



BRIEFING TO THE PORTFOLIO COMMITTEE ON TOURISM STRATEGIC PLAN AND BUDGET 2013

16 March 2013

For an Equitable Sharing of National Revenue

PRESENTATION OUTLINE

- Role of FFC
- Background
 - Macroeconomic and fiscal outlook
 - Tourism trends
 - Intergovernmental Architecture
- Departmental Analysis
 - Annual reports, budget 2013 and SPP/APP 2013
- FFC Recommendations

ROLE AND FUNCTION OF THE FFC

- What?
 - Permanent statutory body established in terms of Section 220 of Constitution
 - Independent and subject only to Constitution and the law
 - Must function in terms of the National Legislation
- Mandate of Commission
 - Makes recommendations, envisaged in Chapter 13 of the Constitution or in national legislation to Parliament, Provincial Legislatures, and any other organs of state determined by national legislation
 - 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 (Section 3)
 - Current research strategy focuses on developmental impacts of IGFR

FFC PRIMARY OUTPUTS

- FFC's primary outputs/reports in terms of Section 221 of the Constitution
 - Annual Submission for the DoR
 - Submitted 10 months prior to tabling of the DoR Bill by Minister
 - Contains recommendations/proposals for the following fiscal year and MTEF
 - Submission on the MTBPS
 - Contains the FFC's response to the MTBPS and adjustments to the division of revenue
 - Submission on the DoR Bill
 - Submitted to Parliament in February and outlines the FFC's response to the DoR Bill and relevant annexure
 - Submission on Fiscal Frameworks and Revenue Proposals
 - Submitted to Parliament in March and outlines the FFC's response to the Budget and relevant annexure
 - Annual Report
 - Special reports made at own initiative or request by state organs



BACKGROUND

Briefing to the Portfolio Committees on Tourism

MACROECONOMIC AND FISCAL SITUATION

- South African economy expected to grow but at a slower rate: 2.5% in 2012 and 2.7% in 2013
- State debt is increasing (real terms, share of exp./rev.)
- Revised under-collection of revenue of R12 billion for 2012/13
 - Fiscus under pressure to close the budget deficit and reduce the debt to GDP ratio
- The 2013 budget makes lower additions to baseline compared to 2012 budget

TOURISM TRENDS (1)

R billion	2008	2009	2010	2011	2012	Ave Growth (per annum)
<i>GDP:Direct contribution</i>	68.2	70.3	80.3	86.8	100	2.54%
<i>GDP:Total contribution</i>	219.7	231.8	253.7	271.5	309.4	1.52%
<i>Visitor Exports</i>	74.4	71.7	73.9	75	93.7	-1.32%
<i>Domestic expenditure</i>	76.5	81.9	99.1	112.1	125.1	5.70%
<i>Infrastructure Investment</i>	48.6	46.5	42	45.8	51.1	-1.50%

Source: World Travel and Tourism Council (2008-12)

- Total contribution of tourism to GDP R309 billion in 2012 (i.e. 11% of GDP). If it grows at current rate of 1.52 % p.a., will fall short by R150 billion of NDP target of R499 billion by 2020
- Domestic expenditure on tourism shows fastest growth (5.7%) per annum. The global recession led to renewed focus on domestic tourism to cushion impact on local tourism industry. This is an area that NDT should further prioritize over the MTEF.
- Infrastructure investment in tourism has fallen over the five years largely from a slowdown in the local economy, although in 2012 significant improvement as the economy started picking up. Will require significant future investment to continue growing the sector

TOURISM TRENDS (2)

	2008	2009	2010	2011	2012	Avg Growth (per annum)
Employment ('000) in the Tourism sector						
<i>Direct Contribution</i>	617.8	559.2	568.1	569.9	619.6	0.002%
<i>% Contribution of Total employment</i>				9.0%	10.3%	

