, unrealistic target setting, inadequate data collection to verify extent to which target was met
EPWP	Delays in project implementation, lack of technical capacity to implement projects, poor performance on part of municipalities/provinces to carry out projects
Construction and Property Policy Regulation	• Legislative framework for Built Environment Professionals: delays in internal consultation • Establish Agrement SA as public entity: delay in the approval of business case • Provide immovable asset lifecycle management guidelines to national and provincial custodians of immovable assets: delay in internal consultation prevented finalisation

Aspects Highlighted by the Auditor-General

- DPW audit outcomes:
  - 2009/10: qualified with findings
  - 2010/11:disclaimer
  - 2011/12: disclaimer
  - 2012/13: qualified with findings
- Key issues highlighted by Auditor-General that need to be addressed:
  - Inadequate internal controls in areas of leadership, financial management, performance management and governance
  - Areas that were identified for specific attention through the turnaround project include: lack of controls in supply chain management, poor lease management, inadequate immovable asset register, lack of built environment and property management skills

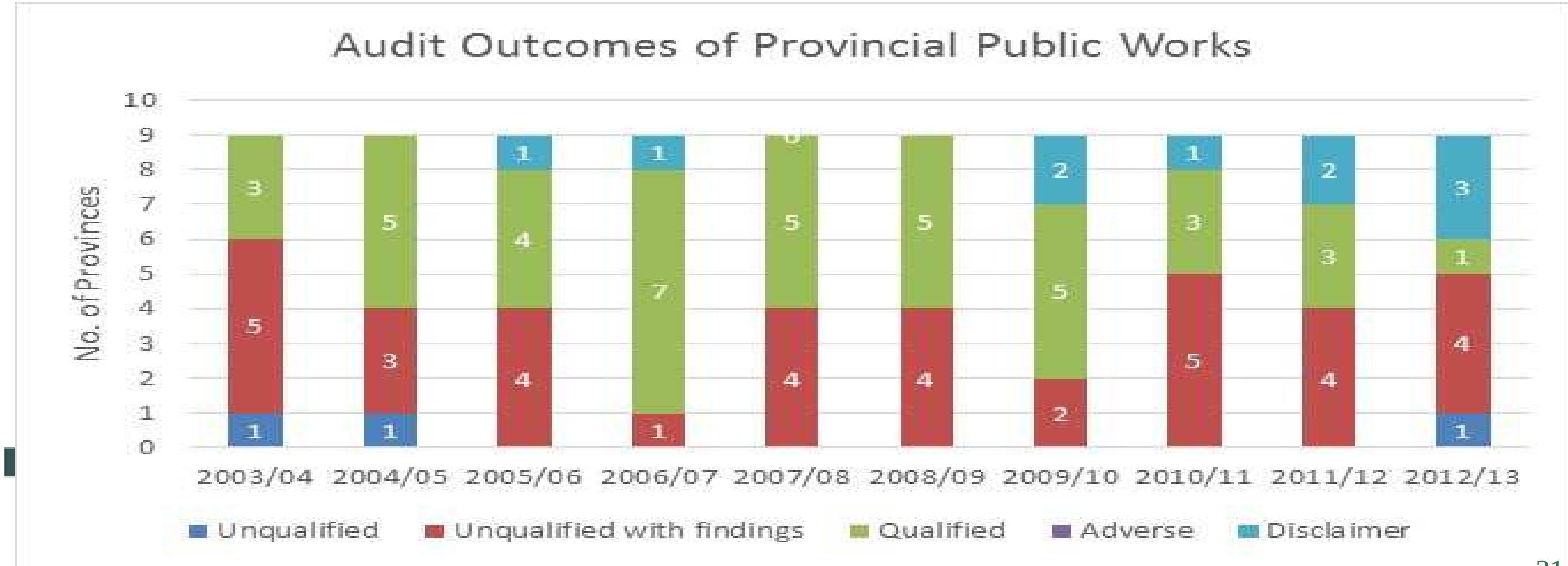
FINANCIAL AND FISCAL COMMISSION

FINANCIAL AND FISCAL COMMISSION

PUBLIC WORKS IN THE PROVINCES

PROVINCIAL AUDIT OUTCOMES

- Audit outcomes for provincial departments of public works have not considerably improved in since 2003/04
  - Four out of the nine provinces received a qualified opinion or disclaimer in 2012/13
  - Over a period of 10 years (i.e. 2003/4 – 2012/13), only 3 provincial departments of public works received an unqualified audit opinion



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PROVINCIAL AUDIT OUTCOMES [CONT.]

- The Auditor-General raised a number of matters that prevented provincial departments from achieving clean audits such as:
  - Instability in leadership and lack of human resources
  - Internal controls are ineffective
  - Action plans to implement improvement in audit outcomes are not timeously implemented
  - Inaccurate and incomplete fixed asset registers
  - Incomplete disclosures on unauthorized, irregular and fruitless, irregular and wasteful expenditure
  - Commitments by the national sector department to intervene and/or provide support were not honoured
- The Commission's view is that DPW should play a more active role, through the various intergovernmental forums, in providing the necessary support to provincial departments of public works

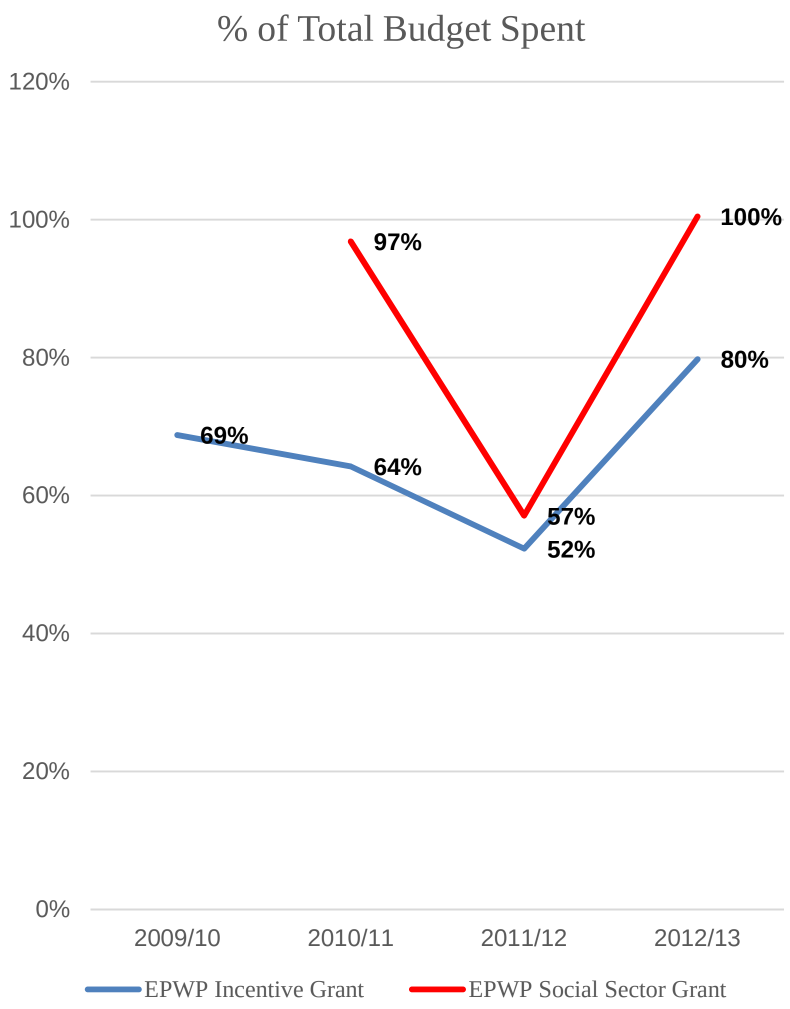
FINANCIAL AND FISCAL COMMISSION

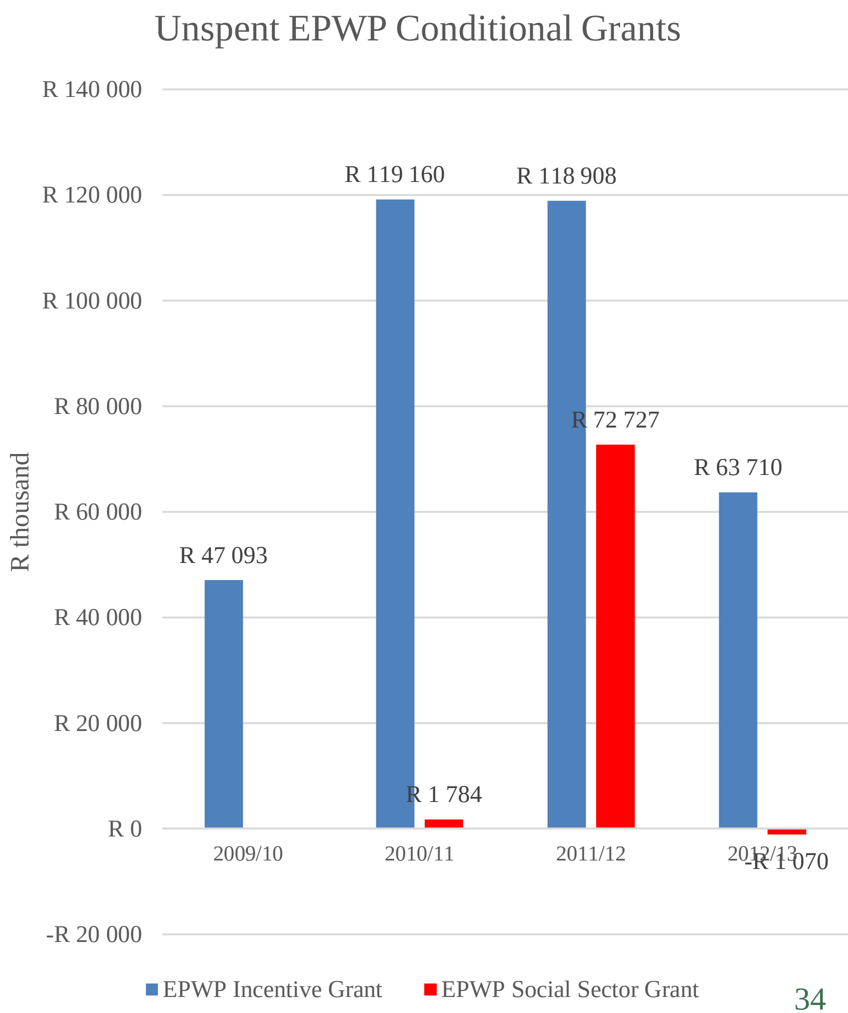
SPENDING PERFORMANCE BY PROVINCES ON EPWP CONDITIONAL GRANTS

- The National Department of Public Works is the transferring agent for two EPWP conditional grants to provinces
- As the transferring agent, the responsibilities of the DPW are prescribed in the conditional grant framework contained in the Division of Revenue Act. These include (among others):
  - Determine eligibility of grant, monitor and provide support to provinces, audit provincial performance and report to national treasury on provincial progress

FINANCIAL AND FISCAL COMMISSION

EPWP CONDITIONAL GRANTS TO PROVINCES





Summary of Performance on EPWP Grants to Provinces

- Over a four year period (2009/10 – 2012/13), provinces have been unable to spend more than 80% of its allocation to the EPWP Incentive Grant in any given year
- Except in 2011/12 where spending on both EPWP grants were below 60% of total, the EPWP Social Sector grant in general, performed better than the Incentive grant
  - Provinces have challenges relating to infrastructure, which affects the spending performance on the Incentive grant
- In many instances, provinces fail to comply with grant conditions stipulated in DORA, resulting in funds being withheld, thereby leaving funds unspent at the end of the year

FINANCIAL AND FISCAL COMMISSION

Concluding Remarks

- Key issues emanating from analysis of DPW
  - Underspending of budget
  - Not meeting set targets
- For the sector to turnaround, the DPW should play a leadership role by providing the necessary support to the provinces and establishing minimum norms and standards to facilitate improvement in service delivery in the provinces
- Department to put in place proper systems to guide expenditure management, setting of appropriate key performance indicators and a plan to attract/retain skilled staff
  - Outcome of the Turnaround Project is key in facilitating progress – some improvements noted but far to go in putting DPW on stable footing

FINANCIAL AND FISCAL COMMISSION

FFC's Website: www.ffc.co.za

FINANCIAL AND FISCAL COMMISSION

PORTFOLIO COMMITTEE ON PUBLIC WORKS

Financial and Fiscal Commission

25 September 2014

For an Equitable Sharing of National Revenue

PRESENTATION OUTLINE

1. Role and Function of the Financial and Fiscal Commission
2. Recommendations of the Commission that relate to Public Works
3. Departmental Analysis

FINANCIAL AND FISCAL COMMISSION

FINANCIAL AND FISCAL COMMISSION

1. Role and Function of the Financial and Fiscal Commission

ROLE AND FUNCTION OF THE FFC

- The Financial and Fiscal Commission (FFC)
  - Is an independent, permanent, statutory institution established in terms of Section 220 of Constitution
  - Must function in terms of the FFC Act
- Mandate of Commission
  - To make recommendations, envisaged in Chapter 13 of the Constitution or in national legislation to Parliament, Provincial Legislatures, and any other organ of state determined by national legislation
- The Commission's focus is primarily on the equitable division of nationally collected revenue among the three spheres of government and any other financial and fiscal matters
  - Legislative provisions or executive decisions that affect either provincial or local government from a financial and/or fiscal perspective
  - Includes regulations associated with legislation that may amend or extend such legislation
  - Commission must be consulted in terms of the FFC Act
  - Current research strategy focuses on developmental impacts of IGFR

FINANCIAL AND FISCAL COMMISSION

How FFC Supports Policy

- Identify weakness within the IGFR system
- Propose evidence-based policy proposals
- Interact and participate with/in forums and institutions responsible for IGFR policy – TCF, Budget Council, Budget Forum
- Information dissemination – invitations from nine provincial legislatures and SALGA
- Interact with various committees within parliament

FINANCIAL AND FISCAL COMMISSION

PROCESSING OF RECOMMENDATIONS

- Recommendations of the Commission
  - Recommendations are made to Parliament so that the legislature can examine the financial and fiscal decisions of government against them and understand why they have been accepted or rejected
  - Section 4(4)(c) of the Money Bills Amendment Procedures and Related Matters Act (MBAPMA) requires Parliament to consider the recommendations of the Commission when deliberating on Money Bills
- Government is obligated through an Act of Parliament to explain how it has taken the FFC recommendations in arriving at the division of revenue for any particular year
  - The response is tabled in Annexure W1 of the DoR Bill and of the Budget Review

FINANCIAL AND FISCAL COMMISSION

How FFC can Support Parliament

DIRECT TRAINING AND INTERVENTION

- Training of members of parliamentary committees and councillors on request (e.g. in Bushbuckridge)
- Advice to municipalities (e.g. Tshwane merger)
- Inputs in various fora (e.g. SALGA)

NON TRAINING SUPPORT AND INTERVENTION

- Member of review committees (LES, Infrastructure Grants, Metro's Own Revenue)
- Public hearings (local government fiscal framework, housing and welfare)
- Inputs in benchmarking exercises
- Recommendations through Annual Submission on DoR, MTBPS, FF and Appropriations

VALUE ADD OF THE FFC

- FFC can provide advice, analysis and training to assist the work of the Committee
  - Specialised IGFR training to committee members and/or parliamentary researchers
  - Provision of recommendations that are founded on evidence based research
  - Technical support with respect to parliamentary fiscal oversight activities

FINANCIAL AND FISCAL COMMISSION

2. Recommendations that Relate to Public Works

FFC Work Related to DPW [cont.]

Response to Division of Revenue Bill (DoRB) 2010	The Commission welcomed introduction of the *EPWP Incentive Grant for the Social Sector*. The Commission noted that there was a need to standardise the employment framework for the sector including conditions, wages and progression across provinces and municipalities. The Commission also raised concern regarding difficulties that were being experienced with the transfer of the EPWP Incentive Grant to Local and Provincial Governments. In the 2009/10 certain provinces (e.g. Western Cape) raised concern that they received transfers outside the ambit of the DoR and couldn't spend the money because it was not properly appropriated through various legislatures. At that point the general challenge with the grant was that provinces and municipalities found it difficult to integrate it through their infrastructure programmes. This problem persists because labour intensive infrastructure projects need to be planned, costed and scheduled properly. Not all projects yield the same labour intensity, so targets must be set by project type and category. Some projects will better lend themselves to labour intensive methods than others. This must be factored into the budget allocations and monitoring of the grant. *Current Commission analysis is that provinces continue to have challenges relating to labour intensive infrastructure, which affects the spending of the Incentive grant. In 2012/13 DPW appointed service providers to support provinces and municipalities in design of infrastructure projects and reporting methods.*

FFC Work Related to DPW [cont.]

Response to MTBPS 2011	In terms of the EPWP Incentive grant framework, provinces and municipalities must spend their budgets on EPWP projects and after that the grant will be paid by DPW quarterly as an incentive (after employment has been created). There has been general under-spending against budget since inception of the grant. Projected under-spending in financial year 2011 was 28.4%. In 2010, the actual under-spend was 38.4%. Despite poor spending performance, the annual growth of the budget was high. Expenditure reports on the grant performance at local government were inaccessible. DPW should explain how transfers are reconciled with actual expenditure. The grant should be streamlined to the Division of Revenue Act (DORA) requirements in terms of allocation and disbursements of funds. Punitive and incentive elements of the grant should be made transparent to all the stakeholders. *Current FFC analysis indicates that underspending persists. Between 2009/10 and 2012/13, provinces have been unable to spend more than 80% of their allocation*
Response to DoRB 2012	The Commission reiterated concerns raised in its Response to DoRB 2010 and Response to 2011 MTBPS regarding the challenges with the EPWP Incentive grant. The Commission maintained its view that the grant had not succeeded in achieving the intended goals within the specified time. There had also not been a formal assessment of the achievement of this grant both in terms of expenditure and service delivery outputs including how many direct and full times jobs had been created against the allocated funds. The Commission recommended that an independent review of the grant be undertaken, so that lessons can be drawn from past experience to avoid a replication of past mistakes. Government has since set up a team consisting of National Treasury, DPW, DCoG and SALGA that has been working on this. *This review is ongoing*

FFC Work Related to DPW [cont.]

Submission for the 2009/10 DoR	FFC found a need for reporting on EPWP outcomes to be more specific. In accordance with the requirements of the EPWP, job creation for target groups such as women, youth and people with disabilities should be included in the reporting requirements for all infrastructure conditional grants to provinces and municipalities GOVT. RESPONSE: The recommendation for reporting on targets is supported. Some of these indicators can possibly be reported on as part of the conditional grant frameworks prescribed in terms of the Division of Revenue Act
Submission for the 2007/08 DoR	The World Cup funding was crafted on the basis of requirements to meet FIFA standards of hosting cities, and that the major challenge faced by government was sustainability of built infrastructure. On the funding for the FIFA World Cup, FFC, examined the sustainability of built infrastructure, taking the escalation of construction costs into account. FFC's findings included that the escalation of construction costs be budgeted for, and that collaboration with the private sector should be encouraged. Also that a 2010 World Cup "Legacy Management Policy" should be introduced and prudent fiscal policy should be maintained leading to the World Cup GOVT. RESPONSE: Government is of the view that the costs relating to maintenance of constructed 2010 FIFA World Cup facilities should be provided by municipalities

FINANCIAL
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3. Departmental Analysis

CONTEXTUALISING THE DEPARTMENT OF PUBLIC WORKS

- Aim of Department of Public Works (DPW):
  - provide for and manage accommodation, housing, land and infrastructure needs of national departments
  - Lead and direct implementation of the national expanded public works programme (EPWP)
  - Promote growth, job creation and transformation in the construction and property industries
- Public works is a concurrent function between national and provincial spheres of government
- DPW contribution to National Development Plan (NDP) achieved through:
  - Implementation of job creation initiatives
  - Transition to low cost carbon economy
  - Development of an inclusive and integrated rural economy
  - Fight against corruption

FINANCIAL AND FISCAL COMMISSION

KEY CHALLENGES CONFRONTING DPW

- Due to consistent trend of poor audit outcomes and generally poor performance, DPW implemented a turnaround project in November 2012
- Areas that were identified for specific attention through the turnaround project include:
  - Lack of controls in supply chain management (SCM)
    - Identified as major risk area by Auditor-General – DPW capacity to process tenders eroded and has led to numerous instances of fraud/corruption. SCM has been major focus of the Special Investigating Unit (SIU). SCM is the key focus of turnaround project in DPW. A service provider appointed to assist with fundamental review of SCM
      - Irregular expenditure, R171 million in 2011/12; R874 million in 2012/13
  - Poor lease management
    - Numerous irregularities with respect to lease agreements – gives rise to legal risks. DPW reviewing all lease agreements

FINANCIAL AND FISCAL COMMISSION

KEY CHALLENGES CONFRONTING DPW [CONT.]

- Inadequate immovable asset register
  - Lack of compliant immovable asset register resulted in negative audit opinions. DPW now in process of rebuilding immovable asset register and building a model to revalue immovable assets
- Lack of built environment and property management skills
  - Lack of technical capacity to undertake direct construction/maintenance functions. Cooperating with DPSA and Higher Education and Training to address challenge

FINANCIAL AND FISCAL COMMISSION

STARTING POINT FOR BUDGET ANALYSIS

- By vote
  - Compare different votes with each other
- By vote programme
  - Compare different programmes within a vote
- By sub-programme
- Compare different sub-programmes within a programme
- By province
- Compare different provinces with each other
- Use Outputs, Targets and Indicators to measure performance
- Use policy documents as a benchmark

FINANCIAL AND FISCAL COMMISSION

USEFUL TOOLS

- Percentage Share of Total Budget
- Growth in the Budget
  - Percentage Change
    - Reflecting increases/decreases in percentage form
  - Annual Growth Rate
    - How does the allocation change year on year
  - Real Percentage Change
    - Takes inflation into consideration
  - Variances and explanations
    - Investigating the reasons/drivers of change
  - Spending by economic classification
    - Distinguishes between various categories of current (goods and services, transfers and subsidies) and capital expenditure (acquisition of fixed capital assets, purchase of land)

FINANCIAL AND FISCAL COMMISSION

BUDGET AND PROGRAMMES OF PUBLIC WORKS

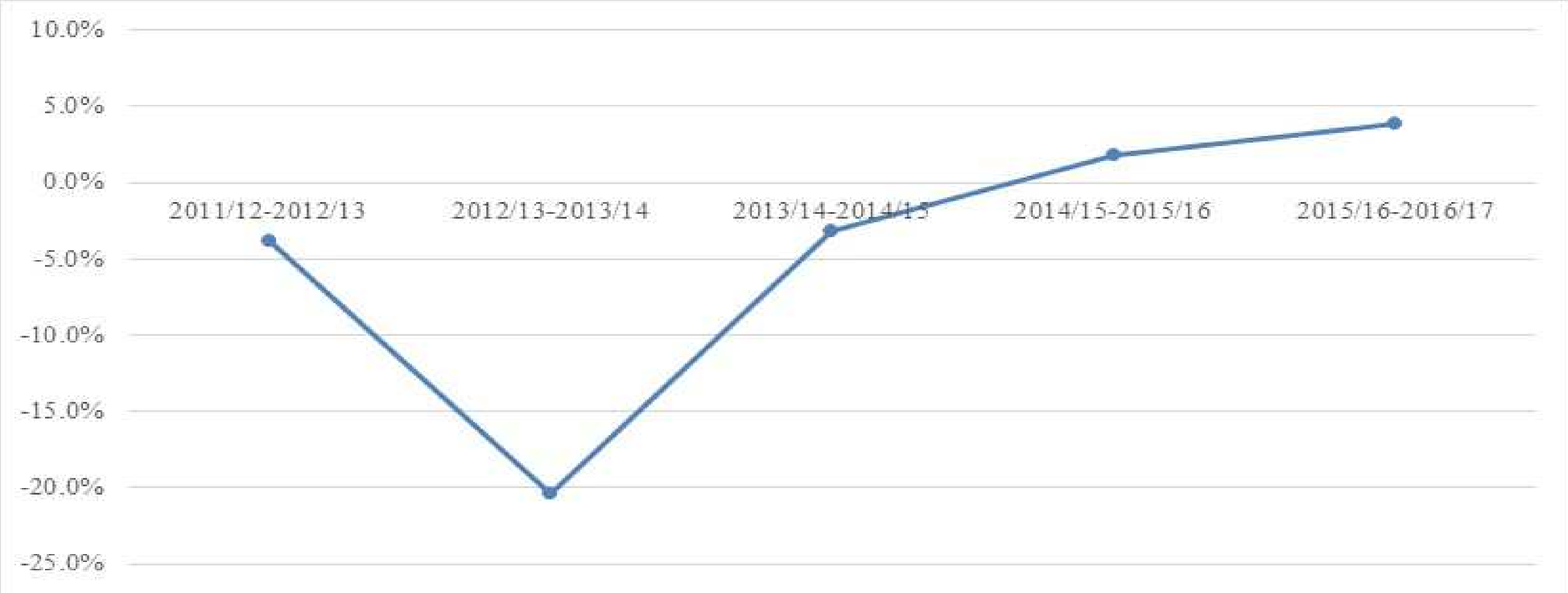
Nominal (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Real Annual Average Growth 2011/12-2013/14	Real Annual Average Growth 2014/15-2016/17
Administration	837.1	856.2	1 158.2	1 175.3	1 133.3	1 191.5	11.5%	-4.1%
Immovable Asset Management	5 001.7	4 563.5	2 831.8	2 861.4	3 308.1	3 450.0	-28.7%	4.6%
Expanded Public Works Programme	1 163.0	1 704.1	1 948.0	1 951.3	2 006.8	2 395.2	22.7%	5.5%
Property and Construction Industry Policy Regulation	34.4	26.9	36.7	41.5	43.4	45.9	-2.1%	0.1%
Auxiliary and Associated Services	25.2	53.3	50.7	91.8	53.7	56.6	34.4%	-25.2%
Total	**7 061.4**	**7 203.9**	**6 025.3**	**6 121.3**	**6 545.3**	**7 139.2**	**-12.5%**	**2.8%**

- Five programmes on Department of Public Works (DPW) budget
- Allocation reduced significantly in 2013/14, due to phasing out of Devolution of Property Rates Fund Grant to provinces and non-completion of various projects. As result of underspending, Cabinet approved reductions were effected
  - Following poor spending performance and audit outcomes, DPW implementing a Turnaround Project
- DPW budget projected to recover to just over R7.1 billion by end of 2014 medium term expenditure framework (MTEF) period
  - 2014 MTEF growth driven by additional allocation of R159 million in 2016/17 for Expanded Public Works Programme (EPWP)

