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Mr Lubabalo Nodada
Committee Secretary
Select Committee on Appropriations
Parliament of the Republic of South Africa
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Dear Sir

SAICA SUBMISSION ON THE DIVISION OF REVENUE BILL (B4-2010)

In response to your invitation for written submissions on the Division of Revenue Bill (B4-2010) that was tabled together with the 2010/2011Budget on the 17th February 2010 in Parliament, attached is the comment letter prepared by The South African Institute of Chartered Accountants (SAICA).

We thank you for the opportunity to make a written submission on this Bill.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours sincerely

Mohammed Lorgat
Project Director – Public Sector

GENERAL COMMENTS

SAICA feels that this is a very progressive step in the Budget Process of Government. It indicates transparency in the process and the impression that Government is prepared to listen. We do however feel that we should have access to the Financial and Fiscal Commission (FFC) prior to the Budget being tabled as some of the issues we wish to highlight could have been raised at an earlier stage.

COMMENTS ON SPECIFIC MATTERS IN THE BILL

As SAICA represents the Chartered Accountancy profession in South Africa we are knowledgeable to comment effectively on the financial management and financial governance aspects of the Bill. It is for this reason that we have focussed on Chapter 8 of the explanatory memorandum to the Bill and this is copied below:

"Chapter 8: Assessment of the institutional and fiscal capacity support mechanisms of local government"

FFC Recommendations

"The FFC recommends that local government should be central to setting the agenda for capacity-building programmes in recognition of the fact that municipalities remain accountable for their own performance until such time as section 139 of the Constitution is invoked. Capacity programmes should be informed by a local government performance management system which is driven by key performance indicators. Prior to capacity programmes being developed and implemented at a local government level, a comprehensive assessment and design process should be undertaken. Capacity-development programmes should be aligned to each stage of the developmental transition of municipalities. There should be differentiated approaches in building capacity. Capacity-development programmes should be comprehensive and not only focus on training of personnel and deployment of experts within municipalities. They must also focus on other organisational, fiscal and institutional constraints that impact on the overall performance of municipalities.

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

municipality, and identifying key leverage points where capacity programmes can make a difference.

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

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

Government response

"Government agrees that local government capacity should be streamlined to enhance its performance. Through various initiatives, such as the local government turnaround strategy and implementation of municipal budgeting and reporting reforms, government is looking at measures to improve service delivery at local level.
The current local government capacity grant frameworks have clear outlines of measurable objectives, targets, conditions and timelines.

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

SAICA Comments

We note and generally agree with the comments above. We also support Governments view that Siyenza Manje not be allocated through the division of revenue. We are however concerned that around two broad issues:

- The lack of co-ordination or accountability for local government capacity building initiatives between different but related Government Departments (Cooperative Governance and Traditional Affairs and National Treasury).
- The non-allocation of any funds to the DBSA in the 2010 MTEF Budget for capacity building;

These two issues were identified in a high-level review of the explanatory memorandum and a detailed review around the Capacity Building sections of the Bill.

The first issue on the lack of co-ordination is highlighted due to the following:

Table W1.27 on page 89 of the Bill reflects capacity building and other current transfers to local government for the financial periods 2006/07 – 2012/13. The table

makes very interesting reading. It is split between direct transfers and indirect transfers.

Under direct transfers for the 2010/11 financial year there is R212m allocated to Municipal Systems Improvement Grant and R365m allocated for Financial Management grant. What Table W1.27 does not reflect is that the R212m is allocated to the Department of Cooperative Governance and Traditional Affairs Vote 3 and the R365m is allocated to National Treasury Vote 9. This information is obtained from Schedule 6 of the Bill on page 45. The total of these two allocations amounts to R577m for the 2010/2011 year.
What is concerning about this is that both the Municipal Systems Improvement initiative and the Financial Management initiative are similar and are interrelated. This is based on the explanations of these initiatives that is reflected on page 90 of the Bill and which are copied below:

"The *municipal systems and improvement grant* aims to assist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance systems. Key aims of this programme are to develop planning capacity and build governance systems. The grant receives R673 million in the 2010 MTEF."

"The *financial management grant* aims to support sustainable management of the fiscal and financial affairs of municipalities. The grant promotes multi-year budgeting, linking integrated development plans to budgets and producing quality reports. The grant is allocated R1.2 billion in the 2010 MTEF."

In the preamble to Table W1.27 one of the sentences read as follows: "Although substantial resources have been committed over recent years towards local capacity-building efforts, concerns have been expressed that these have not had a measurable impact on capacity."

We feel that this sentence is valid and going forward if the efforts and funds allocated to capacity-building are not cohesively integrated or coordinated then unfortunately the measurable impact on capacity that the Government is striving towards, will still not materialise.

We feel that the capacity building initiative budgets should be combined and accountability or responsibility for this should be allocated by the Presidency to one Department. It is critical that this Department that is tasked with the capacity building mandate and budget will need to set up a project team and involve other relevant stakeholders (other Departments, other relevant public sector entities and relevant private sector entities) in order to effectively implement the capacity-building or turnaround strategy.

The second issue on the non–allocation of funds to the DBSA in the 2010 MTEF is highlighted due to the following:

Under indirect transfers in Table W1.27 there is a line item – Financial management grant: DBSA. From 2006/07 year to the 2008/09 year an average of R52m is allocated per year to this initiative. From the 2009/10 year onwards the allocation is NIL.

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This is concerning for SAICA from various aspects:

- The FFC and Government considerations under Chapter 8 appear frivolous as there are no funds allocated to the DBSA for the 2010 MTEF which translates that no funds are allocated to the Siyenza Manje initiative.
- SAICA have been involved in the Siyenza Manje initiative in Gauteng and there have been positive impacts on the audit outcomes. We admit one of the shortcomings of the Siyenza Manje initiative is that the desired capacity-building or skills improvement aims have not been satisfactorily achieved.

We submit that the Siyenza Manje initiative was successful in addressing the short-term needs of Municipalities from a financial management perspective. We feel that the non-allocation of funds to this initiative will ultimately result in its closure. We request that another initiative along the lines of the Siyenza Manje initiative be undertaken within the capacity-building budget allocated in the 2010 MTEF of approximately R1,87 billion. The delivery model may be different from the Siyenza Manje initiative with more focus on capacity-building and skills improvement however the successes of the Siyenza Manje initiative should not be discarded.

We as SAICA have identified financial management and financial governance in the public sector as key strategic initiatives where we as a profession can assist the Government and make a difference. We are currently working on a proposal/plan that focuses on addressing the financial management and financial governance capacity needs in the Public Sector in South Africa. The plan focuses on the entire finance function and other related functions within the entities concerned. In this regard SAICA will be glad to present their proposal to this Committee, the FFC and any other relevant audience in Parliament or within the public sector at large.