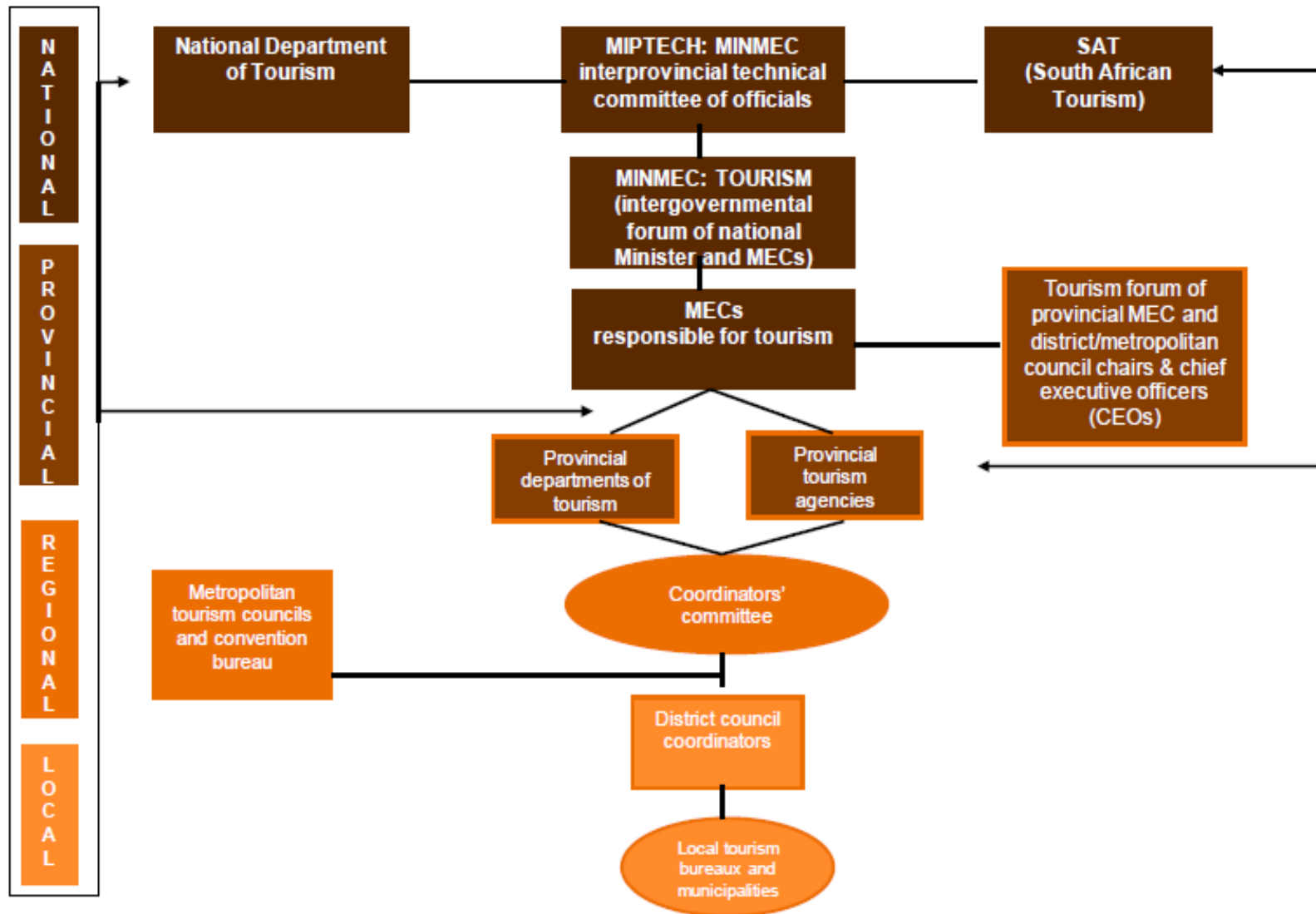
Source: World Travel and Tourism Council (2008-12)

- Tourism labour –intensive sector and significant contributor to total employment (10.3% in 2012)
- Marginal gain in tourism jobs over the five years
 - Job creation in tourism sector negatively affected by the slowdown in the domestic and global economy

POLICY CONSIDERATIONS

- National Development Plan (NDP)
 - Tourism sector important driver of growth and poverty reduction
 - Tourism sector targets for 2020 creation of 225 000 jobs and total direct and indirect contribution to GDP of R499 billion by 2020
- State of Nation Address
 - Tourism identified as one of the major job drivers
 - Payment of SMMEs within 30 days
 - Private sector investment in tourism needed (tax incentive for employing young people)
- New Growth Path
 - Tourism key sector for employment creation (225 000 jobs by 2015)
 - Quality assurance, training, tourism infrastructure, youth employment and support cultural industries main enablers

INTERGOVERNMENTAL ARCHITECTURE (1)



Source: NTSS (2011)

MAIN INTERGOVERNMENTAL CHARACTERISTICS OF TOURISM SECTOR

- Tourism listed as a concurrent function in the Constitution (Schedule 4B)
- National Minister and provincial MECs for Tourism discuss national tourism policy matters at MINMEC for Tourism
- National Department responsible for national policy development whilst provincial departments of tourism formulate and legislate on provincial tourism policy and strategy
- South African Tourism (SAT) is a public entity under NDT and is responsible for international and domestic marketing. Each province also has a similar structure to implement provincial tourism marketing strategy
- Provincial and local municipalities have concurrent spatial planning functions in support of tourism and public infrastructure responsibilities
- Local municipalities responsible for the general maintenance and upkeep of tourist sites whilst the local tourism board registers tourism businesses and monitors minimum service standards in the locality