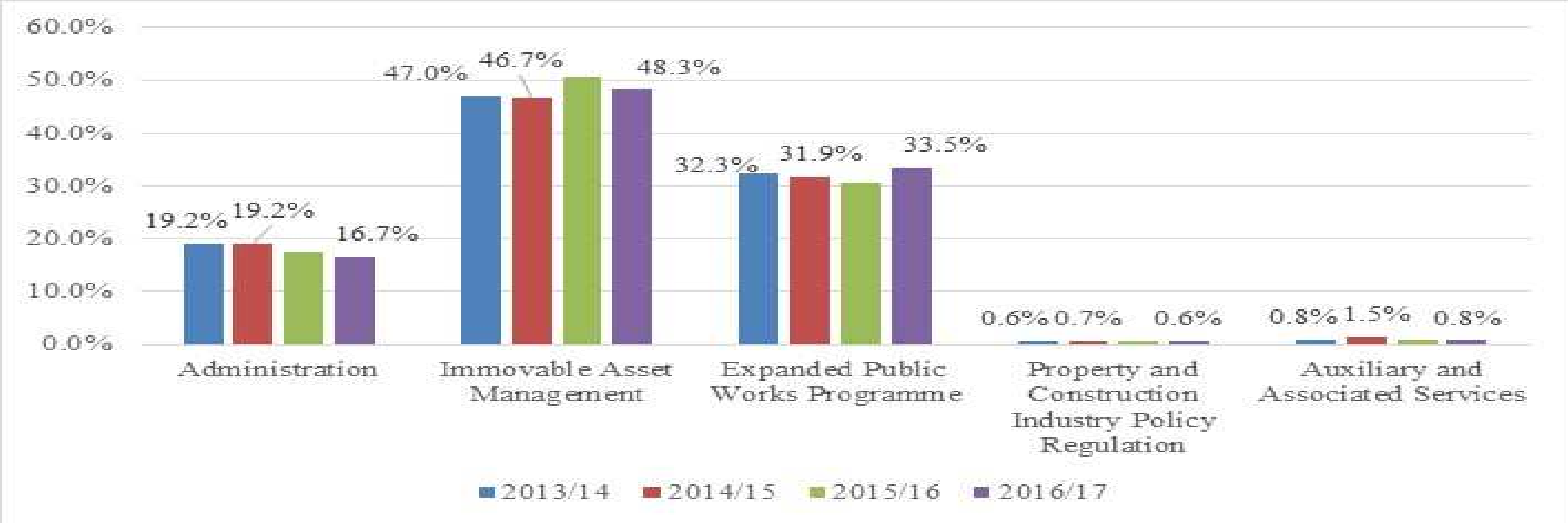
FINANCIAL AND FISCAL COMMISSION

REAL YEAR ON YEAR GROWTH OF PUBLIC WORKS BUDGET

- Significant decline in year on year growth in 2013/14
  - Though still declining in real terms in 2014/15, there is some improvement
- Over rest of 2014 MTEF period, positive growth projected
  - Focus will be on rehabilitating 34 state owned buildings, and ensuring that at least 100 buildings are made accessible to people with disabilities in each year of MTEF



BUDGET COMPOSITION ACROSS PROGRAMMES



- Immovable Asset Management Programme consumes largest share of DPW budget – by end of 2014 MTEF period this programme is projected to consume just under half of DPW budget
- Share allocated to Administration Programme consumers about one fifth of departmental budget – funding for Turnaround Project fall under Administration
  - Turnaround Project will support activities relating to the Special Investigating Unit, a technical support unit, a clean audit project, irregular expenditure management, internal audit support

FINANCIAL AND FISCAL COMMISSION

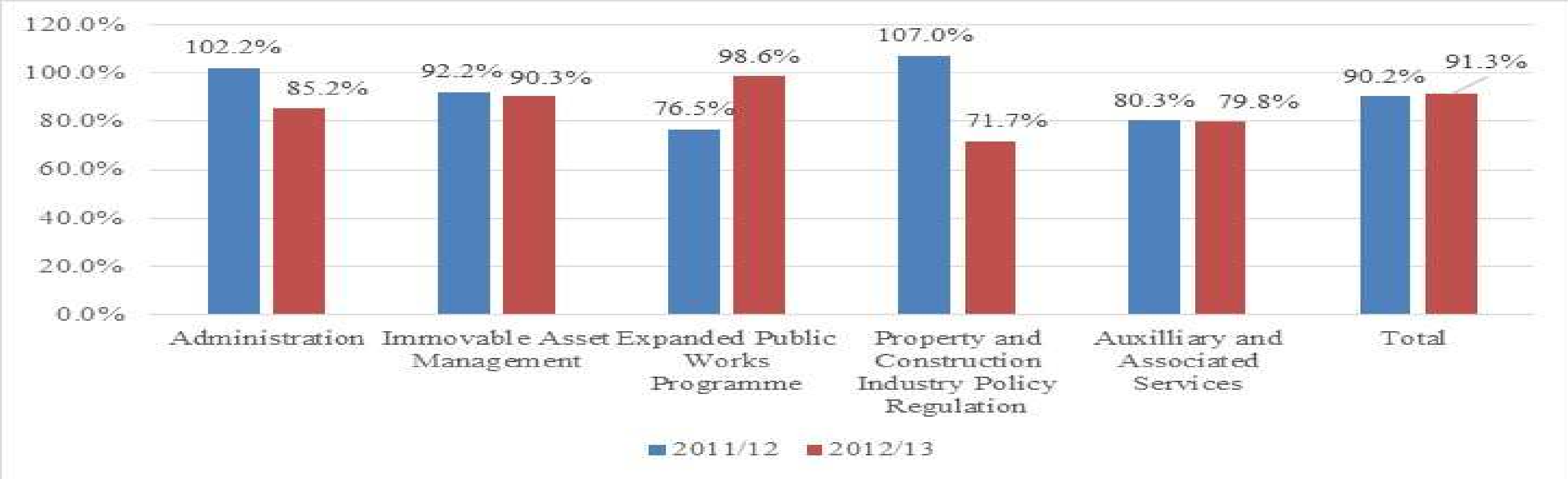
Economic Classification

Item (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Compensation of Employees	1 269.6	1 374.6	1 473.5	1 659.9	1 753.5	1 870.5
Goods and Services	1 032.9	977.0	1 379.6	1 302.1	1 202.9	1 269.0
Transfers and Subsidies	3 656.2	4 092.4	2 543.9	2 563.4	2 654.2	3 017.9
Payments for Capital Assets	1 099.1	756.8	628.4	595.9	934.8	981.7
Real Year on Year Growth (%)						
Compensation of Employees		2.1%	2.1%	7.3%	0.6%	1.6%
Goods and Services		-10.8%	34.5%	-10.1%	-12.0%	0.5%
Transfers and Subsidies		5.6%	-40.8%	-4.0%	-1.4%	8.3%
Payments for Capital Assets		-35.1%	-20.9%	-9.7%	49.4%	-0.003%

- Transfers and subsidies is the largest item
  - the decrease in 2013/14 due to phasing out of the Devolution of Property Rates Fund Grant to Provinces, hence reduction in transfers to provinces
- The increase in spending on Goods and Services in 2013/14 driven by spending on consultants – due to shortage of technical skills in property/project management and specialists as required for the DPW's turnaround project
- Payments for capital assets very erratic
- Relative to strong annual average growth between 2011/12 and 2013/14, growth in Goods and Service set to decline over the 2014 MTEF period

FINANCIAL AND FISCAL COMMISSION

SPENDING PERFORMANCE (FISCAL DISCIPLINE)



- DPW underspent in 2011/12 and 2012/13
- In 2011 underspending on EPWP and Auxilliary and Associated Services Programme
- In 2012, underspending is as a result of poor spending in Property and Construction Industry Policy Regulation Programme and again Auxilliary and Associated Services Programme
- Due to persistent underspending on capital, baseline reductions of R1.3 billion effected over 2014 MTEF period

IN-YEAR EXPENDITURE

- 2012/13 in-year spending erratic
- Appears to be improving in 2013/14 – variances in monthly spending not as large as during 2012/13
- Concern with poor in-year spending is that it hints at unstable cash flow and disbursements

FINANCIAL AND FISCAL COMMISSION

SELECTED SUB-PROGRAMME ANALYSIS: IMMOVABLE ASSET MANAGEMENT PROGRAMME

Real Year on Year Growth	2011/12-2012/13	2012/13-2013/14	2013/14-2014/15	2014/15-2015/16	2015/16-2016/17
Infrastructure (Public Works)	-33.5%	-9.7%	-28.1%	57.5%	-0.1%
Strategic Asset Investment Analysis	-67.7%	149.1%	10.4%	0.2%	1.0%
Operation Management	1.6%	-0.3%	0.5%	-0.4%	2.7%
Prestige Management	-51.5%	44.0%	-27.0%	-1.0%	-28.5%
Special Projects	4.0%	47.6%	-24.7%	1.8%	0.4%
Construction Industry Development Board	-3.4%	2.0%	1.6%	0.4%	0.2%
Council for the Built Environment	-7.7%	28.8%	4.3%	1.4%	0.2%
Parliamentary Village Management Board	-0.6%	0.1%	1.1%	-0.4%	0.5%
Augmentation of the Property Management Trading Entity	-3.2%	0.5%	-6.0%	-0.1%	0.6%
Independent Development Trust	-68.1%	-6.3%	-4.7%	-4.8%	-100.0%
Total	**-14.0%**	**-37.8%**	**-8.6%**	**10.1%**	**-0.7%**

- Total programme growth declines over most of the period reviewed
  - Decline in 2012 and 2013 is due to phasing out of devolution of property rates fund grant to provinces, non-completion of projects and Cabinet approved reductions due to underspending
- Generally sub-programme trends are erratic, brings into question soundness of planning in DPW
- Lack of capacity a challenge in this programme – 10% vacancy rate

SELECTED SUB-PROGRAMME ANALYSIS: EXPANDED PUBLIC WORKS PROGRAMME

R million	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**
Expanded Public Works Programme	209.7	236.8	273.8	261.5	267.7	290.6
Performance Based Incentive Allocations	953.3	1 467.3	1 674.2	1 689.8	1 739.2	2 104.6
Total	**1 163.0**	**1 704.1**	**1 948.0**	**1 951.3**	**2 006.8**	**2 395.2**
Real Year on Year Growth		**2011/12-2012/13**	**2012/13-2013/14**	**2013/14-2014/15**	**2014/15-2015/16**	**2015/16-2016/17**
Expanded Public Works Programme		12.9%	15.6%	-4.5%	2.4%	8.6%
Performance Based Incentive Allocations		53.9%	14.1%	0.9%	2.9%	21.0%
Total		**46.5%**	**14.3%**	**0.2%**	**2.8%**	**19.4%**

- EPWP promotes use of government expenditure to create additional employment opportunities through the use of labour-intensive delivery methods
  - Increases in 2012/2013 due to appointment of service providers to support provinces and municipalities in design of infrastructure projects and reporting methods
- Performance Based Incentive Allocations is the largest sub-programme
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  - Increases between 2012 and 2013 are due to additional funding allocated. However to give effect to Cabinet-approved reductions, growth in this sub programme slows in 2014 and 2015
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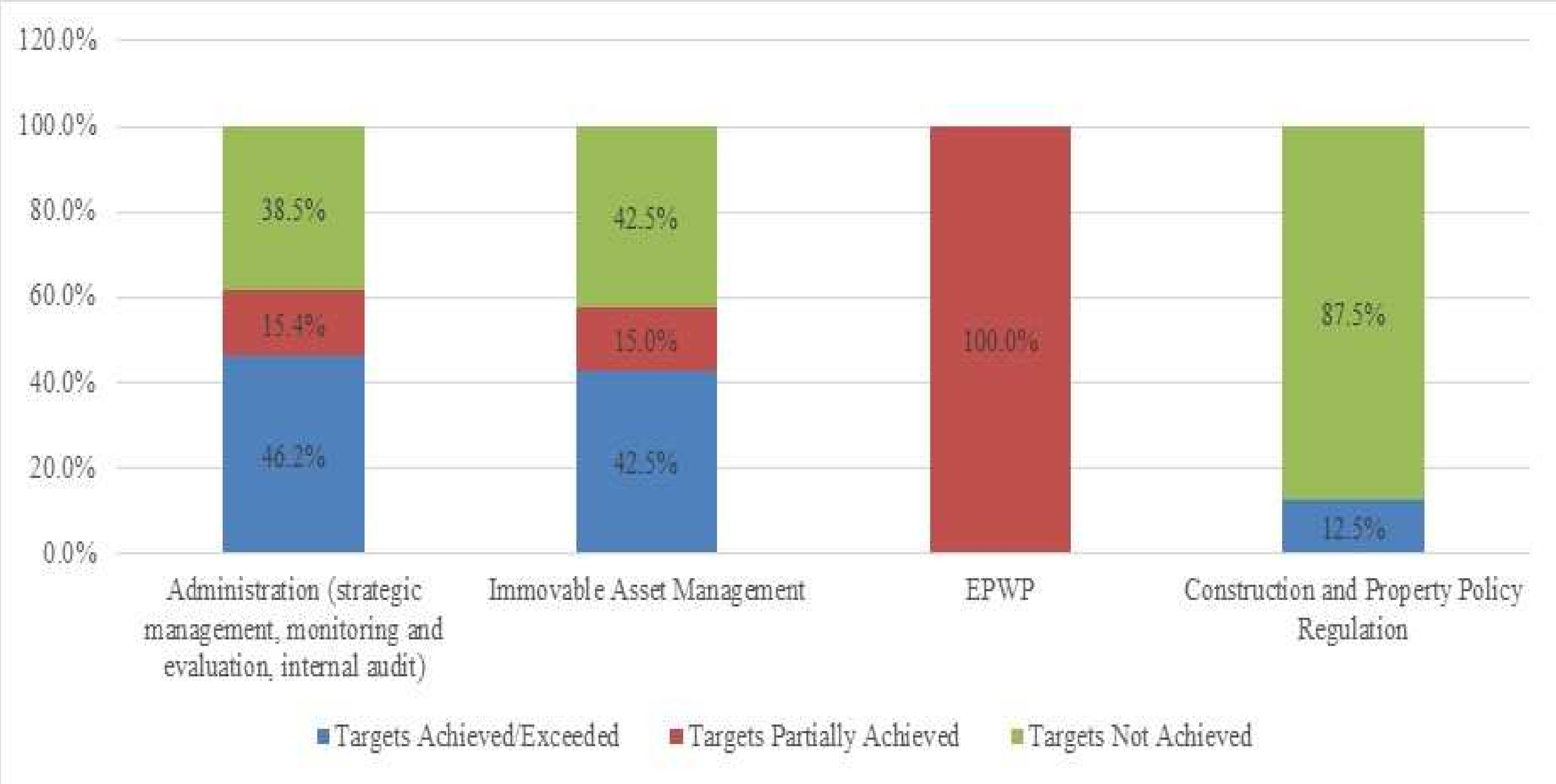

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FINANCIAL AND FISCAL COMMISSION

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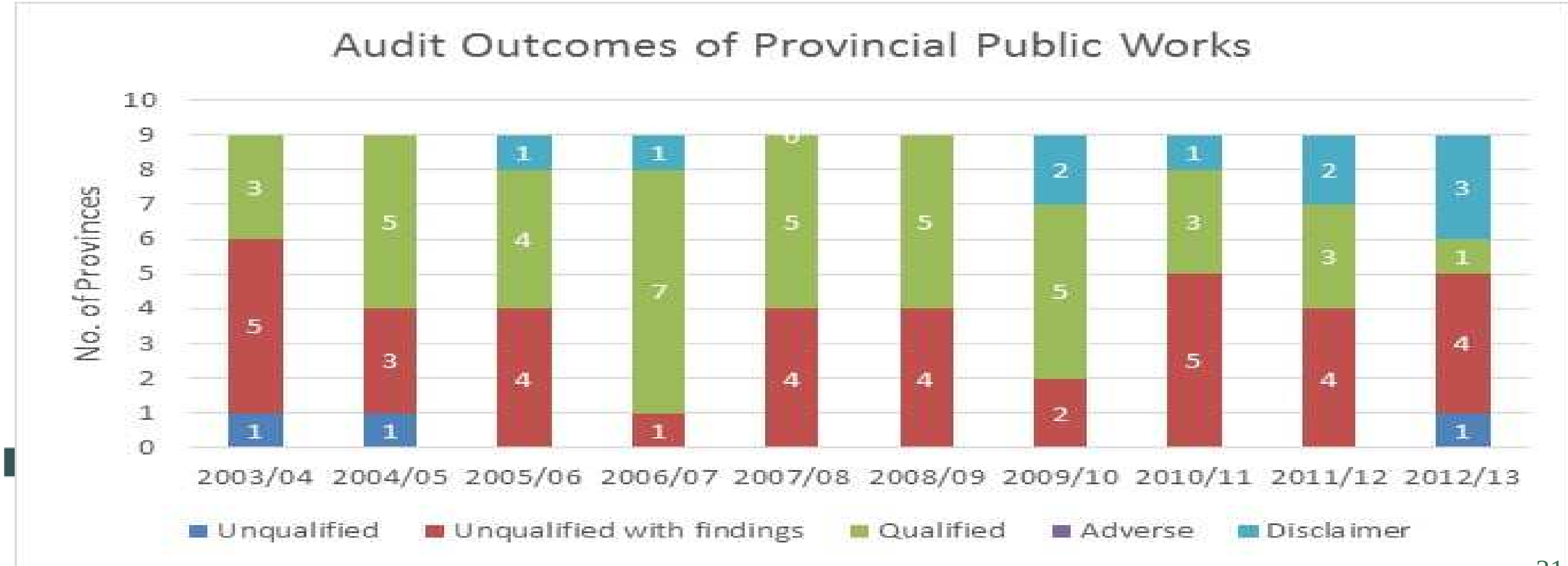

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FINANCIAL AND FISCAL COMMISSION

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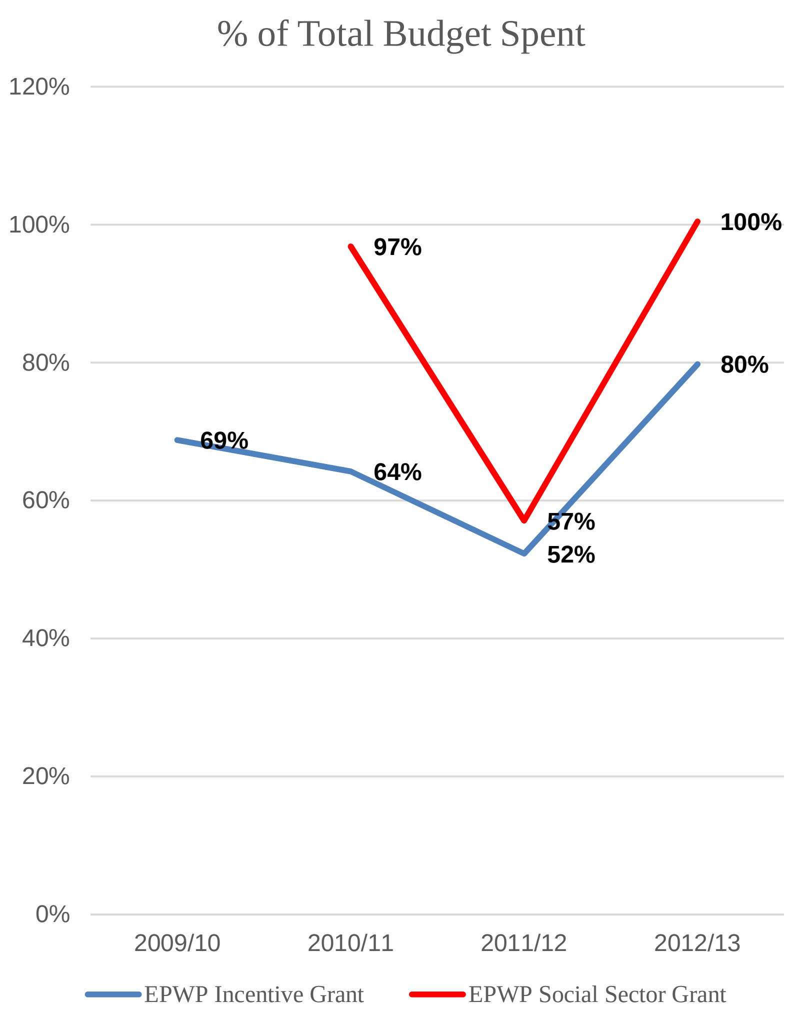
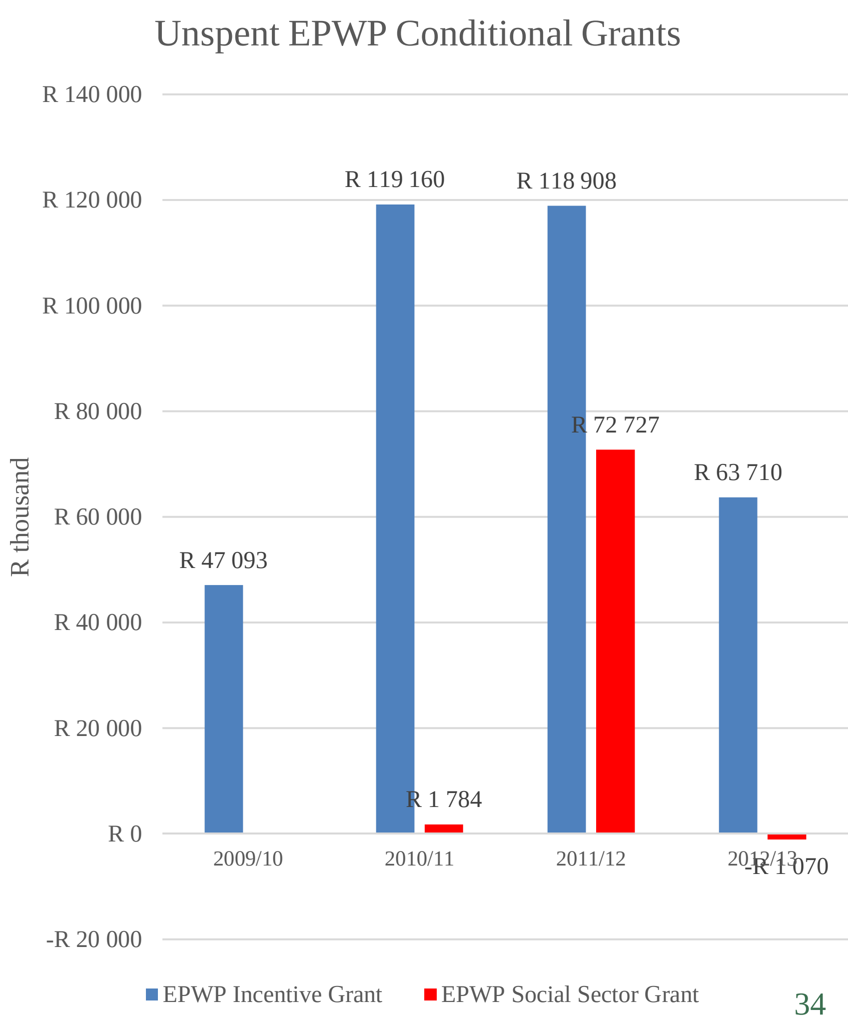
- As the transferring agent, the responsibilities of the DPW are prescribed in the conditional grant framework contained in the Division of Revenue Act. These include (among others):
  - Determine eligibility of grant, monitor and provide support to provinces, audit provincial performance and report to national treasury on provincial progress

FINANCIAL AND FISCAL COMMISSION

EPWP Conditional Grants to Provinces





Summary of Performance on EPWP Grants to Provinces

- Over a four year period (2009/10 – 2012/13), provinces have been unable to spend more than 80% of its allocation to the EPWP Incentive Grant in any given year
- Except in 2011/12 where spending on both EPWP grants were below 60% of total, the EPWP Social Sector grant in general, performed better than the Incentive grant
  - Provinces have challenges relating to infrastructure, which affects the spending performance on the Incentive grant
- In many instances, provinces fail to comply with grant conditions stipulated in DORA, resulting in funds being withheld, thereby leaving funds unspent at the end of the year

FINANCIAL AND FISCAL COMMISSION

CONCLUDING REMARKS

- Key issues emanating from analysis of DPW
  - Underspending of budget
  - Not meeting set targets
- For the sector to turnaround, the DPW should play a leadership role by providing the necessary support to the provinces and establishing minimum norms and standards to facilitate improvement in service delivery in the provinces
- Department to put in place proper systems to guide expenditure management, setting of appropriate key performance indicators and a plan to attract/retain skilled staff
  - Outcome of the Turnaround Project is key in facilitating progress – some improvements noted but far to go in putting DPW on stable footing

FINANCIAL AND FISCAL COMMISSION

FFC’s Website: www.ffc.co.za

PORTFOLIO COMMITTEE ON PUBLIC WORKS

Financial and Fiscal Commission

25 September 2014

For an Equitable Sharing of National Revenue

PRESENTATION OUTLINE

1. Role and Function of the Financial and Fiscal Commission
2. Recommendations of the Commission that relate to Public Works
3. Departmental Analysis

FINANCIAL AND FISCAL COMMISSION

FINANCIAL AND FISCAL COMMISSION

1. Role and Function of the Financial and Fiscal Commission

Role and Function of the FFC

- The Financial and Fiscal Commission (FFC)
  - Is an independent, permanent, statutory institution established in terms of Section 220 of Constitution
  - Must function in terms of the FFC Act
- Mandate of Commission
  - To make recommendations, envisaged in Chapter 13 of the Constitution or in national legislation to Parliament, Provincial Legislatures, and any other organ of state determined by national legislation
- The Commission's focus is primarily on the equitable division of nationally collected revenue among the three spheres of government and any other financial and fiscal matters
  - Legislative provisions or executive decisions that affect either provincial or local government from a financial and/or fiscal perspective
  - Includes regulations associated with legislation that may amend or extend such legislation
  - Commission must be consulted in terms of the FFC Act
  - Current research strategy focuses on developmental impacts of IGFR

FINANCIAL AND FISCAL COMMISSION

HOW FFC SUPPORTS POLICY

- Identify weakness within the IGFR system
- Propose evidence-based policy proposals
- Interact and participate with/in forums and institutions responsible for IGFR policy – TCF, Budget Council, Budget Forum
- Information dissemination – invitations from nine provincial legislatures and SALGA
- Interact with various committees within parliament

FINANCIAL AND FISCAL COMMISSION

PROCESSING OF RECOMMENDATIONS

- Recommendations of the Commission
  - Recommendations are made to Parliament so that the legislature can examine the financial and fiscal decisions of government against them and understand why they have been accepted or rejected
  - Section 4(4)(c) of the Money Bills Amendment Procedures and Related Matters Act (MBAPMA) requires Parliament to consider the recommendations of the Commission when deliberating on Money Bills
- Government is obligated through an Act of Parliament to explain how it has taken the FFC recommendations in arriving at the division of revenue for any particular year
  - The response is tabled in Annexure W1 of the DoR Bill and of the Budget Review

FINANCIAL AND FISCAL COMMISSION

How FFC can Support Parliament

DIRECT TRAINING AND INTERVENTION

- Training of members of parliamentary committees and councillors on request (e.g. in Bushbuckridge)
- Advice to municipalities (e.g. Tshwane merger)
- Inputs in various fora (e.g. SALGA)

NON TRAINING SUPPORT AND INTERVENTION

- Member of review committees (LES, Infrastructure Grants, Metro's Own Revenue)
- Public hearings (local government fiscal framework, housing and welfare)
- Inputs in benchmarking exercises
- Recommendations through Annual Submission on DoR, MTBPS, FF and Appropriations

VALUE ADD OF THE FFC

- FFC can provide advice, analysis and training to assist the work of the Committee
  - Specialised IGFR training to committee members and/or parliamentary researchers
  - Provision of recommendations that are founded on evidence based research
  - Technical support with respect to parliamentary fiscal oversight activities

FINANCIAL AND FISCAL COMMISSION

FINANCIAL
AND FISCAL
COMMISSION

2. Recommendations that Relate to Public Works

FFC Work Related to DPW [cont.]

Response to Division of Revenue Bill (DoRB) 2010	The Commission welcomed introduction of the *EPWP Incentive Grant for the Social Sector*. The Commission noted that there was a need to standardise the employment framework for the sector including conditions, wages and progression across provinces and municipalities. The Commission also raised concern regarding difficulties that were being experienced with the transfer of the EPWP Incentive Grant to Local and Provincial Governments. In the 2009/10 certain provinces (e.g. Western Cape) raised concern that they received transfers outside the ambit of the DoR and couldn't spend the money because it was not properly appropriated through various legislatures. At that point the general challenge with the grant was that provinces and municipalities found it difficult to integrate it through their infrastructure programmes. This problem persists because labour intensive infrastructure projects need to be planned, costed and scheduled properly. Not all projects yield the same labour intensity, so targets must be set by project type and category. Some projects will better lend themselves to labour intensive methods than others. This must be factored into the budget allocations and monitoring of the grant. *Current Commission analysis is that provinces continue to have challenges relating to labour intensive infrastructure, which affects the spending of the Incentive grant. In 2012/13 DPW appointed service providers to support provinces and municipalities in design of infrastructure projects and reporting methods.*

FFC Work Related to DPW [cont.]