INTERGOVERNMENTAL FINANCING OF TOURISM

- National Department
 - Unconditional transfer (includes budget for public entity, and other sector priorities such as the tourism incentive programme)
 - Conditional transfer (EPWP)
- Provincial Departments
 - Unconditional provincial equitable share (includes budget for public entities such as provincial tourism agencies)
 - EPWP incentive grant from Department of Public Works (cross-sectoral; R356 million 2013/14)
- Local Municipalities
 - EPWP incentive grant from Department of Public Works (cross-sectoral; R611 million 2013/14)
- Local Tourism Boards
 - Transfer from local municipality and subscription fees from business sector

ACHIEVING DEVELOPMENTAL AGENDA

- The National Tourism Sector Strategy (2011) (NTSS) good blueprint for the sector to achieve the developmental objectives of government (i.e. Pro-poor job creation, rural development, etc)
- Successful implementation of the NTSS can only take place if provincial departments and municipalities align their plans with the strategy and provide sufficient funding to implement the strategy
- The Tourism Bill (2012) key lever to promote the growth and development of the tourism sector
- Given the prevailing economic environment, unlikely to see a significant injection of funds. To achieve the targets in NDP, NDT should focus on strategic interventions that will have multiplier effects in the sector.



DEPARTMENTAL ANALYSIS

Briefing to the Portfolio Committees on Tourism

BACKGROUND TO NATIONAL DEPARTMENT OF TOURISM (NDT)

- **Four main programmes:** Administration, Policy and Knowledge Services, International Tourism and Domestic Tourism
- **Medium-term priorities:** Address scarce skills in the sector, support job opportunities, sector transformation and integration of tourism (E.g. Maluti Drakensberg route between SA and Lesotho) with regional partners
- NDT established as a stand-alone department in 2009
- The department is responsible for one public entity (i.e. South African Tourism).

— Main responsibility is to market South Africa internationally and domestically

PROGRESSION OF PROGRAMME SPENDING AND MTEF BUDGET

Programme expenditure & estimates (Rands in million)	2009/10 (million)	2010/'11 (million)	2011/'12 (million)	2012/'13 (million)	2013/'14 (million)	2014/'15 (million)	2015/16 (million)	2009/10 - 12/13 Real Ave Growth P.A	2013/14 - 15/16 Real Ave Growth PA
Administration	80	156	195	192	206	221	227	34.8%	0.6%
Policy and Knowledge Services	715	644	694	793	876	924	931	-0.4%	0.4%
International Tourism	11	26	22	42	50	52	54	68.7%	3.7%
Domestic Tourism	340	317	339	347	370	496	701	-3.7%	22.2%
DEPARTMENT OF TOURISM	1 146	1 144	1 250	1 374	1 501	1 694	1 911	1.8%	6.5%

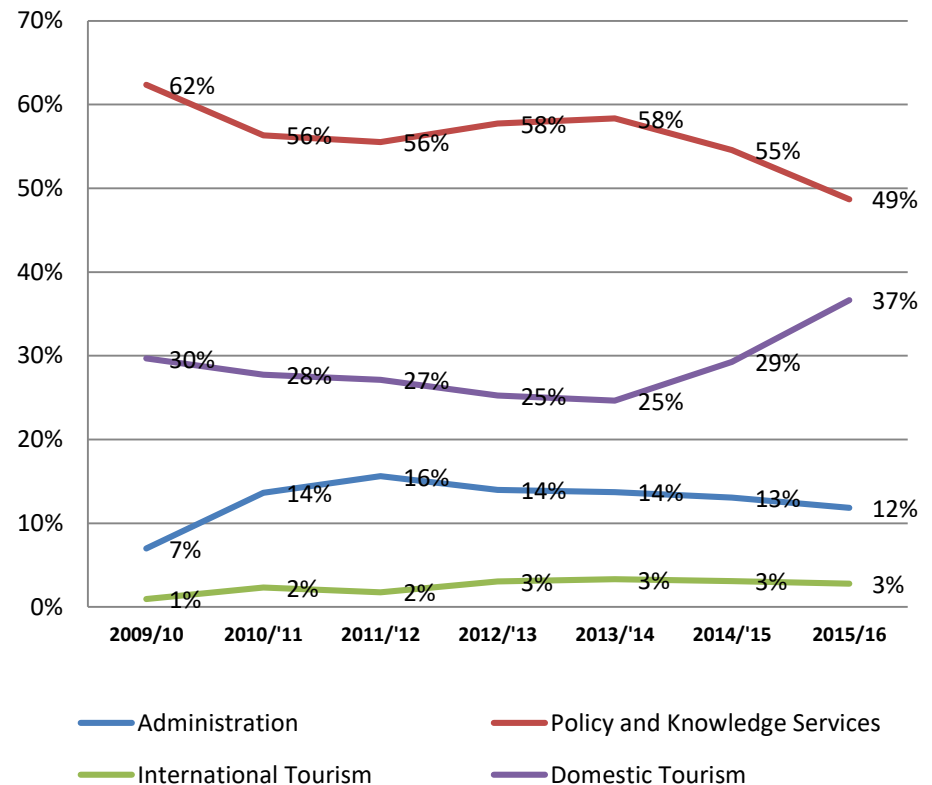
- Average departmental spending increased in real terms by 1.8% per annum (after taking inflation into account) compared to 6.5% expected over the MTEF period
- The major programme cost drivers for the period 2009/10 – 2012/13 is *Administration* as a result of becoming a new stand-alone department and *International Tourism* from the increased implementation of bilateral and multilateral engagements and a new programme structure implemented