Response to MTBPS 2011	In terms of the EPWP Incentive grant framework, provinces and municipalities must spend their budgets on EPWP projects and after that the grant will be paid by DPW quarterly as an incentive (after employment has been created). There has been general under-spending against budget since inception of the grant. Projected under-spending in financial year 2011 was 28.4%. In 2010, the actual under-spend was 38.4%. Despite poor spending performance, the annual growth of the budget was high. Expenditure reports on the grant performance at local government were inaccessible. DPW should explain how transfers are reconciled with actual expenditure. The grant should be streamlined to the Division of Revenue Act (DORA) requirements in terms of allocation and disbursements of funds. Punitive and incentive elements of the grant should be made transparent to all the stakeholders. *Current FFC analysis indicates that underspending persists. Between 2009/10 and 2012/13, provinces have been unable to spend more than 80% of their allocation*
Response to DoRB 2012	The Commission reiterated concerns raised in its Response to DoRB 2010 and Response to 2011 MTBPS regarding the challenges with the EPWP Incentive grant. The Commission maintained its view that the grant had not succeeded in achieving the intended goals within the specified time. There had also not been a formal assessment of the achievement of this grant both in terms of expenditure and service delivery outputs including how many direct and full times jobs had been created against the allocated funds. The Commission recommended that an independent review of the grant be undertaken, so that lessons can be drawn from past experience to avoid a replication of past mistakes. Government has since set up a team consisting of National Treasury, DPW, DCoG and SALGA that has been working on this. *This review is ongoing*

FFC Work Related to DPW [cont.]

Submission for the 2009/10 DoR	FFC found a need for reporting on EPWP outcomes to be more specific. In accordance with the requirements of the EPWP, job creation for target groups such as women, youth and people with disabilities should be included in the reporting requirements for all infrastructure conditional grants to provinces and municipalities GOVT. RESPONSE: The recommendation for reporting on targets is supported. Some of these indicators can possibly be reported on as part of the conditional grant frameworks prescribed in terms of the Division of Revenue Act
Submission for the 2007/08 DoR	The World Cup funding was crafted on the basis of requirements to meet FIFA standards of hosting cities, and that the major challenge faced by government was sustainability of built infrastructure. On the funding for the FIFA World Cup, FFC, examined the sustainability of built infrastructure, taking the escalation of construction costs into account. FFC's findings included that the escalation of construction costs be budgeted for, and that collaboration with the private sector should be encouraged. Also that a 2010 World Cup "Legacy Management Policy" should be introduced and prudent fiscal policy should be maintained leading to the World Cup GOVT. RESPONSE: Government is of the view that the costs relating to maintenance of constructed 2010 FIFA World Cup facilities should be provided by municipalities

FINANCIAL AND FISCAL COMMISSION

3. DEPARTMENTAL ANALYSIS

Contextualising the Department of Public Works

- Aim of Department of Public Works (DPW):
  - provide for and manage accommodation, housing, land and infrastructure needs of national departments
  - Lead and direct implementation of the national expanded public works programme (EPWP)
  - Promote growth, job creation and transformation in the construction and property industries
- Public works is a concurrent function between national and provincial spheres of government
- DPW contribution to National Development Plan (NDP) achieved through:
  - Implementation of job creation initiatives
  - Transition to low cost carbon economy
  - Development of an inclusive and integrated rural economy
  - Fight against corruption

FINANCIAL AND FISCAL COMMISSION

KEY CHALLENGES CONFRONTING DPW

- Due to consistent trend of poor audit outcomes and generally poor performance, DPW implemented a turnaround project in November 2012
- Areas that were identified for specific attention through the turnaround project include:
  - Lack of controls in supply chain management (SCM)
    - Identified as major risk area by Auditor-General – DPW capacity to process tenders eroded and has led to numerous instances of fraud/corruption. SCM has been major focus of the Special Investigating Unit (SIU). SCM is the key focus of turnaround project in DPW. A service provider appointed to assist with fundamental review of SCM
      - Irregular expenditure, R171 million in 2011/12; R874 million in 2012/13
  - Poor lease management
    - Numerous irregularities with respect to lease agreements – gives rise to legal risks. DPW reviewing all lease agreements

FINANCIAL AND FISCAL COMMISSION

KEY CHALLENGES CONFRONTING DPW [CONT.]

- Inadequate immovable asset register
    - Lack of compliant immovable asset register resulted in negative audit opinions. DPW now in process of rebuilding immovable asset register and building a model to revalue immovable assets
- Lack of built environment and property management skills
    - Lack of technical capacity to undertake direct construction/maintenance functions. Cooperating with DPSA and Higher Education and Training to address challenge

FINANCIAL AND FISCAL COMMISSION

STARTING POINT FOR BUDGET ANALYSIS

- By vote
  - Compare different votes with each other
- By vote programme
  - Compare different programmes within a vote
- By sub-programme
- Compare different sub-programmes within a programme
- By province
- Compare different provinces with each other
- Use Outputs, Targets and Indicators to measure performance
- Use policy documents as a benchmark

FINANCIAL AND FISCAL COMMISSION

USEFUL TOOLS

- Percentage Share of Total Budget
- Growth in the Budget
  - Percentage Change
    - Reflecting increases/decreases in percentage form
  - Annual Growth Rate
    - How does the allocation change year on year
  - Real Percentage Change
    - Takes inflation into consideration
  - Variances and explanations
    - Investigating the reasons/drivers of change
  - Spending by economic classification
    - Distinguishes between various categories of current (goods and services, transfers and subsidies) and capital expenditure (acquisition of fixed capital assets, purchase of land)

FINANCIAL AND FISCAL COMMISSION

Budget and Programmes of Public Works

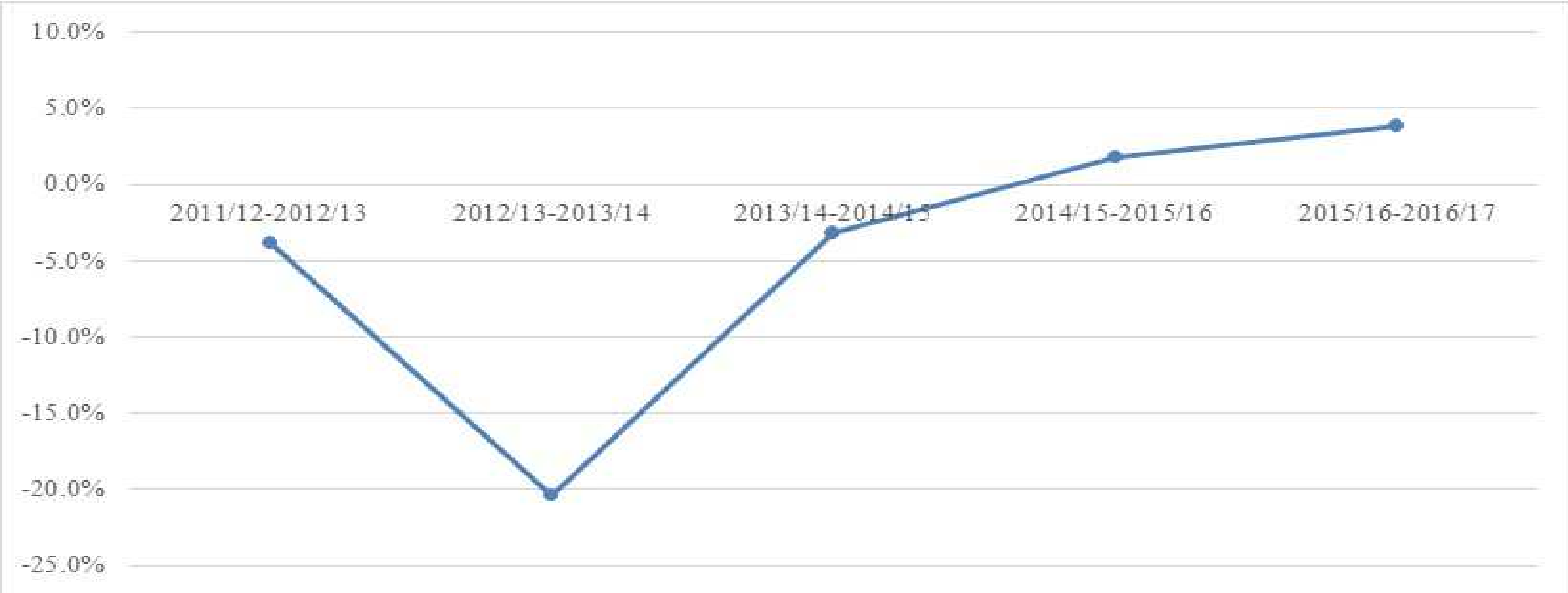
Nominal (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Real Annual Average Growth 2011/12-2013/14	Real Annual Average Growth 2014/15-2016/17
Administration	837.1	856.2	1 158.2	1 175.3	1 133.3	1 191.5	11.5%	-4.1%
Immovable Asset Management	5 001.7	4 563.5	2 831.8	2 861.4	3 308.1	3 450.0	-28.7%	4.6%
Expanded Public Works Programme	1 163.0	1 704.1	1 948.0	1 951.3	2 006.8	2 395.2	22.7%	5.5%
Property and Construction Industry Policy Regulation	34.4	26.9	36.7	41.5	43.4	45.9	-2.1%	0.1%
Auxiliary and Associated Services	25.2	53.3	50.7	91.8	53.7	56.6	34.4%	-25.2%
Total	**7 061.4**	**7 203.9**	**6 025.3**	**6 121.3**	**6 545.3**	**7 139.2**	**-12.5%**	**2.8%**

- Five programmes on Department of Public Works (DPW) budget
- Allocation reduced significantly in 2013/14, due to phasing out of Devolution of Property Rates Fund Grant to provinces and non-completion of various projects. As result of underspending, Cabinet approved reductions were effected
  - Following poor spending performance and audit outcomes, DPW implementing a Turnaround Project
- DPW budget projected to recover to just over R7.1 billion by end of 2014 medium term expenditure framework (MTEF) period
  - 2014 MTEF growth driven by additional allocation of R159 million in 2016/17 for Expanded Public Works Programme (EPWP)

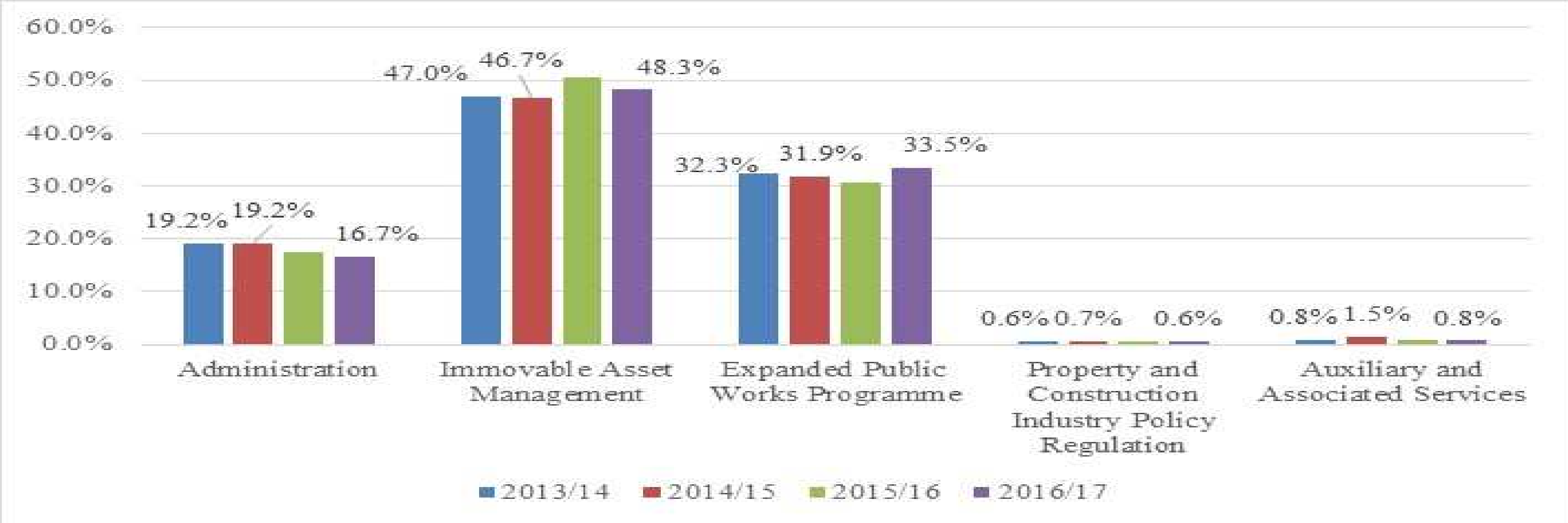
FINANCIAL AND FISCAL COMMISSION

REAL YEAR ON YEAR GROWTH OF PUBLIC WORKS BUDGET

- Significant decline in year on year growth in 2013/14
  - Though still declining in real terms in 2014/15, there is some improvement
- Over rest of 2014 MTEF period, positive growth projected
  - Focus will be on rehabilitating 34 state owned buildings, and ensuring that at least 100 buildings are made accessible to people with disabilities in each year of MTEF



BUDGET COMPOSITION ACROSS PROGRAMMES



- Immovable Asset Management Programme consumes largest share of DPW budget – by end of 2014 MTEF period this programme is projected to consume just under half of DPW budget
- Share allocated to Administration Programme consumers about one fifth of departmental budget – funding for Turnaround Project fall under Administration
  - Turnaround Project will support activities relating to the Special Investigating Unit, a technical support unit, a clean audit project, irregular expenditure management, internal audit support

FINANCIAL AND FISCAL COMMISSION

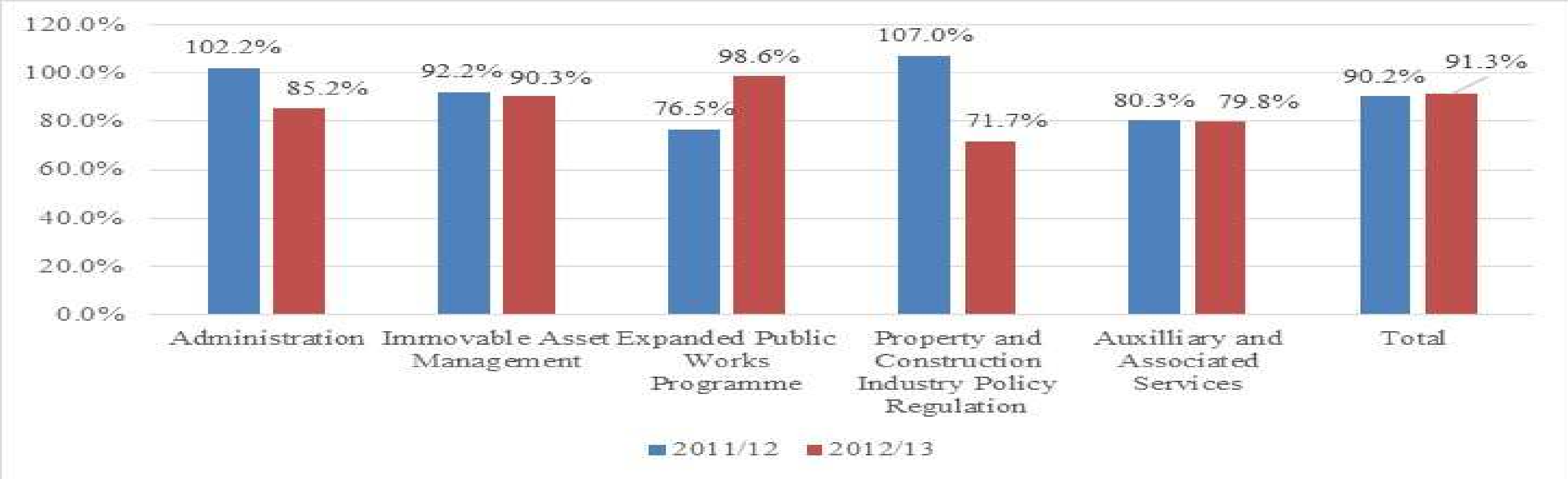
ECONOMIC CLASSIFICATION

Item (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Compensation of Employees	1 269.6	1 374.6	1 473.5	1 659.9	1 753.5	1 870.5
Goods and Services	1 032.9	977.0	1 379.6	1 302.1	1 202.9	1 269.0
Transfers and Subsidies	3 656.2	4 092.4	2 543.9	2 563.4	2 654.2	3 017.9
Payments for Capital Assets	1 099.1	756.8	628.4	595.9	934.8	981.7
Real Year on Year Growth (%)						
Compensation of Employees		2.1%	2.1%	7.3%	0.6%	1.6%
Goods and Services		-10.8%	34.5%	-10.1%	-12.0%	0.5%
Transfers and Subsidies		5.6%	-40.8%	-4.0%	-1.4%	8.3%
Payments for Capital Assets		-35.1%	-20.9%	-9.7%	49.4%	-0.003%

- Transfers and subsidies is the largest item
  - the decrease in 2013/14 due to phasing out of the Devolution of Property Rates Fund Grant to Provinces, hence reduction in transfers to provinces
- The increase in spending on Goods and Services in 2013/14 driven by spending on consultants – due to shortage of technical skills in property/project management and specialists as required for the DPW's turnaround project
- Payments for capital assets very erratic
- Relative to strong annual average growth between 2011/12 and 2013/14, growth in Goods and Service set to decline over the 2014 MTEF period

FINANCIAL AND FISCAL COMMISSION

SPENDING PERFORMANCE (FISCAL DISCIPLINE)



- DPW underspent in 2011/12 and 2012/13
- In 2011 underspending on EPWP and Auxilliary and Associated Services Programme
- In 2012, underspending is as a result of poor spending in Property and Construction Industry Policy Regulation Programme and again Auxilliary and Associated Services Programme
- Due to persistent underspending on capital, baseline reductions of R1.3 billion effected over 2014 MTEF period

IN-YEAR EXPENDITURE

- 2012/13 in-year spending erratic
- Appears to be improving in 2013/14 – variances in monthly spending not as large as during 2012/13
- Concern with poor in-year spending is that it hints at unstable cash flow and disbursements

FINANCIAL AND FISCAL COMMISSION

Selected Sub-Programme Analysis: Immovable Asset Management Programme

Real Year on Year Growth	2011/12-2012/13	2012/13-2013/14	2013/14-2014/15	2014/15-2015/16	2015/16-2016/17
Infrastructure (Public Works)	-33.5%	-9.7%	-28.1%	57.5%	-0.1%
Strategic Asset Investment Analysis	-67.7%	149.1%	10.4%	0.2%	1.0%
Operation Management	1.6%	-0.3%	0.5%	-0.4%	2.7%
Prestige Management	-51.5%	44.0%	-27.0%	-1.0%	-28.5%
Special Projects	4.0%	47.6%	-24.7%	1.8%	0.4%
Construction Industry Development Board	-3.4%	2.0%	1.6%	0.4%	0.2%
Council for the Built Environment	-7.7%	28.8%	4.3%	1.4%	0.2%
Parliamentary Village Management Board	-0.6%	0.1%	1.1%	-0.4%	0.5%
Augmentation of the Property Management Trading Entity	-3.2%	0.5%	-6.0%	-0.1%	0.6%
Independent Development Trust	-68.1%	-6.3%	-4.7%	-4.8%	-100.0%
Total	**-14.0%**	**-37.8%**	**-8.6%**	**10.1%**	**-0.7%**

- Total programme growth declines over most of the period reviewed
  - Decline in 2012 and 2013 is due to phasing out of devolution of property rates fund grant to provinces, non-completion of projects and Cabinet approved reductions due to underspending
- Generally sub-programme trends are erratic, brings into question soundness of planning in DPW
- Lack of capacity a challenge in this programme – 10% vacancy rate

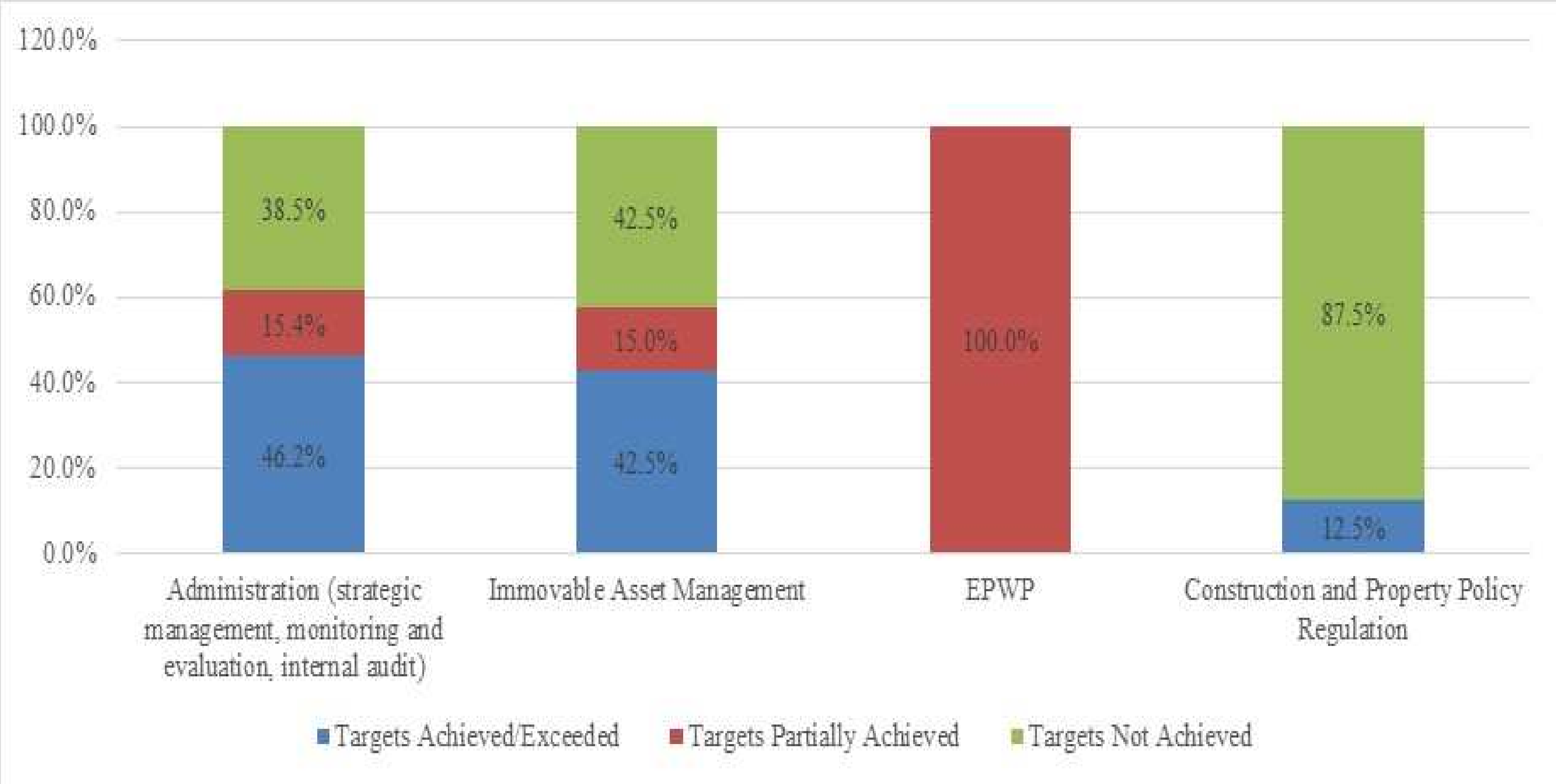
SELECTED SUB-PROGRAMME ANALYSIS: EXPANDED PUBLIC WORKS PROGRAMME

R million	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**
Expanded Public Works Programme	209.7	236.8	273.8	261.5	267.7	290.6
Performance Based Incentive Allocations	953.3	1 467.3	1 674.2	1 689.8	1 739.2	2 104.6
Total	**1 163.0**	**1 704.1**	**1 948.0**	**1 951.3**	**2 006.8**	**2 395.2**
Real Year on Year Growth		**2011/12-2012/13**	**2012/13-2013/14**	**2013/14-2014/15**	**2014/15-2015/16**	**2015/16-2016/17**
Expanded Public Works Programme		12.9%	15.6%	-4.5%	2.4%	8.6%
Performance Based Incentive Allocations		53.9%	14.1%	0.9%	2.9%	21.0%
Total		**46.5%**	**14.3%**	**0.2%**	**2.8%**	**19.4%**

- EPWP promotes use of government expenditure to create additional employment opportunities through the use of labour-intensive delivery methods
  - Increases in 2012/2013 due to appointment of service providers to support provinces and municipalities in design of infrastructure projects and reporting methods
- Performance Based Incentive Allocations is the largest sub-programme
  - Focus: disburses funds to provinces/municipalities and NGOs to ensure creation of work opportunities in infrastructure, environment, social sectors
  - Increases between 2012 and 2013 are due to additional funding allocated. However to give effect to Cabinet-approved reductions, growth in this sub programme slows in 2014 and 2015
- Overall between 2009/10 and 2012/13, just over 3 million jobs created (68% of target of 4.5 million jobs)

DEPARTMENTAL PERFORMANCE

- Department not adequately meeting targets set.
  - Number of targets partially met and totally unmet exceptionally high



DEPARTMENTAL PERFORMANCE [CONT.]

Programme	Explanation for Unmet Targets
Administration	Delays due to lack of capacity/high vacancy rate, unrealistic targets given financial resources, lengthy procurement processes that delay appointment of service providers
Immovable Asset Management	Appropriate supply chain management process not followed, unrealistic target setting, inadequate data collection to verify extent to which target was met
EPWP	Delays in project implementation, lack of technical capacity to implement projects, poor performance on part of municipalities/provinces to carry out projects
Construction and Property Policy Regulation	• Legislative framework for Built Environment Professionals: delays in internal consultation • Establish Agrement SA as public entity: delay in the approval of business case • Provide immovable asset lifecycle management guidelines to national and provincial custodians of immovable assets: delay in internal consultation prevented finalisation

ASPECTS HIGHLIGHTED BY THE AUDITOR-GENERAL

- DPW audit outcomes:
  - 2009/10: qualified with findings
  - 2010/11:disclaimer
  - 2011/12: disclaimer
  - 2012/13: qualified with findings
- Key issues highlighted by Auditor-General that need to be addressed:
  - Inadequate internal controls in areas of leadership, financial management, performance management and governance
  - Areas that were identified for specific attention through the turnaround project include: lack of controls in supply chain management, poor lease management, inadequate immovable asset register, lack of built environment and property management skills

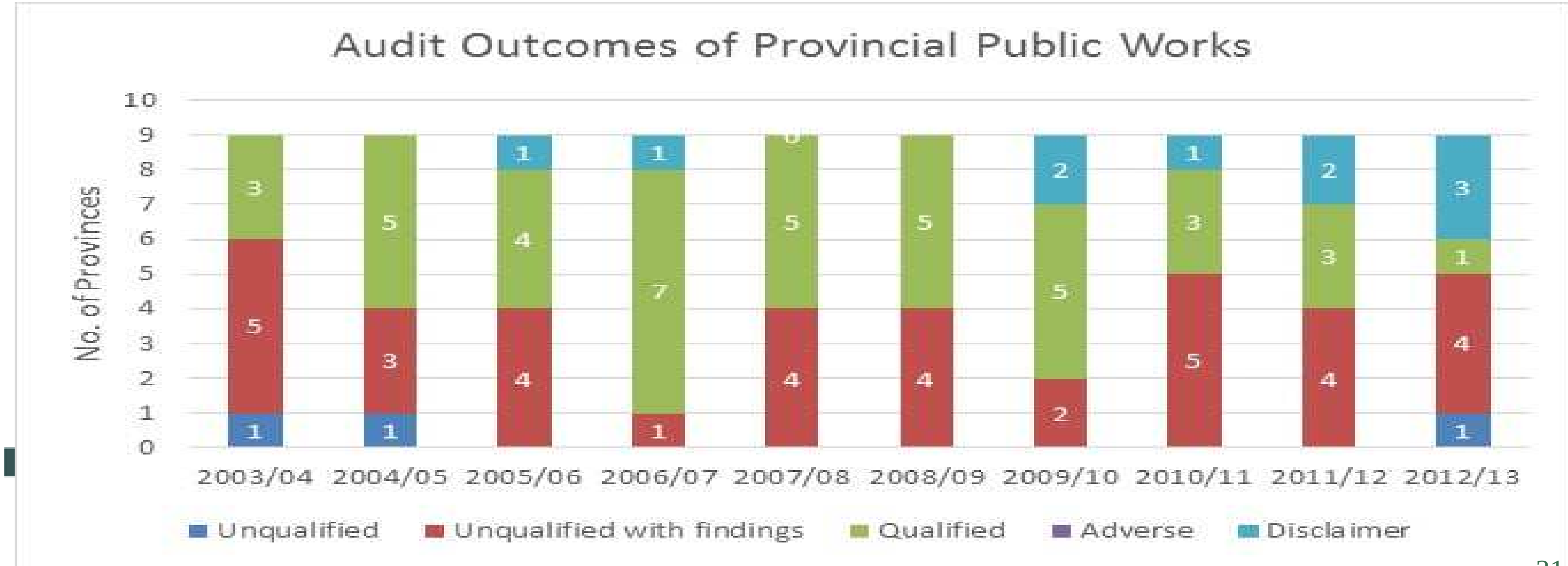
FINANCIAL AND FISCAL COMMISSION

FINANCIAL AND FISCAL COMMISSION

PUBLIC WORKS IN THE PROVINCES

PROVINCIAL AUDIT OUTCOMES

- Audit outcomes for provincial departments of public works have not considerably improved in since 2003/04
  - Four out of the nine provinces received a qualified opinion or disclaimer in 2012/13
  - Over a period of 10 years (i.e. 2003/4 – 2012/13), only 3 provincial departments of public works received an unqualified audit opinion



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COMMISSION

Provincial Audit Outcomes [cont.]