• *Domestic tourism* is a major cost driver over the MTEF as a result of the transfer of the tourism incentive programme from DTI to DOT and infrastructure projects under

PRIORITIZATION OF SPENDING AND MTEF BUDGET

- *Domestic tourism* is being prioritised over the MTEF period, whilst *policy and knowledge services* as a share of the total budget declines over time
- Clear shift in spending from consumption (via marketing of tourism through *policy and knowledge services*) to investment in enterprises for job creation purposes (i.e. tourism incentive program through *domestic tourism*)

Percentage Share of Total Spending and MTEF Budget



PROGRESSION OF LINE ITEM SPENDING & MTEF ESTIMATES

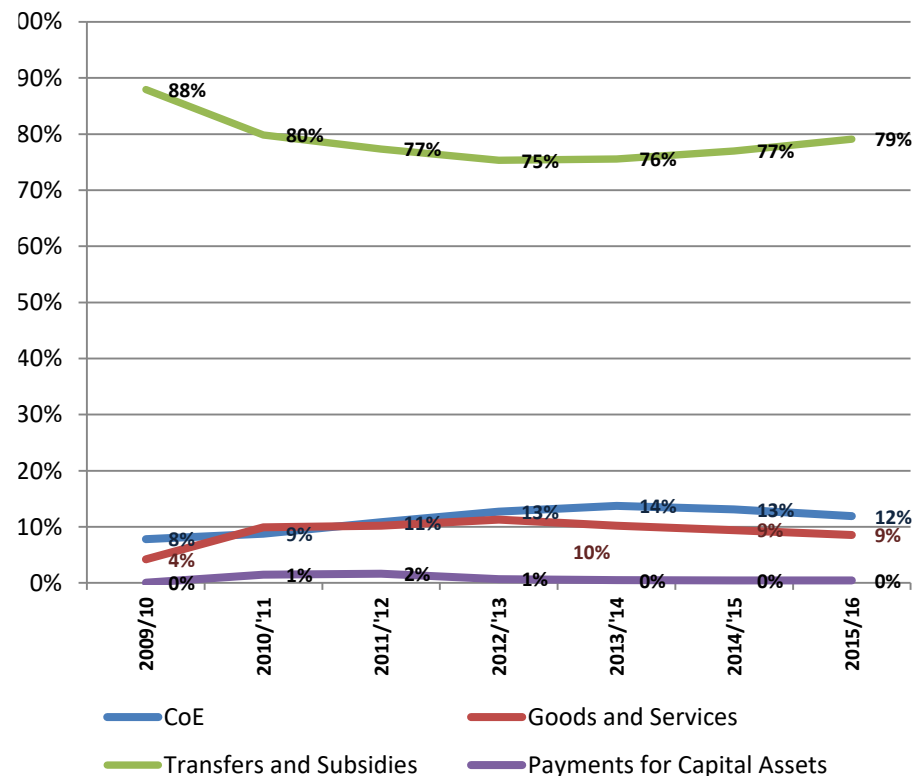
Economic Disaggregation of Dept Budget (Rand)	2009/10 (million)	2010/'11 (million)	2011/'12 (million)	2012/'13 (million)	2013/'14 (million)	2014/'15 (million)	2015/16 (million)	2009/10 - 12/13 Real Avge Growth P.A	2013/14 - 15/16 Real Avge Growth PA
CoE	90	100	135	175	206	222	228	20.8%	4.3%
Goods and Services	48	114	128	155	153	160	163	50.9%	-3.3%
Transfers and Subsidies	1 008	913	967	1 034	1 134	1 304	1 512	-4.6%	8.4%
Payments for Capital Assets	0	17	21	10	8	8	8	1350.6%	-9.3%
TOTAL DEPT EXP. & ESTIMATES:	1 146	1 144	1 250	1 374	1 500	1 694	1 911	1.8%	6.5%