- The Auditor-General raised a number of matters that prevented provincial departments from achieving clean audits such as:
  - Instability in leadership and lack of human resources
  - Internal controls are ineffective
  - Action plans to implement improvement in audit outcomes are not timeously implemented
  - Inaccurate and incomplete fixed asset registers
  - Incomplete disclosures on unauthorized, irregular and fruitless, irregular and wasteful expenditure
  - Commitments by the national sector department to intervene and/or provide support were not honoured
- The Commission's view is that DPW should play a more active role, through the various intergovernmental forums, in providing the necessary support to provincial departments of public works

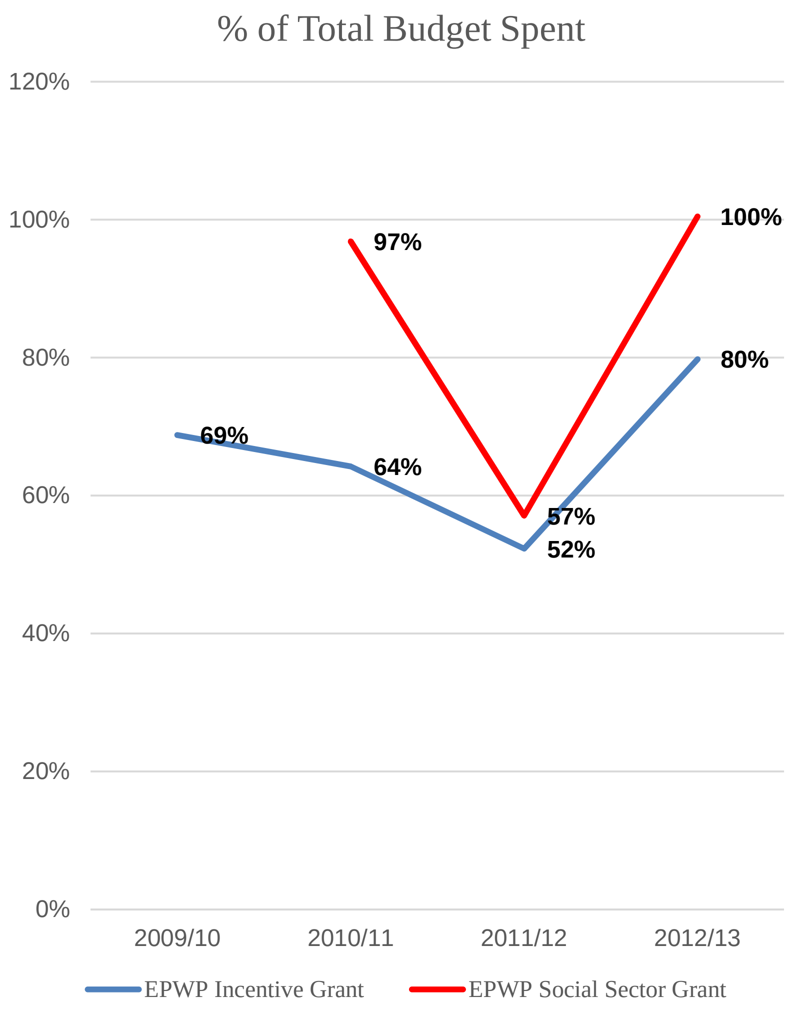
FINANCIAL AND FISCAL COMMISSION

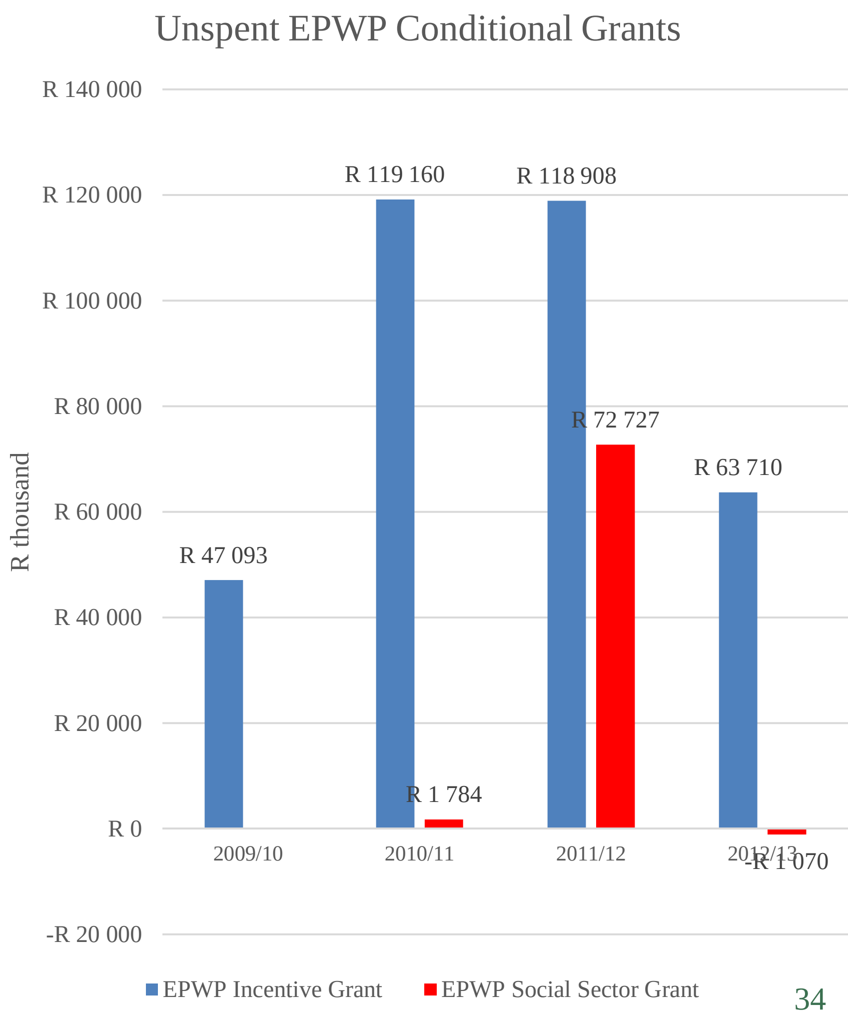
Spending Performance by Provinces on EPWP Conditional Grants

- The National Department of Public Works is the transferring agent for two EPWP conditional grants to provinces
- As the transferring agent, the responsibilities of the DPW are prescribed in the conditional grant framework contained in the Division of Revenue Act. These include (among others):
  - Determine eligibility of grant, monitor and provide support to provinces, audit provincial performance and report to national treasury on provincial progress

FINANCIAL AND FISCAL COMMISSION

EPWP Conditional Grants to Provinces





Summary of Performance on EPWP Grants to Provinces

- Over a four year period (2009/10 – 2012/13), provinces have been unable to spend more than 80% of its allocation to the EPWP Incentive Grant in any given year
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- In many instances, provinces fail to comply with grant conditions stipulated in DORA, resulting in funds being withheld, thereby leaving funds unspent at the end of the year

FINANCIAL AND FISCAL COMMISSION

CONCLUDING REMARKS

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  - Underspending of budget
  - Not meeting set targets
- For the sector to turnaround, the DPW should play a leadership role by providing the necessary support to the provinces and establishing minimum norms and standards to facilitate improvement in service delivery in the provinces
- Department to put in place proper systems to guide expenditure management, setting of appropriate key performance indicators and a plan to attract/retain skilled staff
  - Outcome of the Turnaround Project is key in facilitating progress – some improvements noted but far to go in putting DPW on stable footing

FINANCIAL AND FISCAL COMMISSION

FFC's Website: www.ffc.co.za

FINANCIAL AND FISCAL COMMISSION

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Financial and Fiscal Commission
Intergovernmental Fiscal Relations Conference
11 - 13 August 2014
International Convention Centre, Cape Town, South Africa

2015/16 Submission | Housing Financing | Child Welfare Services | 2012/2013 Annual report

2015/16 SUBMISSION FOR THE DIVISION OF REVENUE

SUBMISSION FOR THE DIVISION OF REVENUE 2015/16

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

NEW!!!

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

UPCOMING EVENTS

FINANCIAL AND FISCAL COMMISSION

PORTFOLIO COMMITTEE ON PUBLIC WORKS

Financial and Fiscal Commission

25 September 2014

For an Equitable Sharing of National Revenue

PRESENTATION OUTLINE

1. Role and Function of the Financial and Fiscal Commission
2. Recommendations of the Commission that relate to Public Works
3. Departmental Analysis

FINANCIAL AND FISCAL COMMISSION

1. Role and Function of the Financial and Fiscal Commission

ROLE AND FUNCTION OF THE FFC

- The Financial and Fiscal Commission (FFC)
  - Is an independent, permanent, statutory institution established in terms of Section 220 of Constitution
  - Must function in terms of the FFC Act
- Mandate of Commission
  - To make recommendations, envisaged in Chapter 13 of the Constitution or in national legislation to Parliament, Provincial Legislatures, and any other organ of state determined by national legislation
- The Commission's focus is primarily on the equitable division of nationally collected revenue among the three spheres of government and any other financial and fiscal matters
  - Legislative provisions or executive decisions that affect either provincial or local government from a financial and/or fiscal perspective
  - Includes regulations associated with legislation that may amend or extend such legislation
  - Commission must be consulted in terms of the FFC Act
  - Current research strategy focuses on developmental impacts of IGFR

FINANCIAL AND FISCAL COMMISSION

How FFC Supports Policy

- Identify weakness within the IGFR system
- Propose evidence-based policy proposals
- Interact and participate with/in forums and institutions responsible for IGFR policy – TCF, Budget Council, Budget Forum
- Information dissemination – invitations from nine provincial legislatures and SALGA
- Interact with various committees within parliament

FINANCIAL AND FISCAL COMMISSION

PROCESSING OF RECOMMENDATIONS

- Recommendations of the Commission
  - Recommendations are made to Parliament so that the legislature can examine the financial and fiscal decisions of government against them and understand why they have been accepted or rejected
  - Section 4(4)(c) of the Money Bills Amendment Procedures and Related Matters Act (MBAPMA) requires Parliament to consider the recommendations of the Commission when deliberating on Money Bills
- Government is obligated through an Act of Parliament to explain how it has taken the FFC recommendations in arriving at the division of revenue for any particular year
  - The response is tabled in Annexure W1 of the DoR Bill and of the Budget Review

FINANCIAL AND FISCAL COMMISSION

How FFC can Support Parliament

DIRECT TRAINING AND INTERVENTION

- Training of members of parliamentary committees and councillors on request (e.g. in Bushbuckridge)
- Advice to municipalities (e.g. Tshwane merger)
- Inputs in various fora (e.g. SALGA)

NON TRAINING SUPPORT AND INTERVENTION

- Member of review committees (LES, Infrastructure Grants, Metro's Own Revenue)
- Public hearings (local government fiscal framework, housing and welfare)
- Inputs in benchmarking exercises
- Recommendations through Annual Submission on DoR, MTBPS, FF and Appropriations

VALUE ADD OF THE FFC

- FFC can provide advice, analysis and training to assist the work of the Committee
  - Specialised IGFR training to committee members and/or parliamentary researchers
  - Provision of recommendations that are founded on evidence based research
  - Technical support with respect to parliamentary fiscal oversight activities

FINANCIAL AND FISCAL COMMISSION

FINANCIAL AND FISCAL COMMISSION

2. Recommendations that Relate to Public Works

FFC Work Related to DPW [cont.]

Response to Division of Revenue Bill (DoRB) 2010	The Commission welcomed introduction of the *EPWP Incentive Grant for the Social Sector*. The Commission noted that there was a need to standardise the employment framework for the sector including conditions, wages and progression across provinces and municipalities. The Commission also raised concern regarding difficulties that were being experienced with the transfer of the EPWP Incentive Grant to Local and Provincial Governments. In the 2009/10 certain provinces (e.g. Western Cape) raised concern that they received transfers outside the ambit of the DoR and couldn't spend the money because it was not properly appropriated through various legislatures. At that point the general challenge with the grant was that provinces and municipalities found it difficult to integrate it through their infrastructure programmes. This problem persists because labour intensive infrastructure projects need to be planned, costed and scheduled properly. Not all projects yield the same labour intensity, so targets must be set by project type and category. Some projects will better lend themselves to labour intensive methods than others. This must be factored into the budget allocations and monitoring of the grant. *Current Commission analysis is that provinces continue to have challenges relating to labour intensive infrastructure, which affects the spending of the Incentive grant. In 2012/13 DPW appointed service providers to support provinces and municipalities in design of infrastructure projects and reporting methods.*

FFC Work Related to DPW [cont.]

Response to MTBPS 2011	In terms of the EPWP Incentive grant framework, provinces and municipalities must spend their budgets on EPWP projects and after that the grant will be paid by DPW quarterly as an incentive (after employment has been created). There has been general under-spending against budget since inception of the grant. Projected under-spending in financial year 2011 was 28.4%. In 2010, the actual under-spend was 38.4%. Despite poor spending performance, the annual growth of the budget was high. Expenditure reports on the grant performance at local government were inaccessible. DPW should explain how transfers are reconciled with actual expenditure. The grant should be streamlined to the Division of Revenue Act (DORA) requirements in terms of allocation and disbursements of funds. Punitive and incentive elements of the grant should be made transparent to all the stakeholders. *Current FFC analysis indicates that underspending persists. Between 2009/10 and 2012/13, provinces have been unable to spend more than 80% of their allocation*
Response to DoRB 2012	The Commission reiterated concerns raised in its Response to DoRB 2010 and Response to 2011 MTBPS regarding the challenges with the EPWP Incentive grant. The Commission maintained its view that the grant had not succeeded in achieving the intended goals within the specified time. There had also not been a formal assessment of the achievement of this grant both in terms of expenditure and service delivery outputs including how many direct and full times jobs had been created against the allocated funds. The Commission recommended that an independent review of the grant be undertaken, so that lessons can be drawn from past experience to avoid a replication of past mistakes. Government has since set up a team consisting of National Treasury, DPW, DCoG and SALGA that has been working on this. *This review is ongoing*

FFC Work Related to DPW [cont.]

Submission for the 2009/10 DoR	FFC found a need for reporting on EPWP outcomes to be more specific. In accordance with the requirements of the EPWP, job creation for target groups such as women, youth and people with disabilities should be included in the reporting requirements for all infrastructure conditional grants to provinces and municipalities GOVT. RESPONSE: The recommendation for reporting on targets is supported. Some of these indicators can possibly be reported on as part of the conditional grant frameworks prescribed in terms of the Division of Revenue Act
Submission for the 2007/08 DoR	The World Cup funding was crafted on the basis of requirements to meet FIFA standards of hosting cities, and that the major challenge faced by government was sustainability of built infrastructure. On the funding for the FIFA World Cup, FFC, examined the sustainability of built infrastructure, taking the escalation of construction costs into account. FFC's findings included that the escalation of construction costs be budgeted for, and that collaboration with the private sector should be encouraged. Also that a 2010 World Cup "Legacy Management Policy" should be introduced and prudent fiscal policy should be maintained leading to the World Cup GOVT. RESPONSE: Government is of the view that the costs relating to maintenance of constructed 2010 FIFA World Cup facilities should be provided by municipalities

FINANCIAL AND FISCAL COMMISSION

3. DEPARTMENTAL ANALYSIS

CONTEXTUALISING THE DEPARTMENT OF PUBLIC WORKS

- Aim of Department of Public Works (DPW):
  - provide for and manage accommodation, housing, land and infrastructure needs of national departments
  - Lead and direct implementation of the national expanded public works programme (EPWP)
  - Promote growth, job creation and transformation in the construction and property industries
- Public works is a concurrent function between national and provincial spheres of government
- DPW contribution to National Development Plan (NDP) achieved through:
  - Implementation of job creation initiatives
  - Transition to low cost carbon economy
  - Development of an inclusive and integrated rural economy
  - Fight against corruption

FINANCIAL AND FISCAL COMMISSION

KEY CHALLENGES CONFRONTING DPW

- Due to consistent trend of poor audit outcomes and generally poor performance, DPW implemented a turnaround project in November 2012
- Areas that were identified for specific attention through the turnaround project include:
  - Lack of controls in supply chain management (SCM)
    - Identified as major risk area by Auditor-General – DPW capacity to process tenders eroded and has led to numerous instances of fraud/corruption. SCM has been major focus of the Special Investigating Unit (SIU). SCM is the key focus of turnaround project in DPW. A service provider appointed to assist with fundamental review of SCM
      - Irregular expenditure, R171 million in 2011/12; R874 million in 2012/13
  - Poor lease management
    - Numerous irregularities with respect to lease agreements – gives rise to legal risks. DPW reviewing all lease agreements

FINANCIAL AND FISCAL COMMISSION

KEY CHALLENGES CONFRONTING DPW [CONT.]

- Inadequate immovable asset register
  - Lack of compliant immovable asset register resulted in negative audit opinions. DPW now in process of rebuilding immovable asset register and building a model to revalue immovable assets
- Lack of built environment and property management skills
  - Lack of technical capacity to undertake direct construction/maintenance functions. Cooperating with DPSA and Higher Education and Training to address challenge

FINANCIAL AND FISCAL COMMISSION

STARTING POINT FOR BUDGET ANALYSIS

- By vote
  - Compare different votes with each other
- By vote programme
  - Compare different programmes within a vote
- By sub-programme
- Compare different sub-programmes within a programme
- By province
- Compare different provinces with each other
- Use Outputs, Targets and Indicators to measure performance
- Use policy documents as a benchmark

FINANCIAL AND FISCAL COMMISSION

Useful Tools

- Percentage Share of Total Budget
- Growth in the Budget
  - Percentage Change
    - Reflecting increases/decreases in percentage form
  - Annual Growth Rate
    - How does the allocation change year on year
  - Real Percentage Change
    - Takes inflation into consideration
  - Variances and explanations
    - Investigating the reasons/drivers of change
  - Spending by economic classification
    - Distinguishes between various categories of current (goods and services, transfers and subsidies) and capital expenditure (acquisition of fixed capital assets, purchase of land)

FINANCIAL AND FISCAL COMMISSION

Budget and Programmes of Public Works

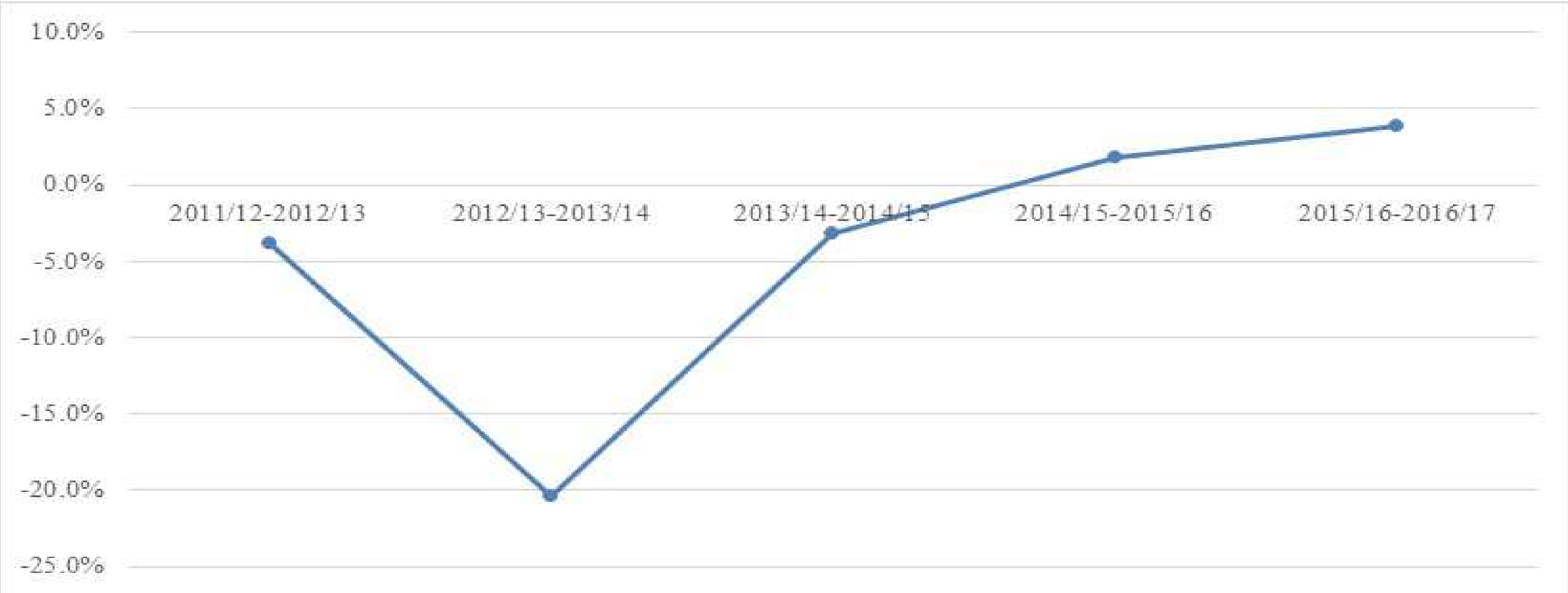
Nominal (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Real Annual Average Growth 2011/12-2013/14	Real Annual Average Growth 2014/15-2016/17
Administration	837.1	856.2	1 158.2	1 175.3	1 133.3	1 191.5	11.5%	-4.1%
Immovable Asset Management	5 001.7	4 563.5	2 831.8	2 861.4	3 308.1	3 450.0	-28.7%	4.6%
Expanded Public Works Programme	1 163.0	1 704.1	1 948.0	1 951.3	2 006.8	2 395.2	22.7%	5.5%
Property and Construction Industry Policy Regulation	34.4	26.9	36.7	41.5	43.4	45.9	-2.1%	0.1%
Auxiliary and Associated Services	25.2	53.3	50.7	91.8	53.7	56.6	34.4%	-25.2%
Total	**7 061.4**	**7 203.9**	**6 025.3**	**6 121.3**	**6 545.3**	**7 139.2**	**-12.5%**	**2.8%**

- Five programmes on Department of Public Works (DPW) budget
- Allocation reduced significantly in 2013/14, due to phasing out of Devolution of Property Rates Fund Grant to provinces and non-completion of various projects. As result of underspending, Cabinet approved reductions were effected
  - Following poor spending performance and audit outcomes, DPW implementing a Turnaround Project
- DPW budget projected to recover to just over R7.1 billion by end of 2014 medium term expenditure framework (MTEF) period
  - 2014 MTEF growth driven by additional allocation of R159 million in 2016/17 for Expanded Public Works Programme (EPWP)

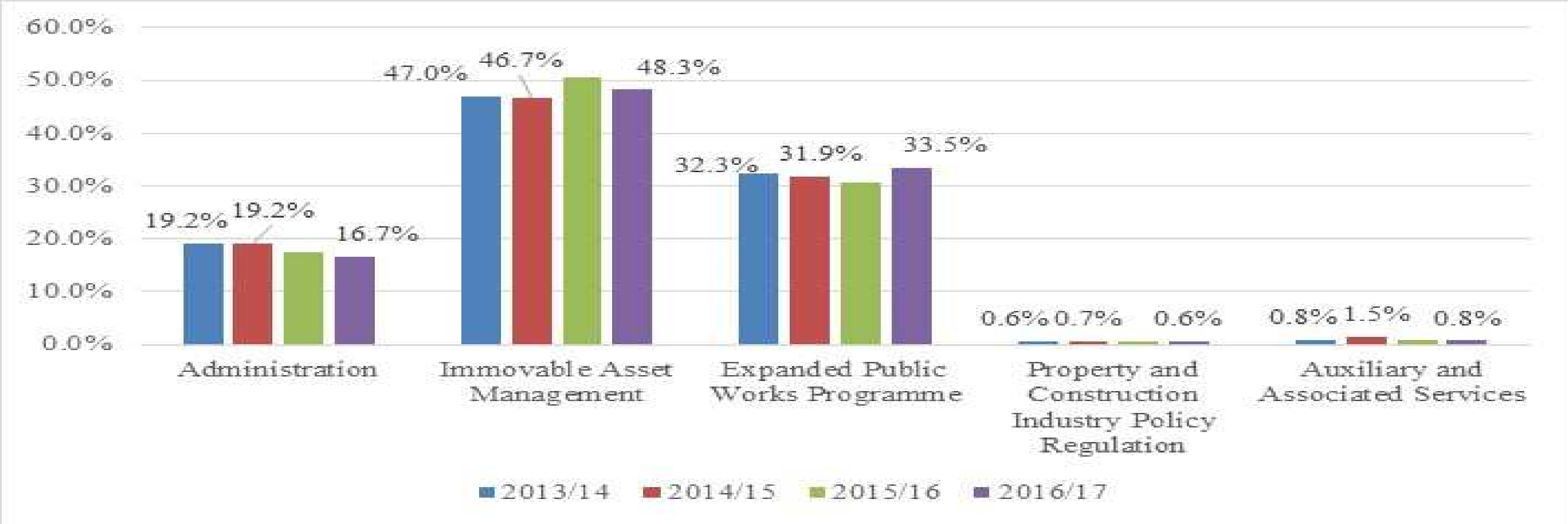
FINANCIAL AND FISCAL COMMISSION

Real Year on Year Growth of Public Works Budget

- Significant decline in year on year growth in 2013/14
  - Though still declining in real terms in 2014/15, there is some improvement
- Over rest of 2014 MTEF period, positive growth projected
  - Focus will be on rehabilitating 34 state owned buildings, and ensuring that at least 100 buildings are made accessible to people with disabilities in each year of MTEF



Budget Composition across Programmes



- Immovable Asset Management Programme consumes largest share of DPW budget – by end of 2014 MTEF period this programme is projected to consume just under half of DPW budget
- Share allocated to Administration Programme consumers about one fifth of departmental budget – funding for Turnaround Project fall under Administration
  - Turnaround Project will support activities relating to the Special Investigating Unit, a technical support unit, a clean audit project, irregular expenditure management, internal audit support

FINANCIAL AND FISCAL COMMISSION

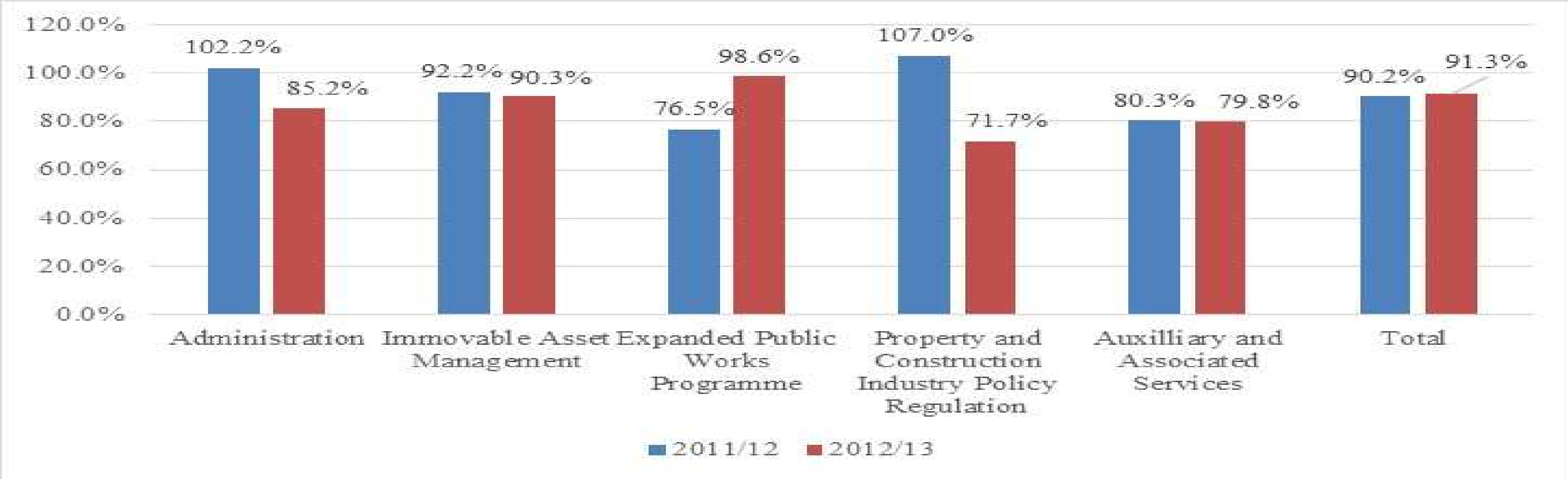
ECONOMIC CLASSIFICATION

Item (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Compensation of Employees	1 269.6	1 374.6	1 473.5	1 659.9	1 753.5	1 870.5
Goods and Services	1 032.9	977.0	1 379.6	1 302.1	1 202.9	1 269.0
Transfers and Subsidies	3 656.2	4 092.4	2 543.9	2 563.4	2 654.2	3 017.9
Payments for Capital Assets	1 099.1	756.8	628.4	595.9	934.8	981.7
Real Year on Year Growth (%)						
Compensation of Employees		2.1%	2.1%	7.3%	0.6%	1.6%
Goods and Services		-10.8%	34.5%	-10.1%	-12.0%	0.5%
Transfers and Subsidies		5.6%	-40.8%	-4.0%	-1.4%	8.3%
Payments for Capital Assets		-35.1%	-20.9%	-9.7%	49.4%	-0.003%

- Transfers and subsidies is the largest item
  - the decrease in 2013/14 due to phasing out of the Devolution of Property Rates Fund Grant to Provinces, hence reduction in transfers to provinces
- The increase in spending on Goods and Services in 2013/14 driven by spending on consultants – due to shortage of technical skills in property/project management and specialists as required for the DPW's turnaround project
- Payments for capital assets very erratic
- Relative to strong annual average growth between 2011/12 and 2013/14, growth in Goods and Service set to decline over the 2014 MTEF period

FINANCIAL AND FISCAL COMMISSION

SPENDING PERFORMANCE (FISCAL DISCIPLINE)

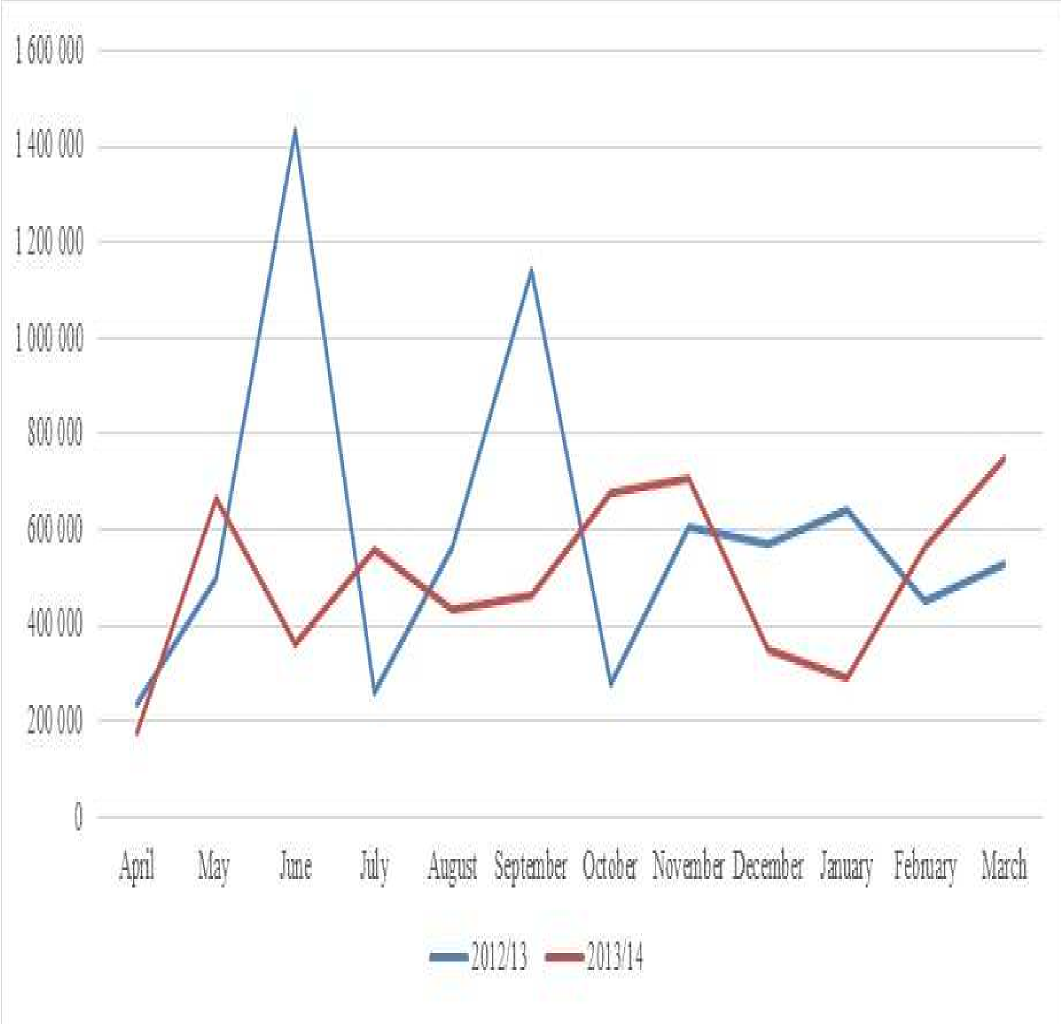


- DPW underspent in 2011/12 and 2012/13
- In 2011 underspending on EPWP and Auxilliary and Associated Services Programme
- In 2012, underspending is as a result of poor spending in Property and Construction Industry Policy Regulation Programme and again Auxilliary and Associated Services Programme
- Due to persistent underspending on capital, baseline reductions of R1.3 billion effected over 2014 MTEF period

FINANCIAL AND FISCAL COMMISSION

In-Year Expenditure

- 2012/13 in-year spending erratic
- Appears to be improving in 2013/14 – variances in monthly spending not as large as during 2012/13
- Concern with poor in-year spending is that it hints at unstable cash flow and disbursements



FINANCIAL AND FISCAL COMMISSION

Selected Sub-Programme Analysis: Immovable Asset Management Programme

Real Year on Year Growth	2011/12-2012/13	2012/13-2013/14	2013/14-2014/15	2014/15-2015/16	2015/16-2016/17
Infrastructure (Public Works)	-33.5%	-9.7%	-28.1%	57.5%	-0.1%
Strategic Asset Investment Analysis	-67.7%	149.1%	10.4%	0.2%	1.0%
Operation Management	1.6%	-0.3%	0.5%	-0.4%	2.7%
Prestige Management	-51.5%	44.0%	-27.0%	-1.0%	-28.5%
Special Projects	4.0%	47.6%	-24.7%	1.8%	0.4%
Construction Industry Development Board	-3.4%	2.0%	1.6%	0.4%	0.2%
Council for the Built Environment	-7.7%	28.8%	4.3%	1.4%	0.2%
Parliamentary Village Management Board	-0.6%	0.1%	1.1%	-0.4%	0.5%
Augmentation of the Property Management Trading Entity	-3.2%	0.5%	-6.0%	-0.1%	0.6%
Independent Development Trust	-68.1%	-6.3%	-4.7%	-4.8%	-100.0%
Total	**-14.0%**	**-37.8%**	**-8.6%**	**10.1%**	**-0.7%**

- Total programme growth declines over most of the period reviewed
  - Decline in 2012 and 2013 is due to phasing out of devolution of property rates fund grant to provinces, non-completion of projects and Cabinet approved reductions due to underspending
- Generally sub-programme trends are erratic, brings into question soundness of planning in DPW
- Lack of capacity a challenge in this programme – 10% vacancy rate

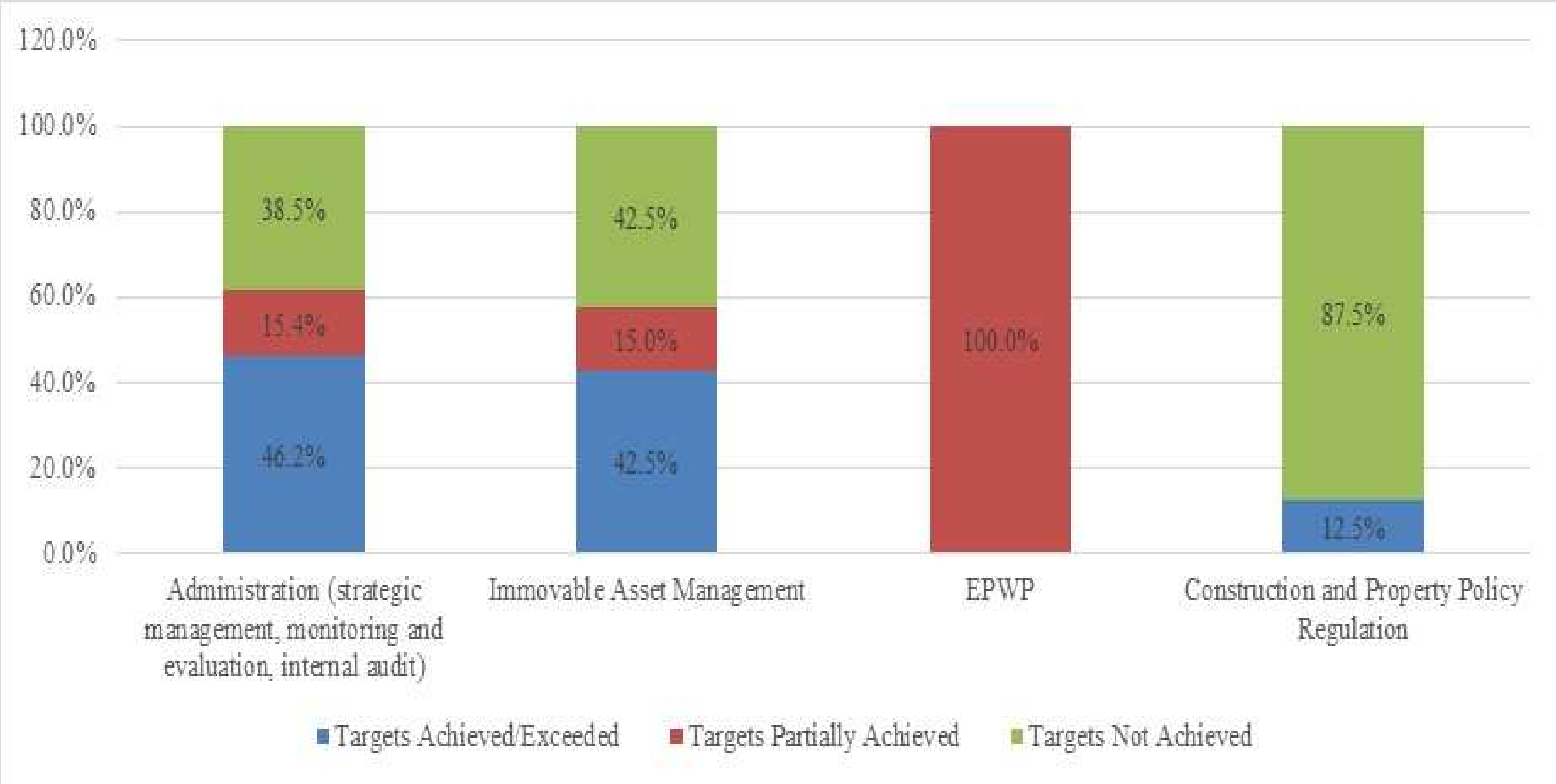
SELECTED SUB-PROGRAMME ANALYSIS: EXPANDED PUBLIC WORKS PROGRAMME

R million	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**
Expanded Public Works Programme	209.7	236.8	273.8	261.5	267.7	290.6
Performance Based Incentive Allocations	953.3	1 467.3	1 674.2	1 689.8	1 739.2	2 104.6
Total	**1 163.0**	**1 704.1**	**1 948.0**	**1 951.3**	**2 006.8**	**2 395.2**
Real Year on Year Growth		**2011/12-2012/13**	**2012/13-2013/14**	**2013/14-2014/15**	**2014/15-2015/16**	**2015/16-2016/17**
Expanded Public Works Programme		12.9%	15.6%	-4.5%	2.4%	8.6%
Performance Based Incentive Allocations		53.9%	14.1%	0.9%	2.9%	21.0%
Total		**46.5%**	**14.3%**	**0.2%**	**2.8%**	**19.4%**

- EPWP promotes use of government expenditure to create additional employment opportunities through the use of labour-intensive delivery methods
  - Increases in 2012/2013 due to appointment of service providers to support provinces and municipalities in design of infrastructure projects and reporting methods
- Performance Based Incentive Allocations is the largest sub-programme
  - Focus: disburses funds to provinces/municipalities and NGOs to ensure creation of work opportunities in infrastructure, environment, social sectors
  - Increases between 2012 and 2013 are due to additional funding allocated. However to give effect to Cabinet-approved reductions, growth in this sub programme slows in 2014 and 2015
- Overall between 2009/10 and 2012/13, just over 3 million jobs created (68% of target of 4.5 million jobs)

DEPARTMENTAL PERFORMANCE

- Department not adequately meeting targets set.
  - Number of targets partially met and totally unmet exceptionally high



DEPARTMENTAL PERFORMANCE [CONT.]

Programme	Explanation for Unmet Targets
Administration	Delays due to lack of capacity/high vacancy rate, unrealistic targets given financial resources, lengthy procurement processes that delay appointment of service providers
Immovable Asset Management	Appropriate supply chain management process not followed, unrealistic target setting, inadequate data collection to verify extent to which target was met
EPWP	Delays in project implementation, lack of technical capacity to implement projects, poor performance on part of municipalities/provinces to carry out projects
Construction and Property Policy Regulation	• Legislative framework for Built Environment Professionals: delays in internal consultation • Establish Agrement SA as public entity: delay in the approval of business case • Provide immovable asset lifecycle management guidelines to national and provincial custodians of immovable assets: delay in internal consultation prevented finalisation

ASPECTS HIGHLIGHTED BY THE AUDITOR-GENERAL

- DPW audit outcomes:
  - 2009/10: qualified with findings
  - 2010/11:disclaimer
  - 2011/12: disclaimer
  - 2012/13: qualified with findings
- Key issues highlighted by Auditor-General that need to be addressed:
  - Inadequate internal controls in areas of leadership, financial management, performance management and governance
  - Areas that were identified for specific attention through the turnaround project include: lack of controls in supply chain management, poor lease management, inadequate immovable asset register, lack of built environment and property management skills

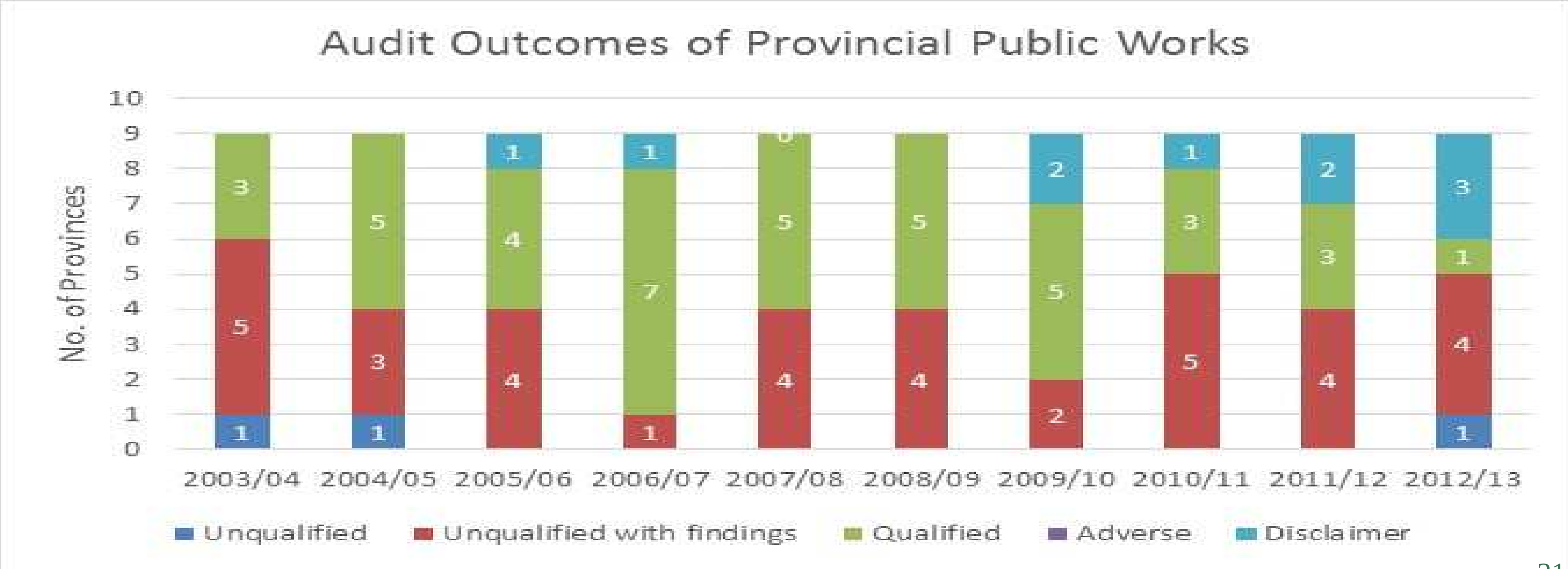
FINANCIAL AND FISCAL COMMISSION

FINANCIAL
AND FISCAL
COMMISSION

PUBLIC WORKS IN THE PROVINCES

PROVINCIAL AUDIT OUTCOMES

- Audit outcomes for provincial departments of public works have not considerably improved in since 2003/04
  - Four out of the nine provinces received a qualified opinion or disclaimer in 2012/13
  - Over a period of 10 years (i.e. 2003/4 – 2012/13), only 3 provincial departments of public works received an unqualified audit opinion



PROVINCIAL AUDIT OUTCOMES [CONT.]

- The Auditor-General raised a number of matters that prevented provincial departments from achieving clean audits such as:
  - Instability in leadership and lack of human resources
  - Internal controls are ineffective
  - Action plans to implement improvement in audit outcomes are not timeously implemented
  - Inaccurate and incomplete fixed asset registers
  - Incomplete disclosures on unauthorized, irregular and fruitless, irregular and wasteful expenditure
  - Commitments by the national sector department to intervene and/or provide support were not honoured
- The Commission's view is that DPW should play a more active role, through the various intergovernmental forums, in providing the necessary support to provincial departments of public works

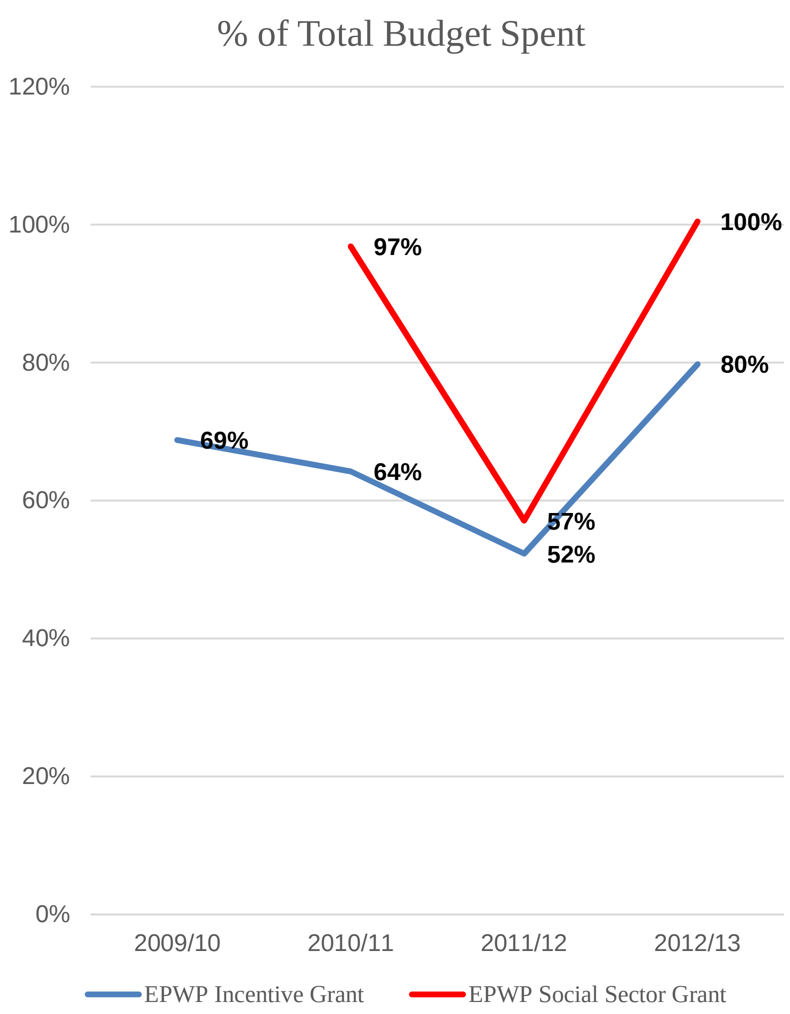
FINANCIAL AND FISCAL COMMISSION

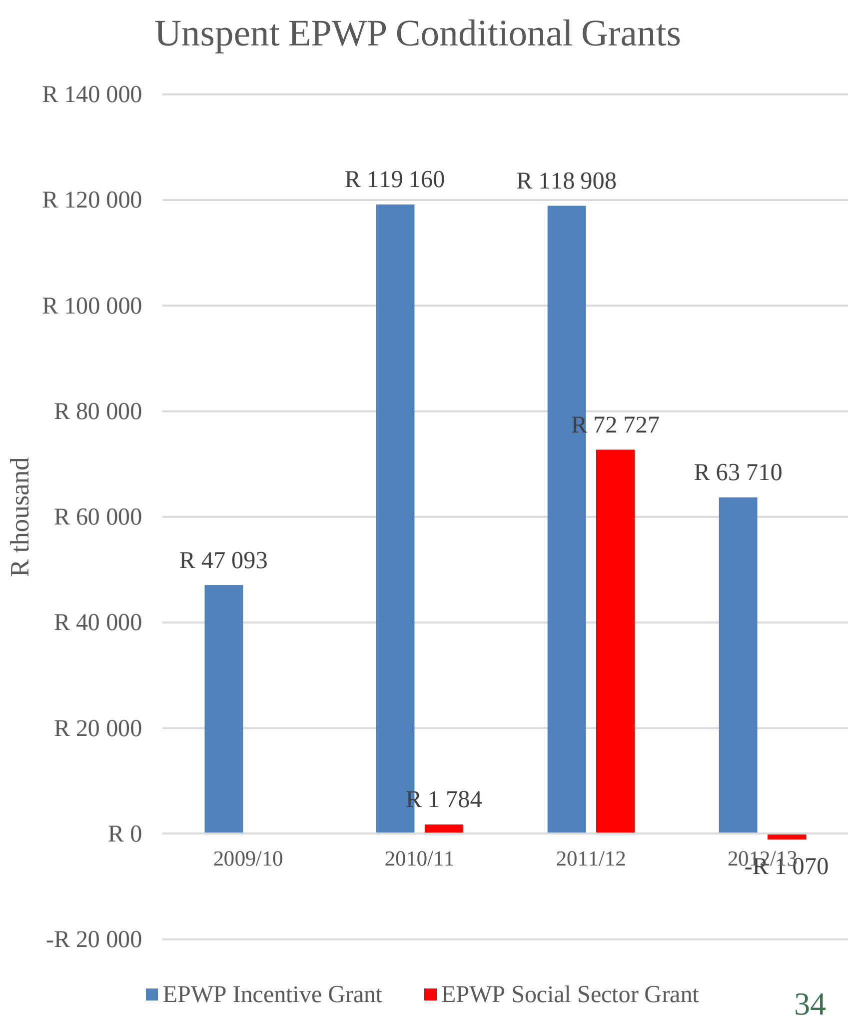
Spending Performance by Provinces on EPWP Conditional Grants

- The National Department of Public Works is the transferring agent for two EPWP conditional grants to provinces
- As the transferring agent, the responsibilities of the DPW are prescribed in the conditional grant framework contained in the Division of Revenue Act. These include (among others):
  - Determine eligibility of grant, monitor and provide support to provinces, audit provincial performance and report to national treasury on provincial progress

FINANCIAL AND FISCAL COMMISSION

EPWP CONDITIONAL GRANTS TO PROVINCES





Summary of Performance on EPWP Grants to Provinces

- Over a four year period (2009/10 – 2012/13), provinces have been unable to spend more than 80% of its allocation to the EPWP Incentive Grant in any given year
- Except in 2011/12 where spending on both EPWP grants were below 60% of total, the EPWP Social Sector grant in general, performed better than the Incentive grant
  - Provinces have challenges relating to infrastructure, which affects the spending performance on the Incentive grant
- In many instances, provinces fail to comply with grant conditions stipulated in DORA, resulting in funds being withheld, thereby leaving funds unspent at the end of the year

FINANCIAL AND FISCAL COMMISSION

CONCLUDING REMARKS

- Key issues emanating from analysis of DPW
  - Underspending of budget
  - Not meeting set targets
- For the sector to turnaround, the DPW should play a leadership role by providing the necessary support to the provinces and establishing minimum norms and standards to facilitate improvement in service delivery in the provinces
- Department to put in place proper systems to guide expenditure management, setting of appropriate key performance indicators and a plan to attract/retain skilled staff
  - Outcome of the Turnaround Project is key in facilitating progress – some improvements noted but far to go in putting DPW on stable footing

FINANCIAL AND FISCAL COMMISSION

FFC's Website: www.ffc.co.za

FINANCIAL AND FISCAL COMMISSION

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Financial and Fiscal Commission
Intergovernmental Fiscal Relations Conference
11 - 13 August 2014
International Convention Centre, Cape Town, South Africa

2015/16 Submission | Housing Financing | Child Welfare Services | 2012/2013 Annual report

2015/16 SUBMISSION FOR THE DIVISION OF REVENUE

SUBMISSION FOR THE DIVISION OF REVENUE 2015/16

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

NEW!!!