- COE increased by 20.8% per annum in real terms from 2009/10 – 2012/13 mainly from filling vacant posts and increases by 4.3% over the MTEF from improved conditions of service
- Goods and services increased in real terms by 50.9% p.a from 2009/10 – 2012/13, but declines by 3.3% over the MTEF. The major cost drivers were office rental, property payments, computers, furniture, the use of contractors and travel and subsistence
- Transfer and subsidies declined in real terms from 2009/10 – 12/13 by 4.6%, but increases again over the MTEF by 8.4% largely from the additional funds received for the tourism investment program

LINE ITEM SHARE OF TOTAL EXPENDITURE & MTEF BUDGET

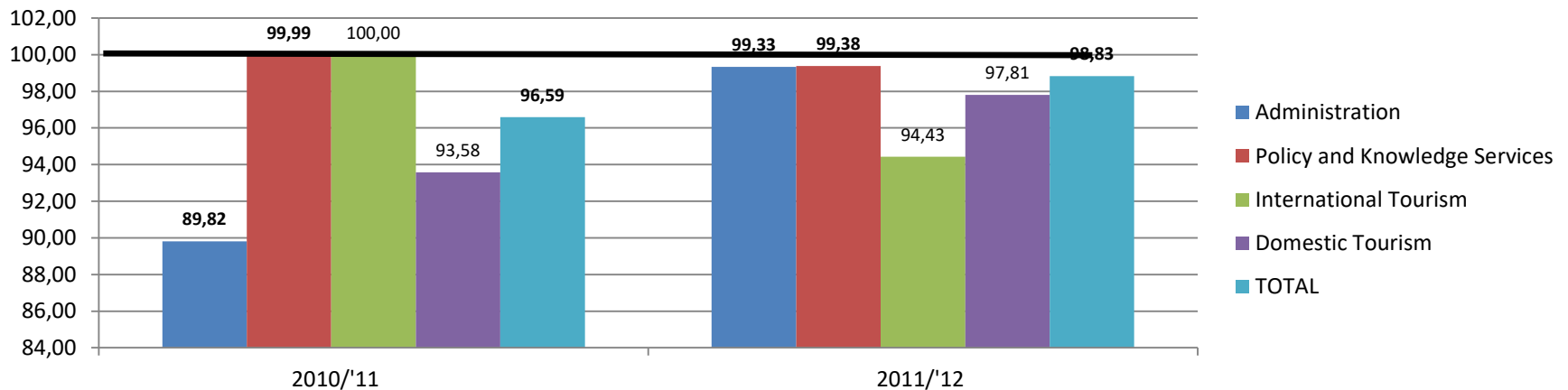
- *Transfers and subsidies* comprise the bulk of the total expenditure and budget of NDT, but declined significantly as a share of total expenditure from 88% in 2009/10 to 75% in 2012/13 largely because funds redirected to startup the new department
- *COE* and *Goods and Services* have both increased over time from employing more staff and office consumables after setting-up stand-alone department
- Over the MTEF, COE continues to increase whilst *Goods and Services* decline from reprioritization and cost savings initiatives

Share of Total Expenditure and MTEF Estimates



SPENDING PERFORMANCE (FISCAL DISCIPLINE) (1)