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

UPCOMING EVENTS

FINANCIAL
AND FISCAL
COMMISSION

PORTFOLIO COMMITTEE ON PUBLIC WORKS

Financial and Fiscal Commission

25 September 2014

For an Equitable Sharing of National Revenue

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- Advice to municipalities (e.g. Tshwane merger)
- Inputs in various fora (e.g. SALGA)

NON TRAINING SUPPORT AND INTERVENTION

- Member of review committees (LES, Infrastructure Grants, Metro's Own Revenue)
- Public hearings (local government fiscal framework, housing and welfare)
- Inputs in benchmarking exercises
- Recommendations through Annual Submission on DoR, MTBPS, FF and Appropriations

VALUE ADD OF THE FFC

- FFC can provide advice, analysis and training to assist the work of the Committee
  - Specialised IGFR training to committee members and/or parliamentary researchers
  - Provision of recommendations that are founded on evidence based research
  - Technical support with respect to parliamentary fiscal oversight activities

FINANCIAL AND FISCAL COMMISSION

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2. Recommendations that Relate to Public Works

FFC Work Related to DPW [cont.]

Response to Division of Revenue Bill (DoRB) 2010	The Commission welcomed introduction of the *EPWP Incentive Grant for the Social Sector*. The Commission noted that there was a need to standardise the employment framework for the sector including conditions, wages and progression across provinces and municipalities. The Commission also raised concern regarding difficulties that were being experienced with the transfer of the EPWP Incentive Grant to Local and Provincial Governments. In the 2009/10 certain provinces (e.g. Western Cape) raised concern that they received transfers outside the ambit of the DoR and couldn't spend the money because it was not properly appropriated through various legislatures. At that point the general challenge with the grant was that provinces and municipalities found it difficult to integrate it through their infrastructure programmes. This problem persists because labour intensive infrastructure projects need to be planned, costed and scheduled properly. Not all projects yield the same labour intensity, so targets must be set by project type and category. Some projects will better lend themselves to labour intensive methods than others. This must be factored into the budget allocations and monitoring of the grant. *Current Commission analysis is that provinces continue to have challenges relating to labour intensive infrastructure, which affects the spending of the Incentive grant. In 2012/13 DPW appointed service providers to support provinces and municipalities in design of infrastructure projects and reporting methods.*

FFC Work Related to DPW [cont.]

Response to MTBPS 2011	In terms of the EPWP Incentive grant framework, provinces and municipalities must spend their budgets on EPWP projects and after that the grant will be paid by DPW quarterly as an incentive (after employment has been created). There has been general under-spending against budget since inception of the grant. Projected under-spending in financial year 2011 was 28.4%. In 2010, the actual under-spend was 38.4%. Despite poor spending performance, the annual growth of the budget was high. Expenditure reports on the grant performance at local government were inaccessible. DPW should explain how transfers are reconciled with actual expenditure. The grant should be streamlined to the Division of Revenue Act (DORA) requirements in terms of allocation and disbursements of funds. Punitive and incentive elements of the grant should be made transparent to all the stakeholders. *Current FFC analysis indicates that underspending persists. Between 2009/10 and 2012/13, provinces have been unable to spend more than 80% of their allocation*
Response to DoRB 2012	The Commission reiterated concerns raised in its Response to DoRB 2010 and Response to 2011 MTBPS regarding the challenges with the EPWP Incentive grant. The Commission maintained its view that the grant had not succeeded in achieving the intended goals within the specified time. There had also not been a formal assessment of the achievement of this grant both in terms of expenditure and service delivery outputs including how many direct and full times jobs had been created against the allocated funds. The Commission recommended that an independent review of the grant be undertaken, so that lessons can be drawn from past experience to avoid a replication of past mistakes. Government has since set up a team consisting of National Treasury, DPW, DCoG and SALGA that has been working on this. *This review is ongoing*

FFC Work Related to DPW [cont.]

Submission for the 2009/10 DoR	FFC found a need for reporting on EPWP outcomes to be more specific. In accordance with the requirements of the EPWP, job creation for target groups such as women, youth and people with disabilities should be included in the reporting requirements for all infrastructure conditional grants to provinces and municipalities GOVT. RESPONSE: The recommendation for reporting on targets is supported. Some of these indicators can possibly be reported on as part of the conditional grant frameworks prescribed in terms of the Division of Revenue Act
Submission for the 2007/08 DoR	The World Cup funding was crafted on the basis of requirements to meet FIFA standards of hosting cities, and that the major challenge faced by government was sustainability of built infrastructure. On the funding for the FIFA World Cup, FFC, examined the sustainability of built infrastructure, taking the escalation of construction costs into account. FFC's findings included that the escalation of construction costs be budgeted for, and that collaboration with the private sector should be encouraged. Also that a 2010 World Cup "Legacy Management Policy" should be introduced and prudent fiscal policy should be maintained leading to the World Cup GOVT. RESPONSE: Government is of the view that the costs relating to maintenance of constructed 2010 FIFA World Cup facilities should be provided by municipalities

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3. Departmental Analysis

CONTEXTUALISING THE DEPARTMENT OF PUBLIC WORKS

- Aim of Department of Public Works (DPW):
  - provide for and manage accommodation, housing, land and infrastructure needs of national departments
  - Lead and direct implementation of the national expanded public works programme (EPWP)
  - Promote growth, job creation and transformation in the construction and property industries
- Public works is a concurrent function between national and provincial spheres of government
- DPW contribution to National Development Plan (NDP) achieved through:
  - Implementation of job creation initiatives
  - Transition to low cost carbon economy
  - Development of an inclusive and integrated rural economy
  - Fight against corruption

FINANCIAL AND FISCAL COMMISSION

KEY CHALLENGES CONFRONTING DPW

- Due to consistent trend of poor audit outcomes and generally poor performance, DPW implemented a turnaround project in November 2012
- Areas that were identified for specific attention through the turnaround project include:
  - Lack of controls in supply chain management (SCM)
    - Identified as major risk area by Auditor-General – DPW capacity to process tenders eroded and has led to numerous instances of fraud/corruption. SCM has been major focus of the Special Investigating Unit (SIU). SCM is the key focus of turnaround project in DPW. A service provider appointed to assist with fundamental review of SCM
      - Irregular expenditure, R171 million in 2011/12; R874 million in 2012/13
  - Poor lease management
    - Numerous irregularities with respect to lease agreements – gives rise to legal risks. DPW reviewing all lease agreements

FINANCIAL AND FISCAL COMMISSION

KEY CHALLENGES CONFRONTING DPW [CONT.]

- Inadequate immovable asset register
  - Lack of compliant immovable asset register resulted in negative audit opinions. DPW now in process of rebuilding immovable asset register and building a model to revalue immovable assets
- Lack of built environment and property management skills
  - Lack of technical capacity to undertake direct construction/maintenance functions. Cooperating with DPSA and Higher Education and Training to address challenge

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Starting Point for Budget Analysis

- By vote
  - Compare different votes with each other
- By vote programme
  - Compare different programmes within a vote
- By sub-programme
- Compare different sub-programmes within a programme
- By province
- Compare different provinces with each other
- Use Outputs, Targets and Indicators to measure performance
- Use policy documents as a benchmark

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USEFUL TOOLS

- Percentage Share of Total Budget
- Growth in the Budget
  - Percentage Change
    - Reflecting increases/decreases in percentage form
  - Annual Growth Rate
    - How does the allocation change year on year
  - Real Percentage Change
    - Takes inflation into consideration
  - Variances and explanations
    - Investigating the reasons/drivers of change
  - Spending by economic classification
    - Distinguishes between various categories of current (goods and services, transfers and subsidies) and capital expenditure (acquisition of fixed capital assets, purchase of land)

FINANCIAL AND FISCAL COMMISSION

Budget and Programmes of Public Works

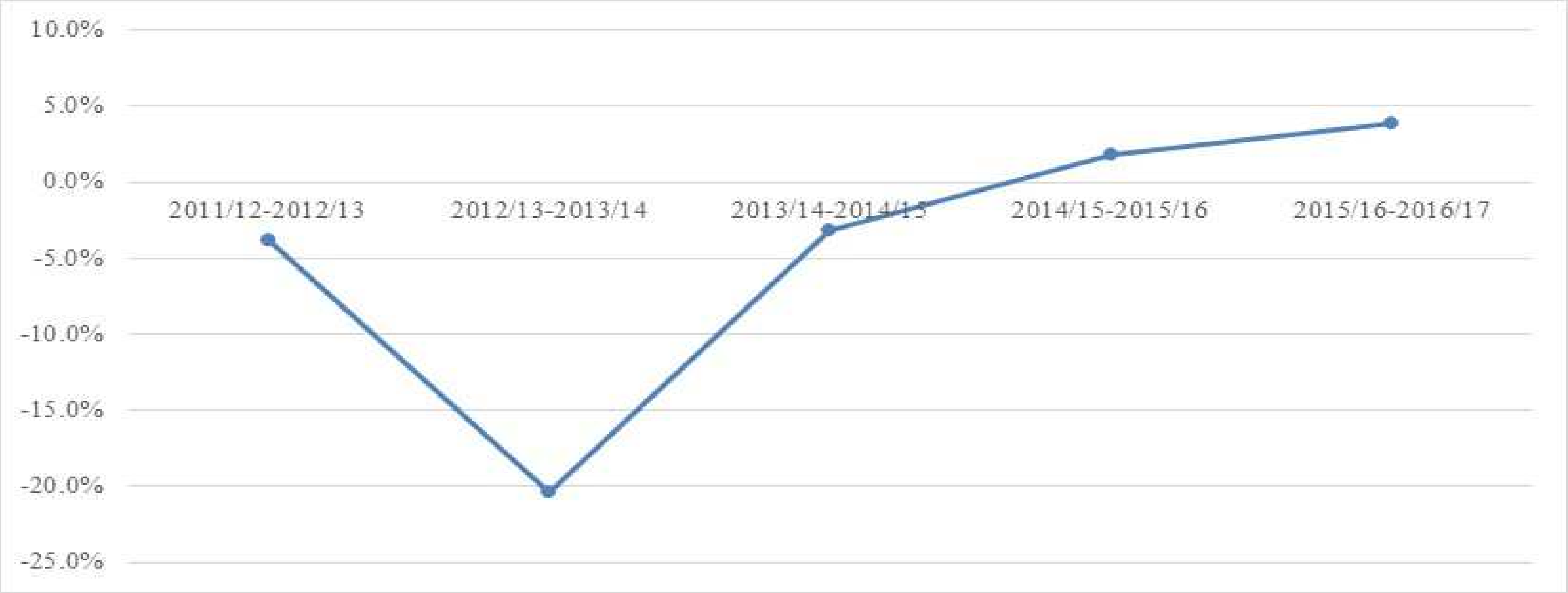
Nominal (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Real Annual Average Growth 2011/12-2013/14	Real Annual Average Growth 2014/15-2016/17
Administration	837.1	856.2	1 158.2	1 175.3	1 133.3	1 191.5	11.5%	-4.1%
Immovable Asset Management	5 001.7	4 563.5	2 831.8	2 861.4	3 308.1	3 450.0	-28.7%	4.6%
Expanded Public Works Programme	1 163.0	1 704.1	1 948.0	1 951.3	2 006.8	2 395.2	22.7%	5.5%
Property and Construction Industry Policy Regulation	34.4	26.9	36.7	41.5	43.4	45.9	-2.1%	0.1%
Auxiliary and Associated Services	25.2	53.3	50.7	91.8	53.7	56.6	34.4%	-25.2%
Total	**7 061.4**	**7 203.9**	**6 025.3**	**6 121.3**	**6 545.3**	**7 139.2**	**-12.5%**	**2.8%**

- Five programmes on Department of Public Works (DPW) budget
- Allocation reduced significantly in 2013/14, due to phasing out of Devolution of Property Rates Fund Grant to provinces and non-completion of various projects. As result of underspending, Cabinet approved reductions were effected
  - Following poor spending performance and audit outcomes, DPW implementing a Turnaround Project
- DPW budget projected to recover to just over R7.1 billion by end of 2014 medium term expenditure framework (MTEF) period
  - 2014 MTEF growth driven by additional allocation of R159 million in 2016/17 for Expanded Public Works Programme (EPWP)

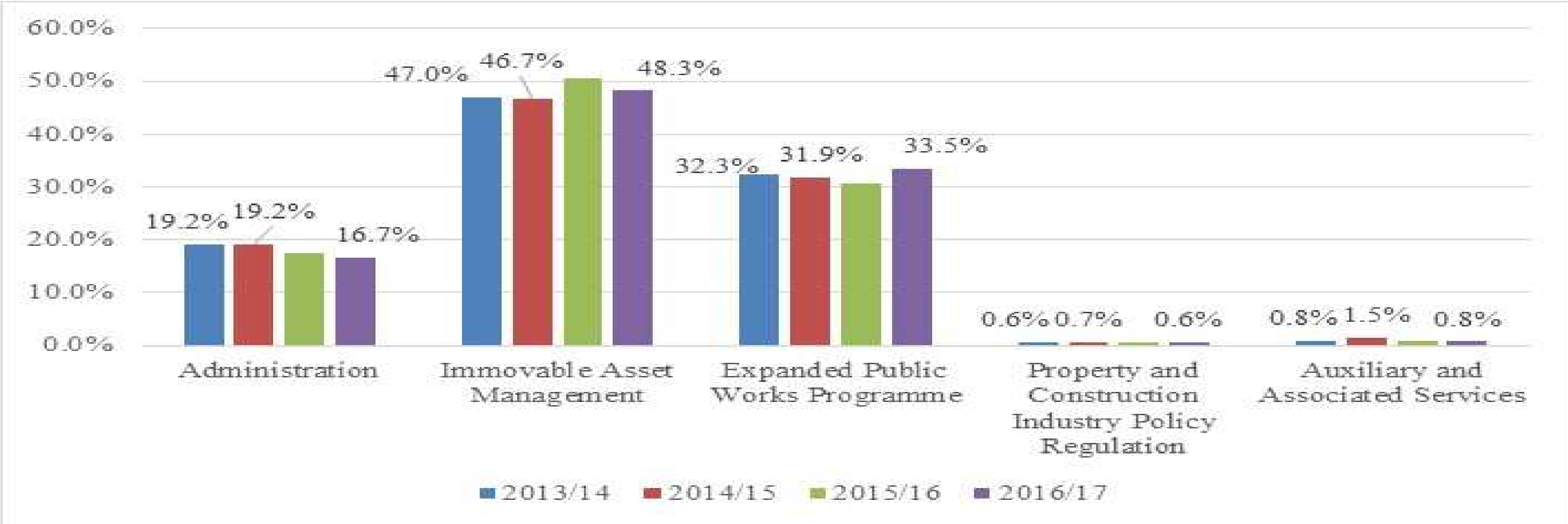
FINANCIAL AND FISCAL COMMISSION

REAL YEAR ON YEAR GROWTH OF PUBLIC WORKS BUDGET

- Significant decline in year on year growth in 2013/14
  - Though still declining in real terms in 2014/15, there is some improvement
- Over rest of 2014 MTEF period, positive growth projected
  - Focus will be on rehabilitating 34 state owned buildings, and ensuring that at least 100 buildings are made accessible to people with disabilities in each year of MTEF



BUDGET COMPOSITION ACROSS PROGRAMMES



- Immovable Asset Management Programme consumes largest share of DPW budget – by end of 2014 MTEF period this programme is projected to consume just under half of DPW budget
- Share allocated to Administration Programme consumers about one fifth of departmental budget – funding for Turnaround Project fall under Administration
  - Turnaround Project will support activities relating to the Special Investigating Unit, a technical support unit, a clean audit project, irregular expenditure management, internal audit support

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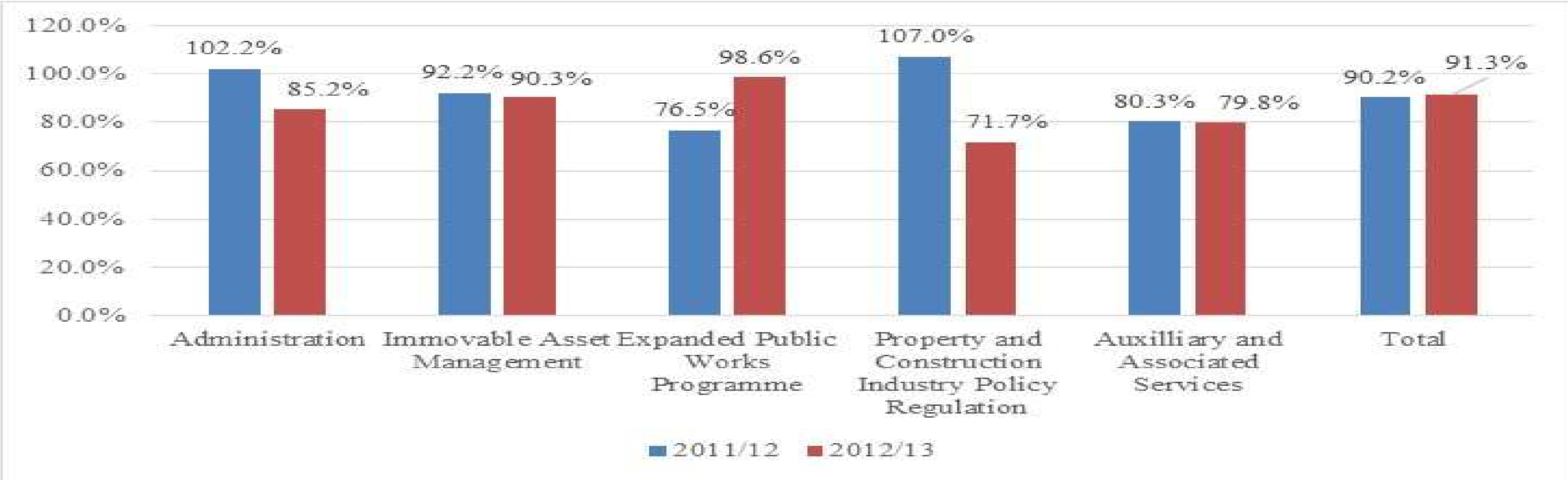
ECONOMIC CLASSIFICATION

Item (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Compensation of Employees	1 269.6	1 374.6	1 473.5	1 659.9	1 753.5	1 870.5
Goods and Services	1 032.9	977.0	1 379.6	1 302.1	1 202.9	1 269.0
Transfers and Subsidies	3 656.2	4 092.4	2 543.9	2 563.4	2 654.2	3 017.9
Payments for Capital Assets	1 099.1	756.8	628.4	595.9	934.8	981.7
Real Year on Year Growth (%)						
Compensation of Employees		2.1%	2.1%	7.3%	0.6%	1.6%
Goods and Services		-10.8%	34.5%	-10.1%	-12.0%	0.5%
Transfers and Subsidies		5.6%	-40.8%	-4.0%	-1.4%	8.3%
Payments for Capital Assets		-35.1%	-20.9%	-9.7%	49.4%	-0.003%

- Transfers and subsidies is the largest item
  - the decrease in 2013/14 due to phasing out of the Devolution of Property Rates Fund Grant to Provinces, hence reduction in transfers to provinces
- The increase in spending on Goods and Services in 2013/14 driven by spending on consultants – due to shortage of technical skills in property/project management and specialists as required for the DPW's turnaround project
- Payments for capital assets very erratic
- Relative to strong annual average growth between 2011/12 and 2013/14, growth in Goods and Service set to decline over the 2014 MTEF period

FINANCIAL AND FISCAL COMMISSION

SPENDING PERFORMANCE (FISCAL DISCIPLINE)

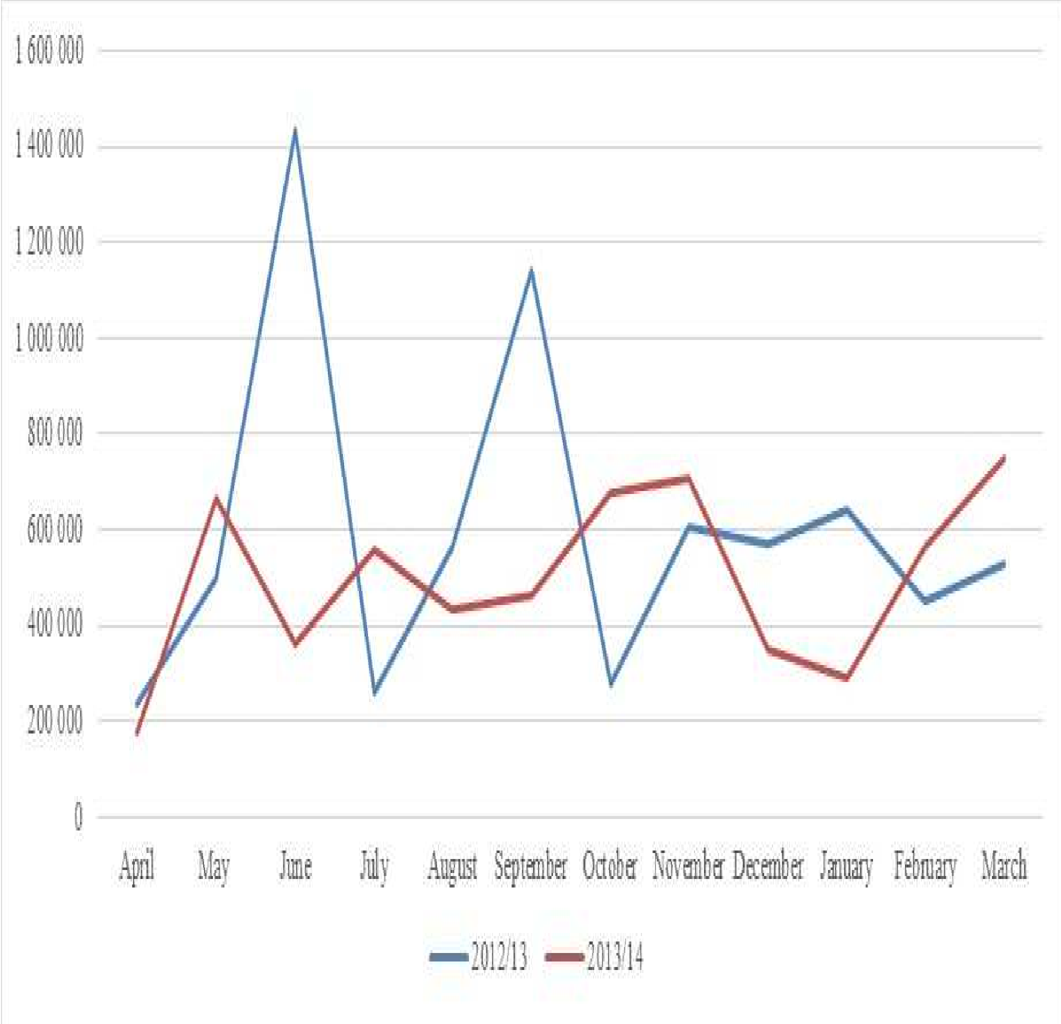


- DPW underspent in 2011/12 and 2012/13
- In 2011 underspending on EPWP and Auxilliary and Associated Services Programme
- In 2012, underspending is as a result of poor spending in Property and Construction Industry Policy Regulation Programme and again Auxilliary and Associated Services Programme
- Due to persistent underspending on capital, baseline reductions of R1.3 billion effected over 2014 MTEF period

FINANCIAL AND FISCAL COMMISSION

In-Year Expenditure

- 2012/13 in-year spending erratic
- Appears to be improving in 2013/14 – variances in monthly spending not as large as during 2012/13
- Concern with poor in-year spending is that it hints at unstable cash flow and disbursements



FINANCIAL AND FISCAL COMMISSION

Selected Sub-Programme Analysis: Immovable Asset Management Programme

Real Year on Year Growth	2011/12-2012/13	2012/13-2013/14	2013/14-2014/15	2014/15-2015/16	2015/16-2016/17
Infrastructure (Public Works)	-33.5%	-9.7%	-28.1%	57.5%	-0.1%
Strategic Asset Investment Analysis	-67.7%	149.1%	10.4%	0.2%	1.0%
Operation Management	1.6%	-0.3%	0.5%	-0.4%	2.7%
Prestige Management	-51.5%	44.0%	-27.0%	-1.0%	-28.5%
Special Projects	4.0%	47.6%	-24.7%	1.8%	0.4%
Construction Industry Development Board	-3.4%	2.0%	1.6%	0.4%	0.2%
Council for the Built Environment	-7.7%	28.8%	4.3%	1.4%	0.2%
Parliamentary Village Management Board	-0.6%	0.1%	1.1%	-0.4%	0.5%
Augmentation of the Property Management Trading Entity	-3.2%	0.5%	-6.0%	-0.1%	0.6%
Independent Development Trust	-68.1%	-6.3%	-4.7%	-4.8%	-100.0%
Total	**-14.0%**	**-37.8%**	**-8.6%**	**10.1%**	**-0.7%**

- Total programme growth declines over most of the period reviewed
  - Decline in 2012 and 2013 is due to phasing out of devolution of property rates fund grant to provinces, non-completion of projects and Cabinet approved reductions due to underspending
- Generally sub-programme trends are erratic, brings into question soundness of planning in DPW
- Lack of capacity a challenge in this programme – 10% vacancy rate

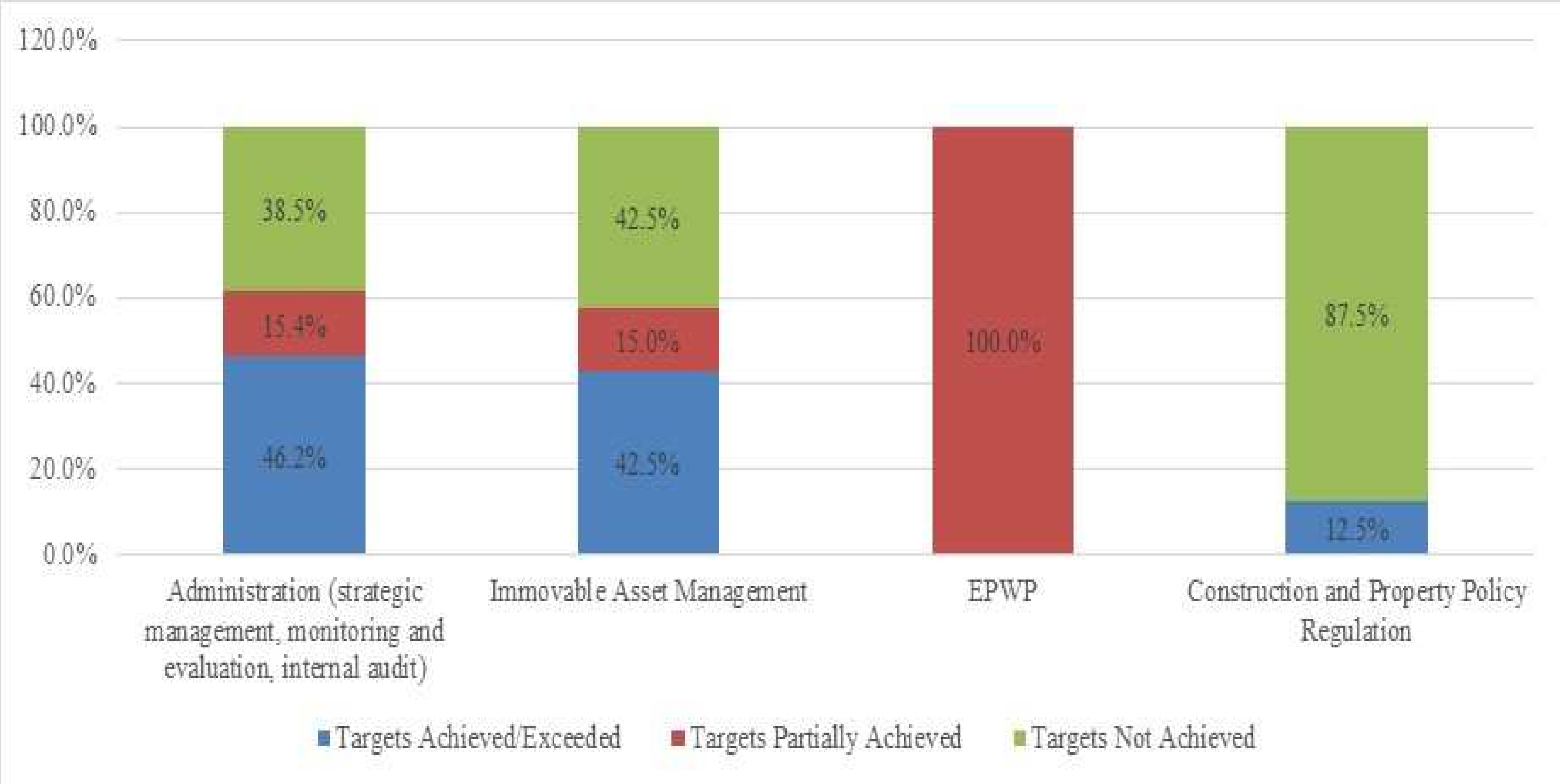
SELECTED SUB-PROGRAMME ANALYSIS: EXPANDED PUBLIC WORKS PROGRAMME

R million	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**
Expanded Public Works Programme	209.7	236.8	273.8	261.5	267.7	290.6
Performance Based Incentive Allocations	953.3	1 467.3	1 674.2	1 689.8	1 739.2	2 104.6
Total	**1 163.0**	**1 704.1**	**1 948.0**	**1 951.3**	**2 006.8**	**2 395.2**
Real Year on Year Growth		**2011/12-2012/13**	**2012/13-2013/14**	**2013/14-2014/15**	**2014/15-2015/16**	**2015/16-2016/17**
Expanded Public Works Programme		12.9%	15.6%	-4.5%	2.4%	8.6%
Performance Based Incentive Allocations		53.9%	14.1%	0.9%	2.9%	21.0%
Total		**46.5%**	**14.3%**	**0.2%**	**2.8%**	**19.4%**

- EPWP promotes use of government expenditure to create additional employment opportunities through the use of labour-intensive delivery methods
  - Increases in 2012/2013 due to appointment of service providers to support provinces and municipalities in design of infrastructure projects and reporting methods
- Performance Based Incentive Allocations is the largest sub-programme
  - Focus: disburses funds to provinces/municipalities and NGOs to ensure creation of work opportunities in infrastructure, environment, social sectors
  - Increases between 2012 and 2013 are due to additional funding allocated. However to give effect to Cabinet-approved reductions, growth in this sub programme slows in 2014 and 2015
- Overall between 2009/10 and 2012/13, just over 3 million jobs created (68% of target of 4.5 million jobs)

DEPARTMENTAL PERFORMANCE

- Department not adequately meeting targets set.
  - Number of targets partially met and totally unmet exceptionally high



Departmental Performance [cont.]