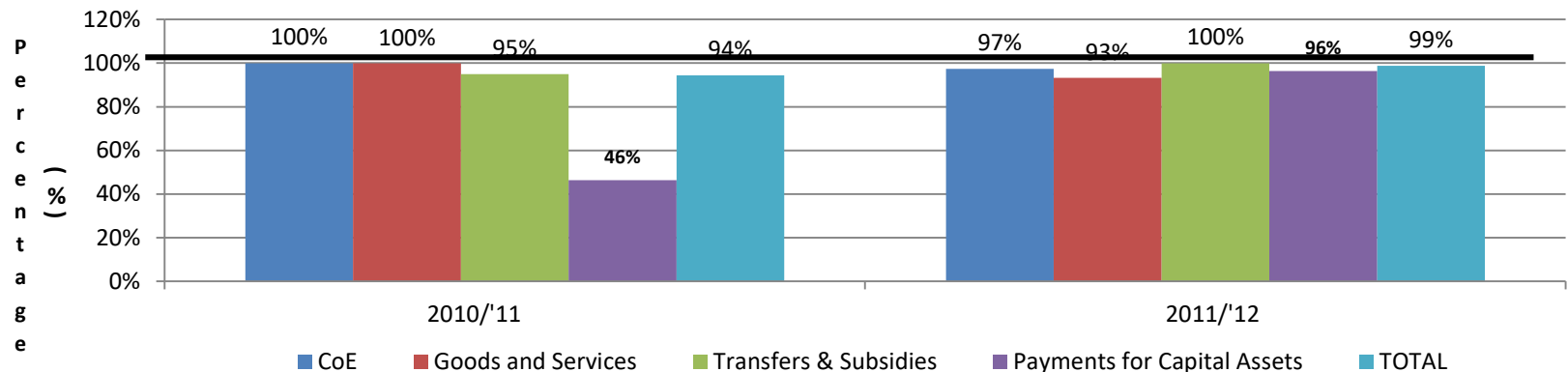
Spending per programme



- NDT spent 96.5% of total budget in 2010/11 compared to 98.8% in 2011/12
- *Administration* (10%) and *domestic tourism* (6%) the main programmes that underspent in 2010/11 , whilst international tourism (5.5%) had largest share of underspending in 2011/12.
- Underspending over the two years are not by the same programmes, implying no underlying chronic problem, but rather one of poor planning in a particular year or unforeseen events arising and ability to correct for this the following year

SPENDING PERFORMANCE (FISCAL DISCIPLINE) (2)

Spending by Line Item Category

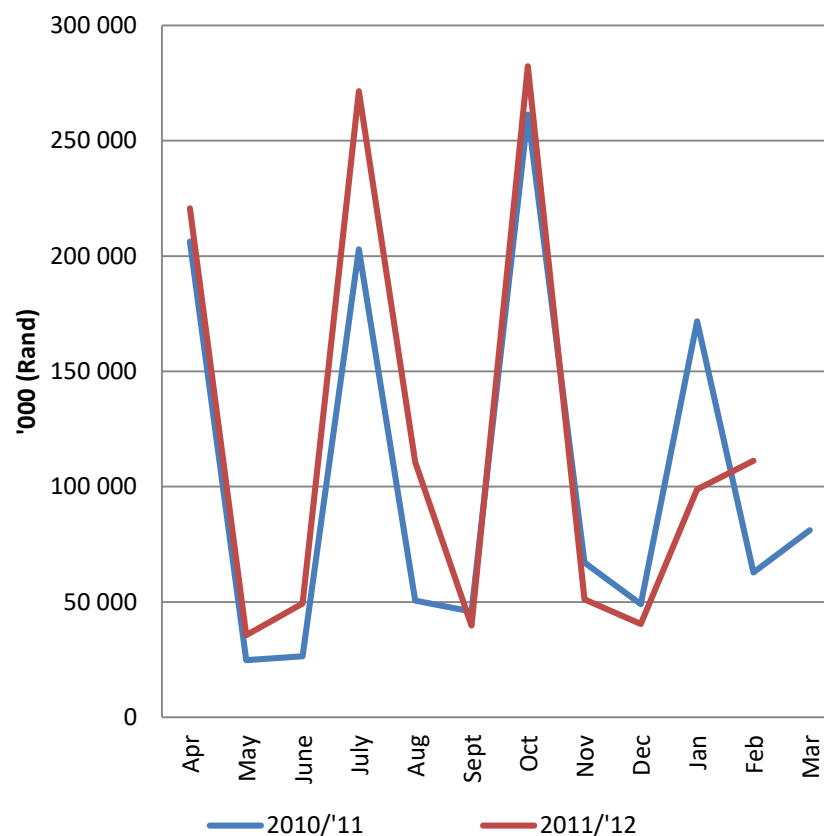


- Main areas of underspending in 2010/11 were capital assets (54%) and transfers and subsidies (6%). Reasons cited were commitments for furniture and security installations (goods and services), whilst R20 million public works subsidy could not be obtained because department did not meet the criteria (transfers)
- Main areas of underspending in 2011/12 were goods and services (7%), capital payments (4%) and COE (3%). Reasons cited were a tender worth R6.9 million cancelled and vacancy rate of 9.4%. However, the department had a vacancy rate target of 10% for 2011/12 (from 19% in March 2011), suggesting the Department exceeded its target and still underspent. This implies the budgeting and human resource functions of the department are not well synchronised.

IN-YEAR SPENDING PROFILE

- The department spent 95% of its total budget by February 2013 compared to 92% of total budget at the same time last year (i.e. February 2012) against a benchmark of 92%. The department is therefore close to overspending its budget for 2012/13. No reason provided for the 3% higher than anticipated spending performance in February 2013
- A definite spending cycle is observed over the two years, with April, July, October and to a lesser extent January, typically high spending months, largely because of transfer payments to public entities
- By smoothing expenditure through phasing of transfers to entities across each quarter, the department can improve cash efficiency (E.g. increase savings)

DOT In-Year Spending Profile



FRUITLESS AND WASTEFUL EXPENDITURE

YR	Opening Balance	Amounts for the year	Amounts condoned	Amounts written off/not condoned	Awaiting Condonement
2011	0	28	0	0	28
2012	28	203	231	0	0

- An amount of R203 000 fruitless and wasteful expenditure for 2011/12 mainly from unused tickets that could not be recovered

IRREGULAR EXPENDITURE

YR	Opening balance	Amounts for the year	Amounts condoned	Amounts written off/not condoned	Awaiting Condonement
2011	0	208	0	33	175
2012	175	17 296	17 471	0	0

- Irregular expenditure relates to the non-approval of items and changes to the business plan without approval for the EPWP amounting to R17.2 million
- Forensic audit investigation into 51 projects and a further 11 projects identified

SUMMARY OF FINANCIAL ASSESSMENT

(1)

- Difficult to assess the overall service delivery impact of the total departmental budget spent because South African Tourism's annual report not consolidated with departmental annual report
- The biggest challenge for the department is to make sure it gets value for money from the funds disbursed.
 - Forensic audit investigation found misuse of state funds for EPWP projects, although some claims have not been verified by the audit but points to lack of proper internal controls relating to transfer payments
 - Monitoring and evaluation of transfer payments is generally weak in government departments
- In line with Government's 2013 MTEF guidelines, the department is spending more on investment initiatives such as job creation programs and training and capacity building (E.g. EPWP (16373 new jobs funded over MTEF), tourism enterprise partnership, training on food safety, etc)
- Funding of additional tourism infrastructure seems unclear

SUMMARY OF FINANCIAL ASSESSMENT

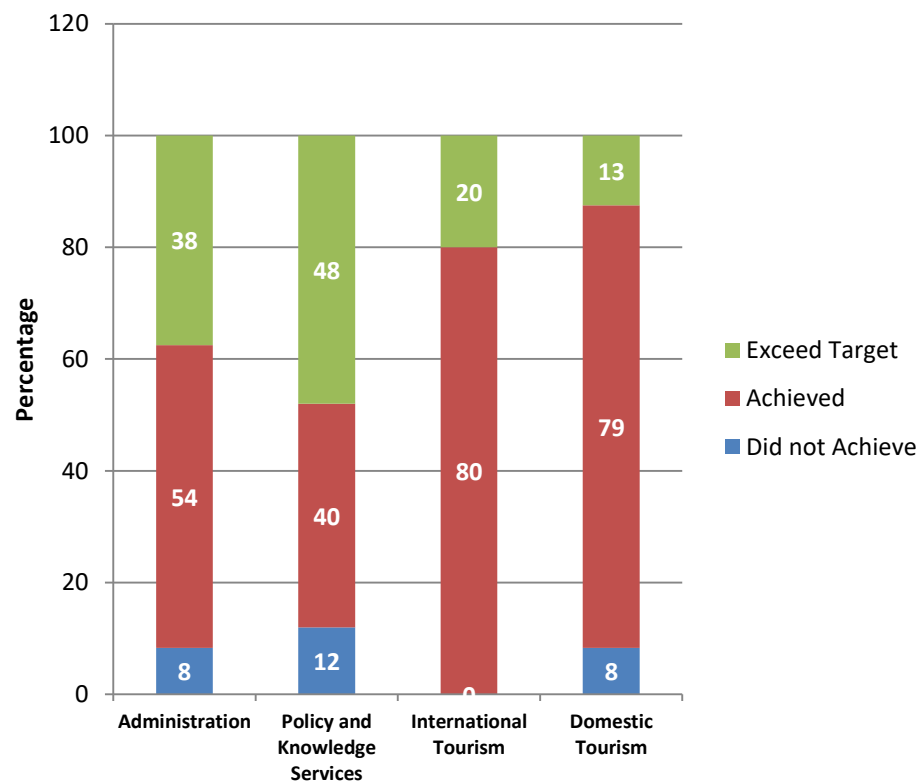
(2)

- There could be overlap of responsibilities between SAT and department regarding marketing SA internationally and domestically. Budget documents do not clarify respective mandates
- With the overall funding envelope of the department determined upfront, definite budgetary tension between allocation for SAT and the department for internal activities.
- Less likely to receive major unconditional cash injection, although substantial grant funding for job creation initiatives that the department can apply for