Programme	Explanation for Unmet Targets
Administration	Delays due to lack of capacity/high vacancy rate, unrealistic targets given financial resources, lengthy procurement processes that delay appointment of service providers
Immovable Asset Management	Appropriate supply chain management process not followed, unrealistic target setting, inadequate data collection to verify extent to which target was met
EPWP	Delays in project implementation, lack of technical capacity to implement projects, poor performance on part of municipalities/provinces to carry out projects
Construction and Property Policy Regulation	• Legislative framework for Built Environment Professionals: delays in internal consultation • Establish Agrement SA as public entity: delay in the approval of business case • Provide immovable asset lifecycle management guidelines to national and provincial custodians of immovable assets: delay in internal consultation prevented finalisation

Aspects Highlighted by the Auditor-General

- DPW audit outcomes:
  - 2009/10: qualified with findings
  - 2010/11:disclaimer
  - 2011/12: disclaimer
  - 2012/13: qualified with findings
- Key issues highlighted by Auditor-General that need to be addressed:
  - Inadequate internal controls in areas of leadership, financial management, performance management and governance
  - Areas that were identified for specific attention through the turnaround project include: lack of controls in supply chain management, poor lease management, inadequate immovable asset register, lack of built environment and property management skills

FINANCIAL AND FISCAL COMMISSION

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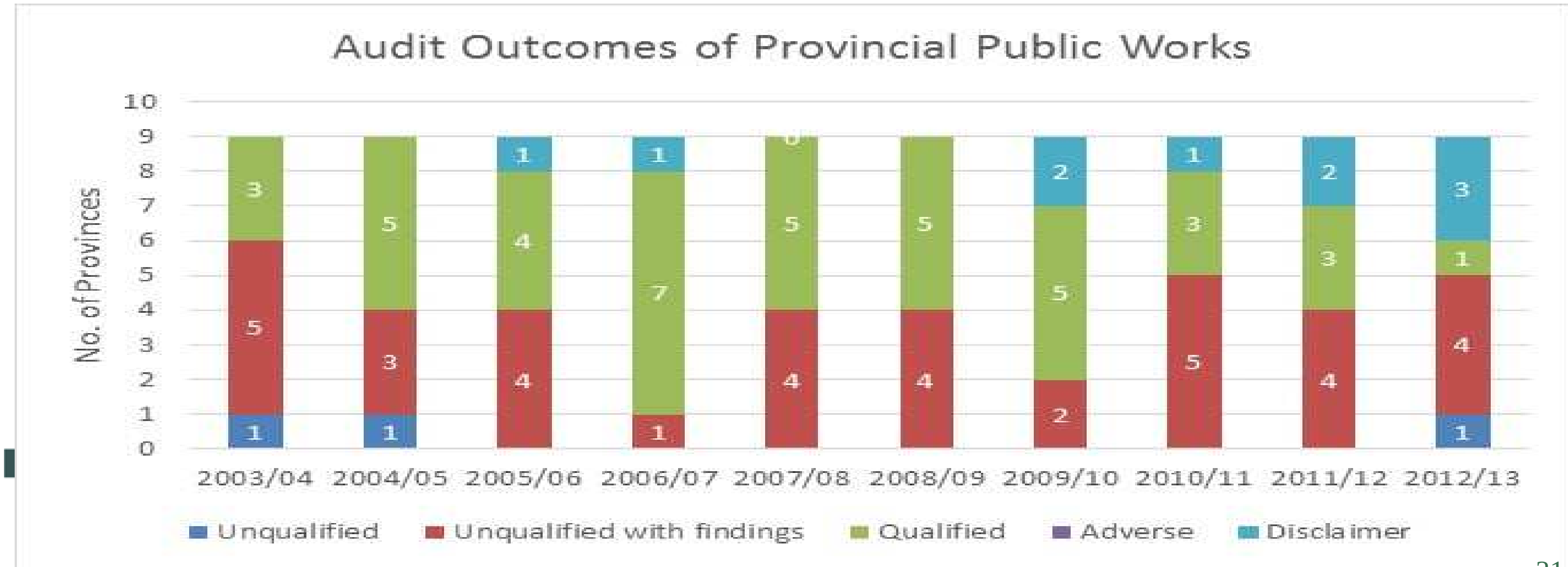
PUBLIC WORKS IN THE PROVINCES

PROVINCIAL AUDIT OUTCOMES

- Audit outcomes for provincial departments of public works have not considerably improved in since 2003/04
  - Four out of the nine provinces received a qualified opinion or disclaimer in 2012/13
  - Over a period of 10 years (i.e. 2003/4 – 2012/13), only 3 provincial departments of public works received an unqualified audit opinion



PROVINCIAL AUDIT OUTCOMES [CONT.]

- The Auditor-General raised a number of matters that prevented provincial departments from achieving clean audits such as:
  - Instability in leadership and lack of human resources
  - Internal controls are ineffective
  - Action plans to implement improvement in audit outcomes are not timeously implemented
  - Inaccurate and incomplete fixed asset registers
  - Incomplete disclosures on unauthorized, irregular and fruitless, irregular and wasteful expenditure
  - Commitments by the national sector department to intervene and/or provide support were not honoured
- The Commission's view is that DPW should play a more active role, through the various intergovernmental forums, in providing the necessary support to provincial departments of public works

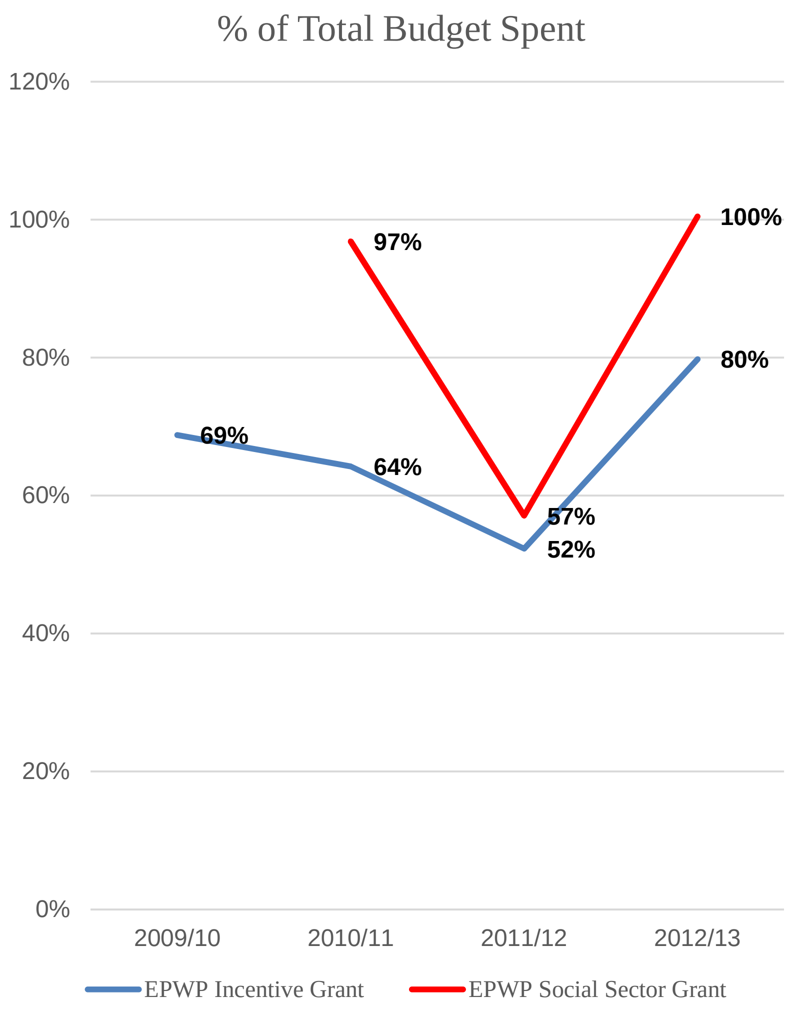
FINANCIAL AND FISCAL COMMISSION

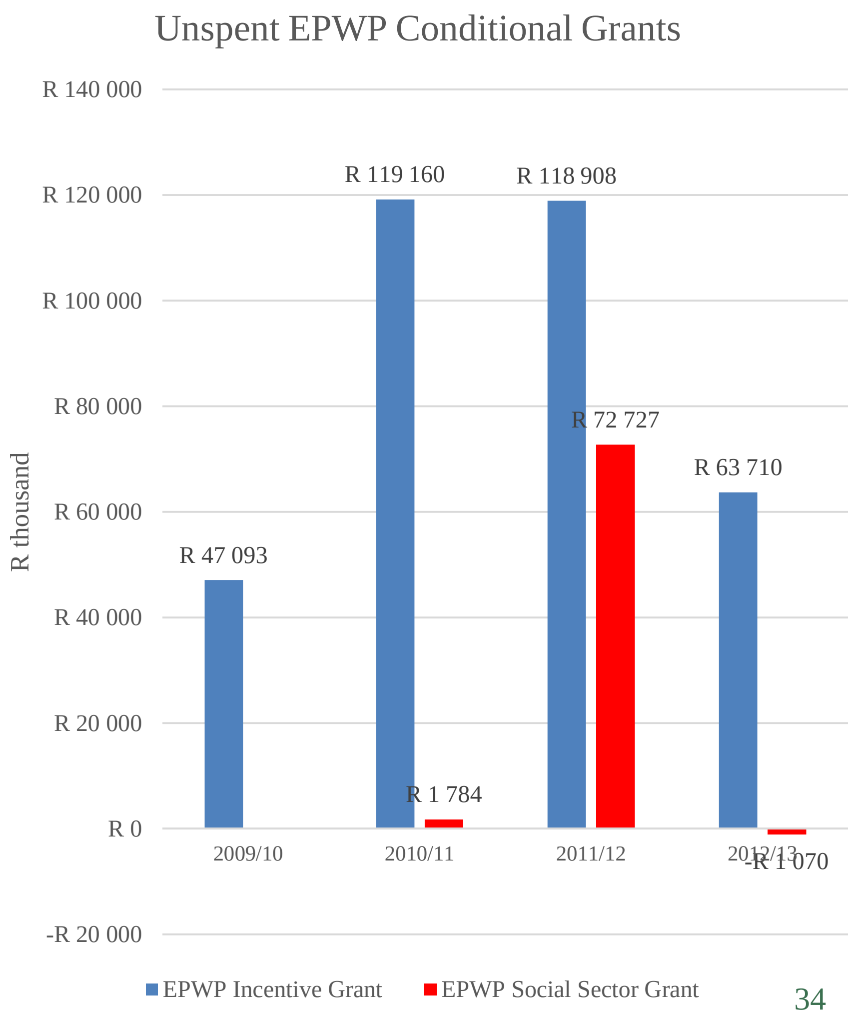
SPENDING PERFORMANCE BY PROVINCES ON EPWP CONDITIONAL GRANTS

- The National Department of Public Works is the transferring agent for two EPWP conditional grants to provinces
- As the transferring agent, the responsibilities of the DPW are prescribed in the conditional grant framework contained in the Division of Revenue Act. These include (among others):
  - Determine eligibility of grant, monitor and provide support to provinces, audit provincial performance and report to national treasury on provincial progress

FINANCIAL AND FISCAL COMMISSION

EPWP CONDITIONAL GRANTS TO PROVINCES





SUMMARY OF PERFORMANCE ON EPWP GRANTS TO PROVINCES

- Over a four year period (2009/10 – 2012/13), provinces have been unable to spend more than 80% of its allocation to the EPWP Incentive Grant in any given year
- Except in 2011/12 where spending on both EPWP grants were below 60% of total, the EPWP Social Sector grant in general, performed better than the Incentive grant
  - Provinces have challenges relating to infrastructure, which affects the spending performance on the Incentive grant
- In many instances, provinces fail to comply with grant conditions stipulated in DORA, resulting in funds being withheld, thereby leaving funds unspent at the end of the year

FINANCIAL AND FISCAL COMMISSION

CONCLUDING REMARKS

- Key issues emanating from analysis of DPW
  - Underspending of budget
  - Not meeting set targets
- For the sector to turnaround, the DPW should play a leadership role by providing the necessary support to the provinces and establishing minimum norms and standards to facilitate improvement in service delivery in the provinces
- Department to put in place proper systems to guide expenditure management, setting of appropriate key performance indicators and a plan to attract/retain skilled staff
  - Outcome of the Turnaround Project is key in facilitating progress – some improvements noted but far to go in putting DPW on stable footing

FINANCIAL AND FISCAL COMMISSION

FFC's Website: www.ffc.co.za

FINANCIAL AND FISCAL COMMISSION

PORTFOLIO COMMITTEE ON PUBLIC WORKS

Financial and Fiscal Commission

25 September 2014

For an Equitable Sharing of National Revenue

Presentation Outline

1. Role and Function of the Financial and Fiscal Commission
2. Recommendations of the Commission that relate to Public Works
3. Departmental Analysis

FINANCIAL AND FISCAL COMMISSION

1. Role and Function of the Financial and Fiscal Commission

ROLE AND FUNCTION OF THE FFC

- The Financial and Fiscal Commission (FFC)
  - Is an independent, permanent, statutory institution established in terms of Section 220 of Constitution
  - Must function in terms of the FFC Act
- Mandate of Commission
  - To make recommendations, envisaged in Chapter 13 of the Constitution or in national legislation to Parliament, Provincial Legislatures, and any other organ of state determined by national legislation
- The Commission's focus is primarily on the equitable division of nationally collected revenue among the three spheres of government and any other financial and fiscal matters
  - Legislative provisions or executive decisions that affect either provincial or local government from a financial and/or fiscal perspective
  - Includes regulations associated with legislation that may amend or extend such legislation
  - Commission must be consulted in terms of the FFC Act
  - Current research strategy focuses on developmental impacts of IGFR

FINANCIAL AND FISCAL COMMISSION

How FFC Supports Policy

- Identify weakness within the IGFR system
- Propose evidence-based policy proposals
- Interact and participate with/in forums and institutions responsible for IGFR policy – TCF, Budget Council, Budget Forum
- Information dissemination – invitations from nine provincial legislatures and SALGA
- Interact with various committees within parliament

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AND FISCAL
COMMISSION

PROCESSING OF RECOMMENDATIONS

- Recommendations of the Commission
  - Recommendations are made to Parliament so that the legislature can examine the financial and fiscal decisions of government against them and understand why they have been accepted or rejected
  - Section 4(4)(c) of the Money Bills Amendment Procedures and Related Matters Act (MBAPMA) requires Parliament to consider the recommendations of the Commission when deliberating on Money Bills
- Government is obligated through an Act of Parliament to explain how it has taken the FFC recommendations in arriving at the division of revenue for any particular year
  - The response is tabled in Annexure W1 of the DoR Bill and of the Budget Review

FINANCIAL AND FISCAL COMMISSION

How FFC can Support Parliament

DIRECT TRAINING AND INTERVENTION

- Training of members of parliamentary committees and councillors on request (e.g. in Bushbuckridge)
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FINANCIAL AND FISCAL COMMISSION

FINANCIAL AND FISCAL COMMISSION

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FFC Work Related to DPW [cont.]

Submission for the 2009/10 DoR	FFC found a need for reporting on EPWP outcomes to be more specific. In accordance with the requirements of the EPWP, job creation for target groups such as women, youth and people with disabilities should be included in the reporting requirements for all infrastructure conditional grants to provinces and municipalities GOVT. RESPONSE: The recommendation for reporting on targets is supported. Some of these indicators can possibly be reported on as part of the conditional grant frameworks prescribed in terms of the Division of Revenue Act
Submission for the 2007/08 DoR	The World Cup funding was crafted on the basis of requirements to meet FIFA standards of hosting cities, and that the major challenge faced by government was sustainability of built infrastructure. On the funding for the FIFA World Cup, FFC, examined the sustainability of built infrastructure, taking the escalation of construction costs into account. FFC's findings included that the escalation of construction costs be budgeted for, and that collaboration with the private sector should be encouraged. Also that a 2010 World Cup "Legacy Management Policy" should be introduced and prudent fiscal policy should be maintained leading to the World Cup GOVT. RESPONSE: Government is of the view that the costs relating to maintenance of constructed 2010 FIFA World Cup facilities should be provided by municipalities

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3. DEPARTMENTAL ANALYSIS

CONTEXTUALISING THE DEPARTMENT OF PUBLIC WORKS

- Aim of Department of Public Works (DPW):
  - provide for and manage accommodation, housing, land and infrastructure needs of national departments
  - Lead and direct implementation of the national expanded public works programme (EPWP)
  - Promote growth, job creation and transformation in the construction and property industries
- Public works is a concurrent function between national and provincial spheres of government
- DPW contribution to National Development Plan (NDP) achieved through:
  - Implementation of job creation initiatives
  - Transition to low cost carbon economy
  - Development of an inclusive and integrated rural economy
  - Fight against corruption

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KEY CHALLENGES CONFRONTING DPW

- Due to consistent trend of poor audit outcomes and generally poor performance, DPW implemented a turnaround project in November 2012
- Areas that were identified for specific attention through the turnaround project include:
  - Lack of controls in supply chain management (SCM)
    - Identified as major risk area by Auditor-General – DPW capacity to process tenders eroded and has led to numerous instances of fraud/corruption. SCM has been major focus of the Special Investigating Unit (SIU). SCM is the key focus of turnaround project in DPW. A service provider appointed to assist with fundamental review of SCM
      - Irregular expenditure, R171 million in 2011/12; R874 million in 2012/13
  - Poor lease management
    - Numerous irregularities with respect to lease agreements – gives rise to legal risks. DPW reviewing all lease agreements

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KEY CHALLENGES CONFRONTING DPW [CONT.]

- Inadequate immovable asset register
  - Lack of compliant immovable asset register resulted in negative audit opinions. DPW now in process of rebuilding immovable asset register and building a model to revalue immovable assets
- Lack of built environment and property management skills
  - Lack of technical capacity to undertake direct construction/maintenance functions. Cooperating with DPSA and Higher Education and Training to address challenge

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STARTING POINT FOR BUDGET ANALYSIS

- By vote
  - Compare different votes with each other
- By vote programme
  - Compare different programmes within a vote
- By sub-programme
- Compare different sub-programmes within a programme
- By province
- Compare different provinces with each other
- Use Outputs, Targets and Indicators to measure performance
- Use policy documents as a benchmark

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USEFUL TOOLS

- Percentage Share of Total Budget
- Growth in the Budget
  - Percentage Change
    - Reflecting increases/decreases in percentage form
  - Annual Growth Rate
    - How does the allocation change year on year
  - Real Percentage Change
    - Takes inflation into consideration
  - Variances and explanations
    - Investigating the reasons/drivers of change
  - Spending by economic classification
    - Distinguishes between various categories of current (goods and services, transfers and subsidies) and capital expenditure (acquisition of fixed capital assets, purchase of land)

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Budget and Programmes of Public Works

Nominal (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	Real Annual Average Growth 2011/12-2013/14	Real Annual Average Growth 2014/15-2016/17
Administration	837.1	856.2	1 158.2	1 175.3	1 133.3	1 191.5	11.5%	-4.1%
Immovable Asset Management	5 001.7	4 563.5	2 831.8	2 861.4	3 308.1	3 450.0	-28.7%	4.6%
Expanded Public Works Programme	1 163.0	1 704.1	1 948.0	1 951.3	2 006.8	2 395.2	22.7%	5.5%
Property and Construction Industry Policy Regulation	34.4	26.9	36.7	41.5	43.4	45.9	-2.1%	0.1%
Auxiliary and Associated Services	25.2	53.3	50.7	91.8	53.7	56.6	34.4%	-25.2%
Total	**7 061.4**	**7 203.9**	**6 025.3**	**6 121.3**	**6 545.3**	**7 139.2**	**-12.5%**	**2.8%**

- Five programmes on Department of Public Works (DPW) budget
- Allocation reduced significantly in 2013/14, due to phasing out of Devolution of Property Rates Fund Grant to provinces and non-completion of various projects. As result of underspending, Cabinet approved reductions were effected
  - Following poor spending performance and audit outcomes, DPW implementing a Turnaround Project
- DPW budget projected to recover to just over R7.1 billion by end of 2014 medium term expenditure framework (MTEF) period
  - 2014 MTEF growth driven by additional allocation of R159 million in 2016/17 for Expanded Public Works Programme (EPWP)

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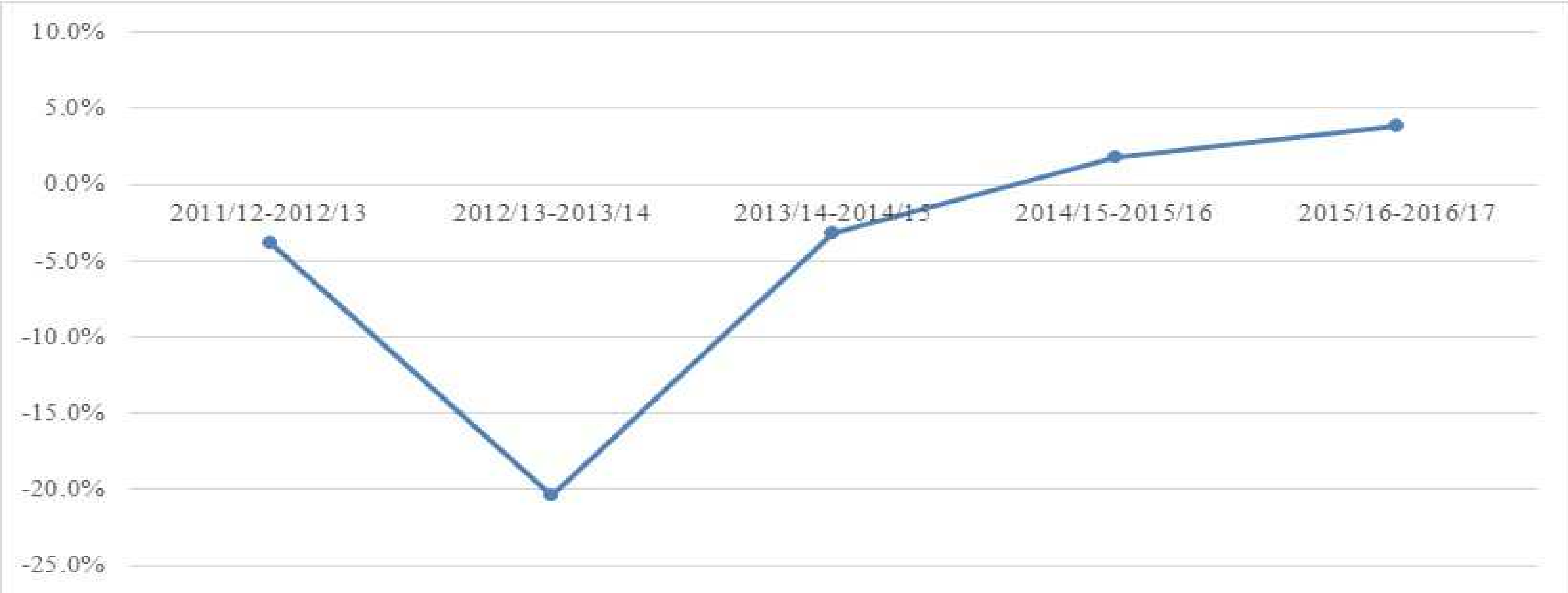
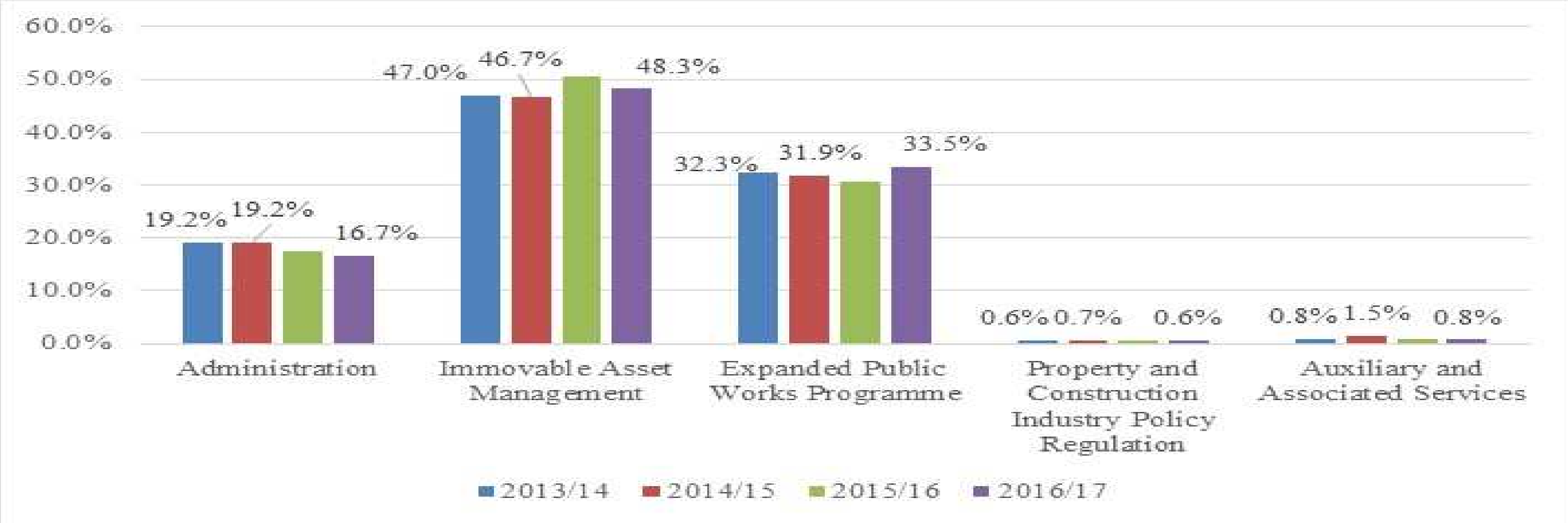
Real Year on Year Growth of Public Works Budget

- Significant decline in year on year growth in 2013/14
  - Though still declining in real terms in 2014/15, there is some improvement
- Over rest of 2014 MTEF period, positive growth projected
  - Focus will be on rehabilitating 34 state owned buildings, and ensuring that at least 100 buildings are made accessible to people with disabilities in each year of MTEF



Budget Composition across Programmes



- Immovable Asset Management Programme consumes largest share of DPW budget – by end of 2014 MTEF period this programme is projected to consume just under half of DPW budget
- Share allocated to Administration Programme consumers about one fifth of departmental budget – funding for Turnaround Project fall under Administration
  - Turnaround Project will support activities relating to the Special Investigating Unit, a technical support unit, a clean audit project, irregular expenditure management, internal audit support

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ECONOMIC CLASSIFICATION

Item (R'million)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Compensation of Employees	1 269.6	1 374.6	1 473.5	1 659.9	1 753.5	1 870.5
Goods and Services	1 032.9	977.0	1 379.6	1 302.1	1 202.9	1 269.0
Transfers and Subsidies	3 656.2	4 092.4	2 543.9	2 563.4	2 654.2	3 017.9
Payments for Capital Assets	1 099.1	756.8	628.4	595.9	934.8	981.7
Real Year on Year Growth (%)						
Compensation of Employees		2.1%	2.1%	7.3%	0.6%	1.6%
Goods and Services		-10.8%	34.5%	-10.1%	-12.0%	0.5%
Transfers and Subsidies		5.6%	-40.8%	-4.0%	-1.4%	8.3%
Payments for Capital Assets		-35.1%	-20.9%	-9.7%	49.4%	-0.003%

- Transfers and subsidies is the largest item
  - the decrease in 2013/14 due to phasing out of the Devolution of Property Rates Fund Grant to Provinces, hence reduction in transfers to provinces
- The increase in spending on Goods and Services in 2013/14 driven by spending on consultants – due to shortage of technical skills in property/project management and specialists as required for the DPW's turnaround project
- Payments for capital assets very erratic
- Relative to strong annual average growth between 2011/12 and 2013/14, growth in Goods and Service set to decline over the 2014 MTEF period

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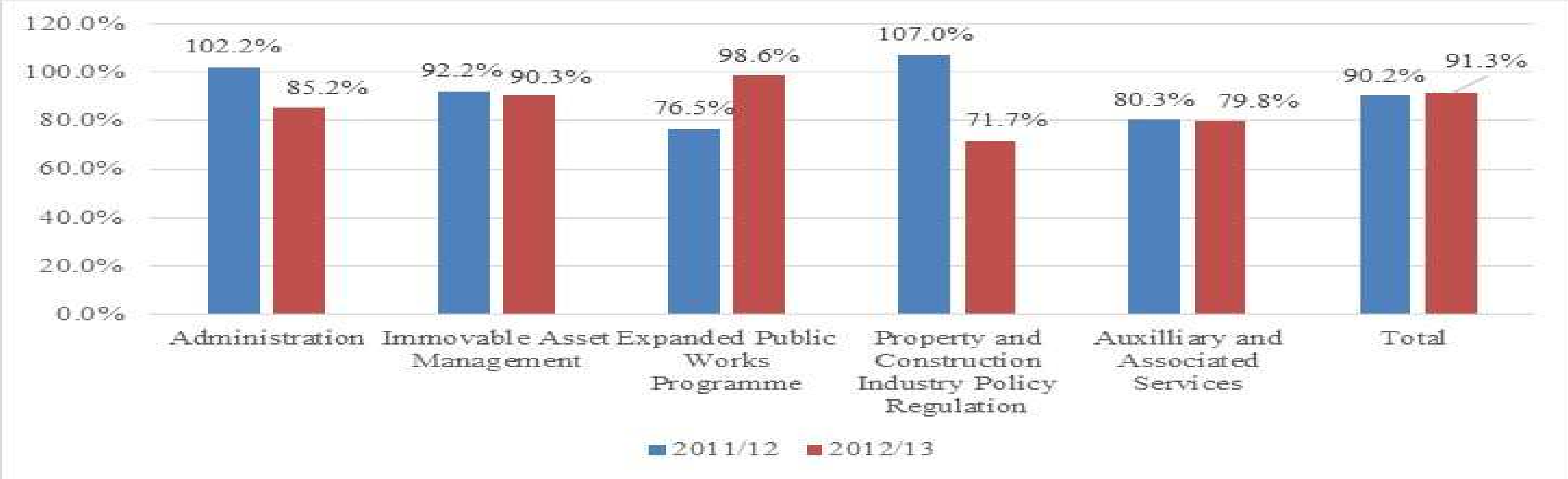
SPENDING PERFORMANCE (FISCAL DISCIPLINE)



- DPW underspent in 2011/12 and 2012/13
- In 2011 underspending on EPWP and Auxilliary and Associated Services Programme
- In 2012, underspending is as a result of poor spending in Property and Construction Industry Policy Regulation Programme and again Auxilliary and Associated Services Programme
- Due to persistent underspending on capital, baseline reductions of R1.3 billion effected over 2014 MTEF period

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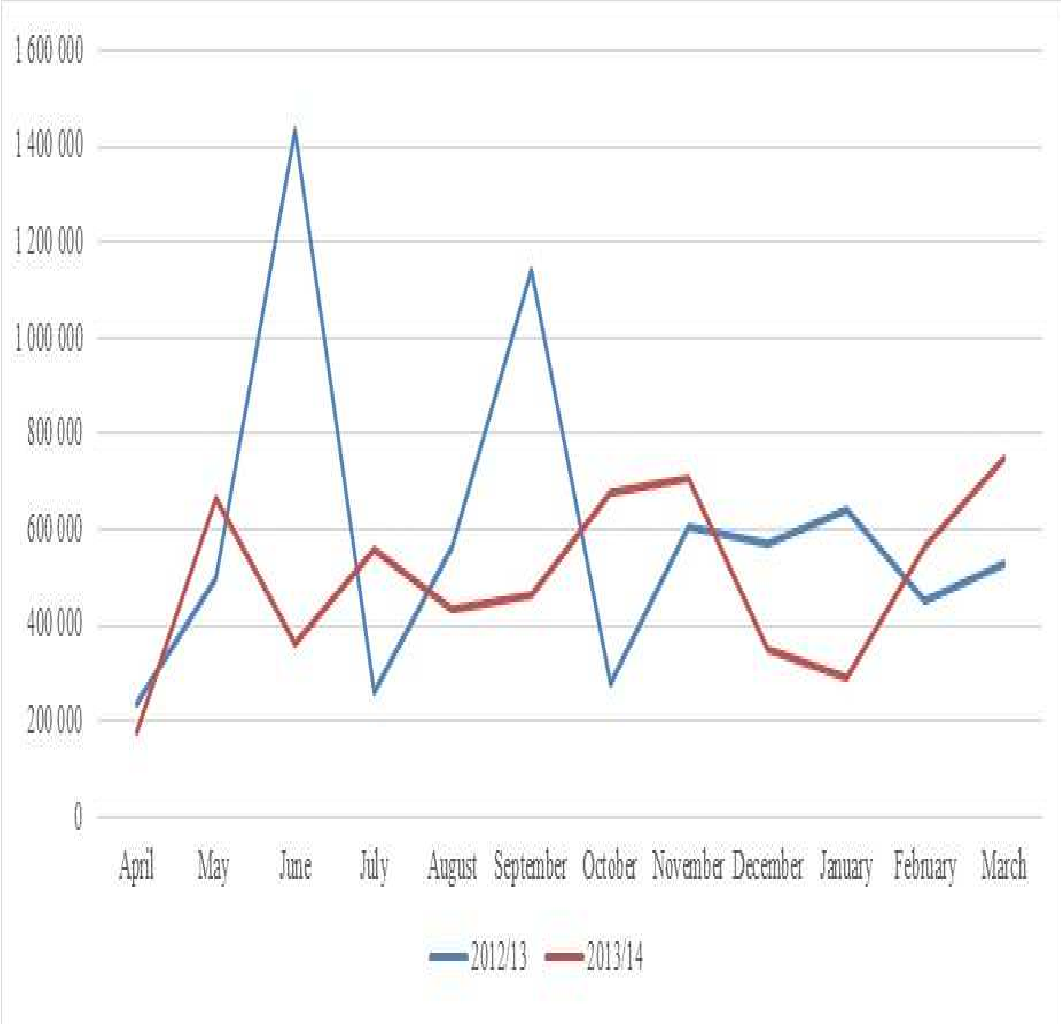
In-Year Expenditure

- 2012/13 in-year spending erratic
- Appears to be improving in 2013/14 – variances in monthly spending not as large as during 2012/13
- Concern with poor in-year spending is that it hints at unstable cash flow and disbursements



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SELECTED SUB-PROGRAMME ANALYSIS: IMMOVABLE ASSET MANAGEMENT PROGRAMME

Real Year on Year Growth	**2011/12-2012/13**	**2012/13-2013/14**	**2013/14-2014/15**	**2014/15-2015/16**	**2015/16-2016/17**
Infrastructure (Public Works)	-33.5%	-9.7%	-28.1%	57.5%	-0.1%
Strategic Asset Investment Analysis	-67.7%	149.1%	10.4%	0.2%	1.0%
Operation Management	1.6%	-0.3%	0.5%	-0.4%	2.7%
Prestige Management	-51.5%	44.0%	-27.0%	-1.0%	-28.5%
Special Projects	4.0%	47.6%	-24.7%	1.8%	0.4%
Construction Industry Development Board	-3.4%	2.0%	1.6%	0.4%	0.2%
Council for the Built Environment	-7.7%	28.8%	4.3%	1.4%	0.2%
Parliamentary Village Management Board	-0.6%	0.1%	1.1%	-0.4%	0.5%
Augmentation of the Property Management Trading Entity	-3.2%	0.5%	-6.0%	-0.1%	0.6%
Independent Development Trust	-68.1%	-6.3%	-4.7%	-4.8%	-100.0%
Total	**-14.0%**	**-37.8%**	**-8.6%**	**10.1%**	**-0.7%**

- Total programme growth declines over most of the period reviewed
  - Decline in 2012 and 2013 is due to phasing out of devolution of property rates fund grant to provinces, non-completion of projects and Cabinet approved reductions due to underspending
- Generally sub-programme trends are erratic, brings into question soundness of planning in DPW
- Lack of capacity a challenge in this programme – 10% vacancy rate

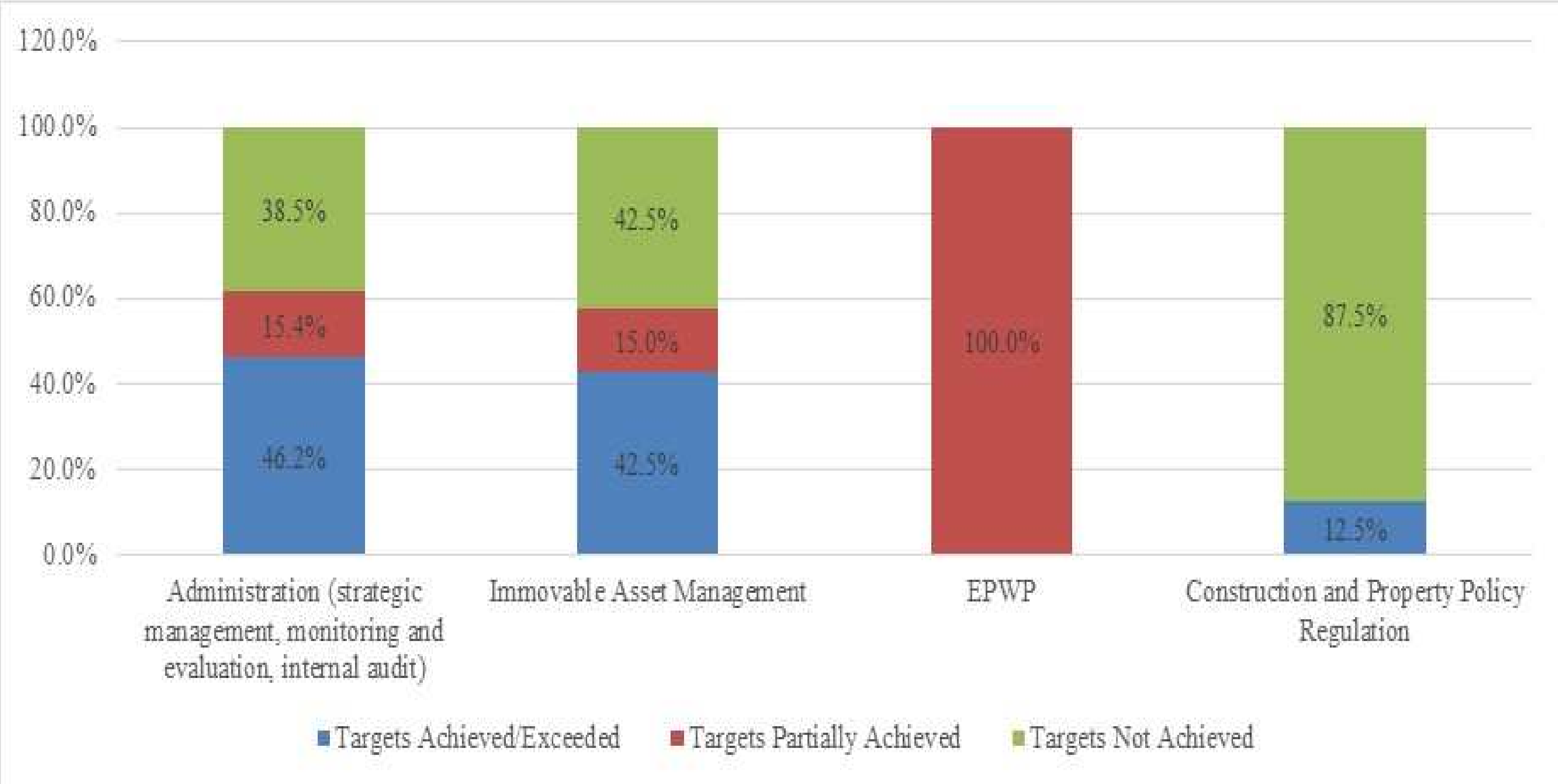
Selected Sub-Programme Analysis: Expanded Public Works Programme

R million	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Expanded Public Works Programme	209.7	236.8	273.8	261.5	267.7	290.6
Performance Based Incentive Allocations	953.3	1 467.3	1 674.2	1 689.8	1 739.2	2 104.6
Total	**1 163.0**	**1 704.1**	**1 948.0**	**1 951.3**	**2 006.8**	**2 395.2**
Real Year on Year Growth		**2011/12-2012/13**	**2012/13-2013/14**	**2013/14-2014/15**	**2014/15-2015/16**	**2015/16-2016/17**
Expanded Public Works Programme		12.9%	15.6%	-4.5%	2.4%	8.6%
Performance Based Incentive Allocations		53.9%	14.1%	0.9%	2.9%	21.0%
Total		**46.5%**	**14.3%**	**0.2%**	**2.8%**	**19.4%**

- EPWP promotes use of government expenditure to create additional employment opportunities through the use of labour-intensive delivery methods
  - Increases in 2012/2013 due to appointment of service providers to support provinces and municipalities in design of infrastructure projects and reporting methods
- Performance Based Incentive Allocations is the largest sub-programme
  - Focus: disburses funds to provinces/municipalities and NGOs to ensure creation of work opportunities in infrastructure, environment, social sectors
  - Increases between 2012 and 2013 are due to additional funding allocated. However to give effect to Cabinet-approved reductions, growth in this sub programme slows in 2014 and 2015
- Overall between 2009/10 and 2012/13, just over 3 million jobs created (68% of target of 4.5 million jobs)

Departmental Performance

- Department not adequately meeting targets set.
  - Number of targets partially met and totally unmet exceptionally high



Departmental Performance [cont.]

Programme	Explanation for Unmet Targets
Administration	Delays due to lack of capacity/high vacancy rate, unrealistic targets given financial resources, lengthy procurement processes that delay appointment of service providers
Immovable Asset Management	Appropriate supply chain management process not followed, unrealistic target setting, inadequate data collection to verify extent to which target was met
EPWP	Delays in project implementation, lack of technical capacity to implement projects, poor performance on part of municipalities/provinces to carry out projects
Construction and Property Policy Regulation	• Legislative framework for Built Environment Professionals: delays in internal consultation • Establish Agrement SA as public entity: delay in the approval of business case • Provide immovable asset lifecycle management guidelines to national and provincial custodians of immovable assets: delay in internal consultation prevented finalisation

ASPECTS HIGHLIGHTED BY THE AUDITOR-GENERAL

- DPW audit outcomes:
  - 2009/10: qualified with findings
  - 2010/11:disclaimer
  - 2011/12: disclaimer
  - 2012/13: qualified with findings
- Key issues highlighted by Auditor-General that need to be addressed:
  - Inadequate internal controls in areas of leadership, financial management, performance management and governance
  - Areas that were identified for specific attention through the turnaround project include: lack of controls in supply chain management, poor lease management, inadequate immovable asset register, lack of built environment and property management skills

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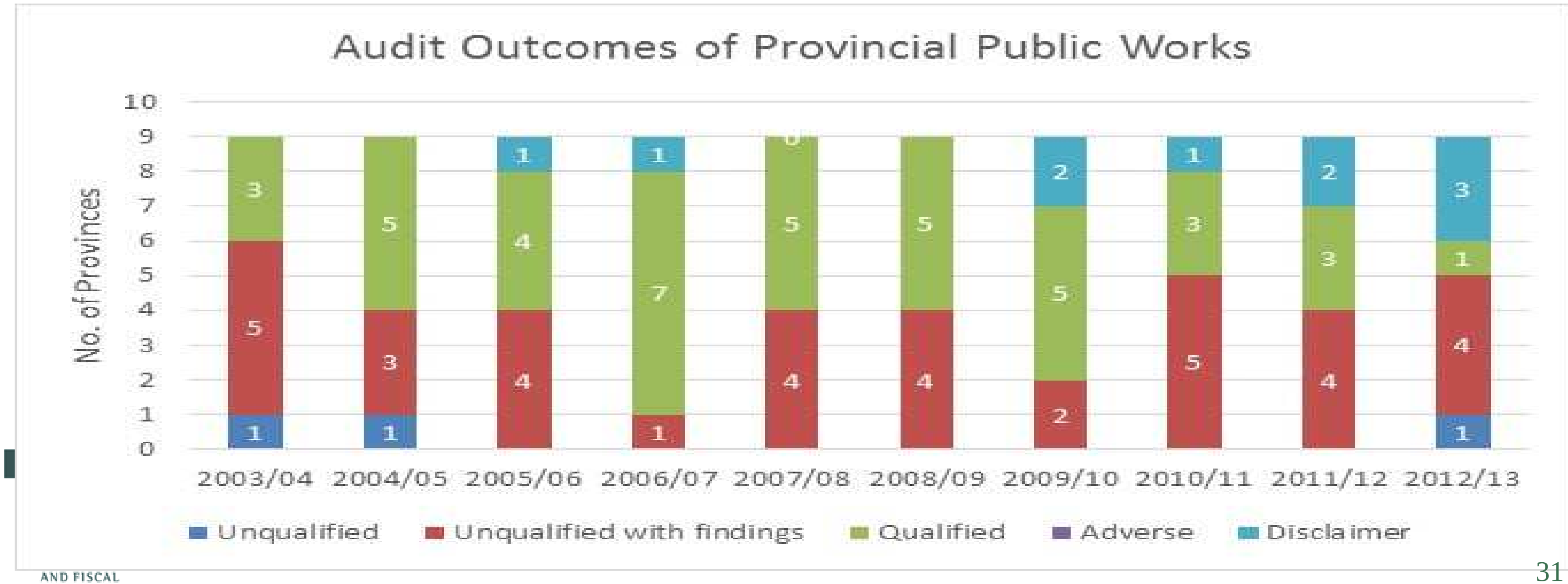
PUBLIC WORKS IN THE PROVINCES

PROVINCIAL AUDIT OUTCOMES

- Audit outcomes for provincial departments of public works have not considerably improved in since 2003/04
  - Four out of the nine provinces received a qualified opinion or disclaimer in 2012/13
  - Over a period of 10 years (i.e. 2003/4 – 2012/13), only 3 provincial departments of public works received an unqualified audit opinion



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PROVINCIAL AUDIT OUTCOMES [CONT.]

- The Auditor-General raised a number of matters that prevented provincial departments from achieving clean audits such as:
  - Instability in leadership and lack of human resources
  - Internal controls are ineffective
  - Action plans to implement improvement in audit outcomes are not timeously implemented
  - Inaccurate and incomplete fixed asset registers
  - Incomplete disclosures on unauthorized, irregular and fruitless, irregular and wasteful expenditure
  - Commitments by the national sector department to intervene and/or provide support were not honoured
- The Commission's view is that DPW should play a more active role, through the various intergovernmental forums, in providing the necessary support to provincial departments of public works

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Spending Performance by Provinces on EPWP Conditional Grants

- The National Department of Public Works is the transferring agent for two EPWP conditional grants to provinces
- As the transferring agent, the responsibilities of the DPW are prescribed in the conditional grant framework contained in the Division of Revenue Act. These include (among others):
  - Determine eligibility of grant, monitor and provide support to provinces, audit provincial performance and report to national treasury on provincial progress

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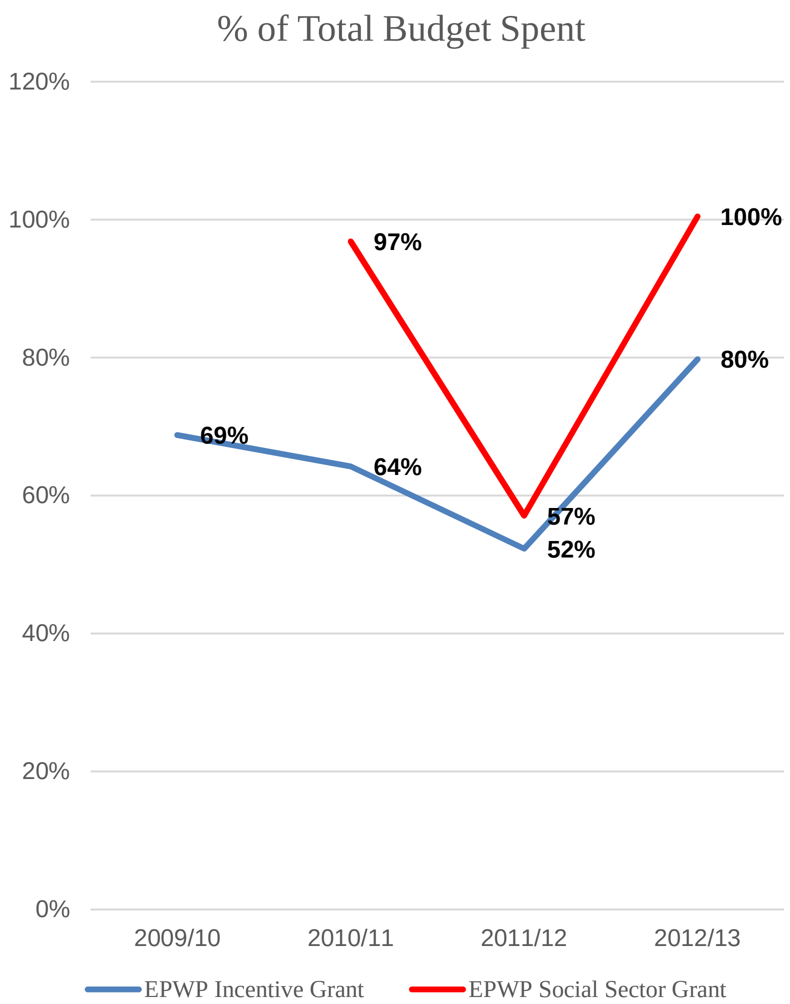
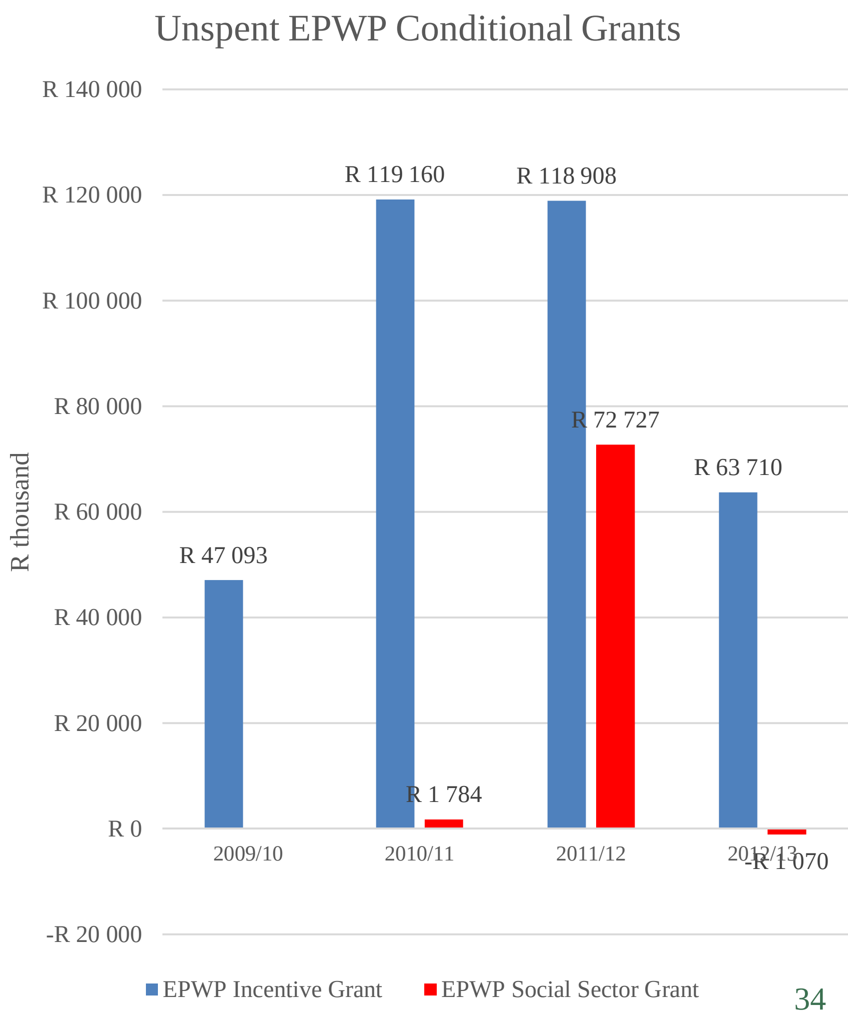
EPWP Conditional Grants to Provinces





Summary of Performance on EPWP Grants to Provinces

- Over a four year period (2009/10 – 2012/13), provinces have been unable to spend more than 80% of its allocation to the EPWP Incentive Grant in any given year
- Except in 2011/12 where spending on both EPWP grants were below 60% of total, the EPWP Social Sector grant in general, performed better than the Incentive grant
  - Provinces have challenges relating to infrastructure, which affects the spending performance on the Incentive grant
- In many instances, provinces fail to comply with grant conditions stipulated in DORA, resulting in funds being withheld, thereby leaving funds unspent at the end of the year

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CONCLUDING REMARKS

- Key issues emanating from analysis of DPW
  - Underspending of budget
  - Not meeting set targets
- For the sector to turnaround, the DPW should play a leadership role by providing the necessary support to the provinces and establishing minimum norms and standards to facilitate improvement in service delivery in the provinces
- Department to put in place proper systems to guide expenditure management, setting of appropriate key performance indicators and a plan to attract/retain skilled staff
  - Outcome of the Turnaround Project is key in facilitating progress – some improvements noted but far to go in putting DPW on stable footing

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FFC's Website: www.ffc.co.za