HOW WELL DID THE DEPARTMENT DO IN 2011/12

- DOT met or exceeded 92% of all its targets in 2011/'12
- By program, Administration met or exceeded 92% of its targets, Policy and knowledge Services 88%, International Tourism 100% and Domestic Tourism 92%
- Major reason cited for exceeding targets was better uptake and response to its initiatives (E.g. more workshops conducted).
- DOT did not overspend its budget despite 30% of targets exceeded, although by marginal amounts in most cases. Nevertheless, programs either implemented efficiently or some fat built into the budget

Achievement of Performance Indicators



QUALITY OF NON-FINANCIAL INFORMATION FOR OVERSIGHT PURPOSES

- Indicators are generally of good quality
- Continuity of reported indicators in 2010/11 and 2011/12 with baselines reported correctly in 2011/12 (i.o.w. actual achievement in 2010/11 reported correctly as baselines in 2011/12), suggesting department has sound M&E system in place
- Department implements a good practise with a mid-term review of its strategic plan, annual targets and resource allocation, noting the changes in the annual report
- Unclear why some indicators in 2010/11 not reported on in 2011/12 (E.g. Percentage of parliamentary questions with responses provided within specified time frames)

QUALITY OF NON-FINANCIAL INFORMATION FOR OVERSIGHT PURPOSES

- Some areas of improvement are the following:
 - Some baselines quantified in percentages only and should also include corresponding number for the purpose of oversight (E.g. ‘19% vacancy rates; % expenditure on procurement from BBBEE’)
 - Some indicators not measurable (E.g. ‘percentage implementation of workplace skills plan’). This indicator does not tell us how the skills plan is being measured.
 - Indicator definition and targets are not consistent (E.g. ‘No. of national tourism informational gateways operational’, but targets speak about ‘framework for NTIG developed’)
- The AG made no material findings on the reliability and validity of performance information at the department.

ALIGNMENT OF SPP/APP AND BUDGET 2013 AND ACHIEVING DEVELOPMENTAL GOALS

- Priorities in the SPP/APP in line with the New Growth Path although target of 225 000 jobs created in tourism by 2015 may not be achieved at current growth. NDP goal of 2020 more realistic given prevailing economic environment
- The department adhered to 2013 budget guidelines by re-evaluating baseline budgets and have identified savings and areas for cost reductions in SPP
- Expected funding for EPWP projects to be larger, although only moderate real increase in budget, despite emphasis on job creation in SPP
- Quality issues of performance information in SPP are similar to the issues picked up in the Annual report
 - Baselines in percentages (E.g. 100% compliance with legal service delivery charter)
 - Baselines not accurate (E.g. 11.53% vacancy rate)



FFC RECOMMENDATIONS

Briefing to the Portfolio Committees on Tourism

FFC RECOMMENDATIONS – 2013/14

ANNUAL SUBMISSION

- The Commission has made a number of wide-ranging recommendations on intergovernmental fiscal relations as part of its 2013/14 annual submission to Parliament

FFC RECOMMENDATIONS RELATED TO TOURISM – 2013/14 ANNUAL SUBMISSION

FFC Recommendation	Government Response
<p>Unemployment and job creation</p> <p>Government should re-direct government spending towards activities that directly or indirectly create jobs through enhancing productivity performance. Activities such as health care, durable goods manufacturing, agriculture, community services, and <i>hospitality</i> and food service should also form the basis of much of the expanded infrastructure expenditure plan which traditionally have gone chiefly to construction activities (e.g. building highways and bridges, dams and flood control structures).</p>	<p>Government already has a number of job creation initiatives</p> <p>NDT:</p> <p>Efforts to direct spending from consumption to investment and promotion of jobs (via EPWP, tourism incentive programme, etc)</p>

FFC RECOMMENDATIONS RELATED TO TOURISM – PREVIOUS SUBMISSIONS

FFC Recommendation	Government Response
<p>EPWP (2009/10)</p> <p>The FFC recommended that, in accordance with the prescripts of the expanded public works programme, job-creation target groups such as women, youth and people with disabilities should be included in the reporting of the outcomes measures</p>	<p>The recommendation for supporting on targets were supported</p> <p>NDT:</p> <p>For 2011/12, the department only reported on global job creation targets for EPWP. Perhaps this information is internal, but should still be published in the annual report for oversight purposes.</p>



THANK YOU.

*Financial and Fiscal Commission
Montrose Place (2nd Floor), Bekker Street,
Waterfall Park, Vorna Valley, Midrand,
Private Bag X69, Halfway House 1685*

www.ffc.co.za

Tel: +27 11 207 2300

Fax: +27 86 589 1038

Briefing to the Portfolio Committees on Tourism