FINANCIAL AND FISCAL COMMISSION

BRIEFING TO THE PORTFOLIO COMMITTEE ON TOURISM

19 October 2016

For an Equitable Sharing of National Revenue

Presentation Outline

1. Role and function of FFC
2. Tourism and National Tourism Sector Strategy in Context of Current Economic Climate
3. Departmental Analysis
4. Annual Report Analysis
5. Concluding Remarks

Appendix A. Previous FFC Recommendations

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1. 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

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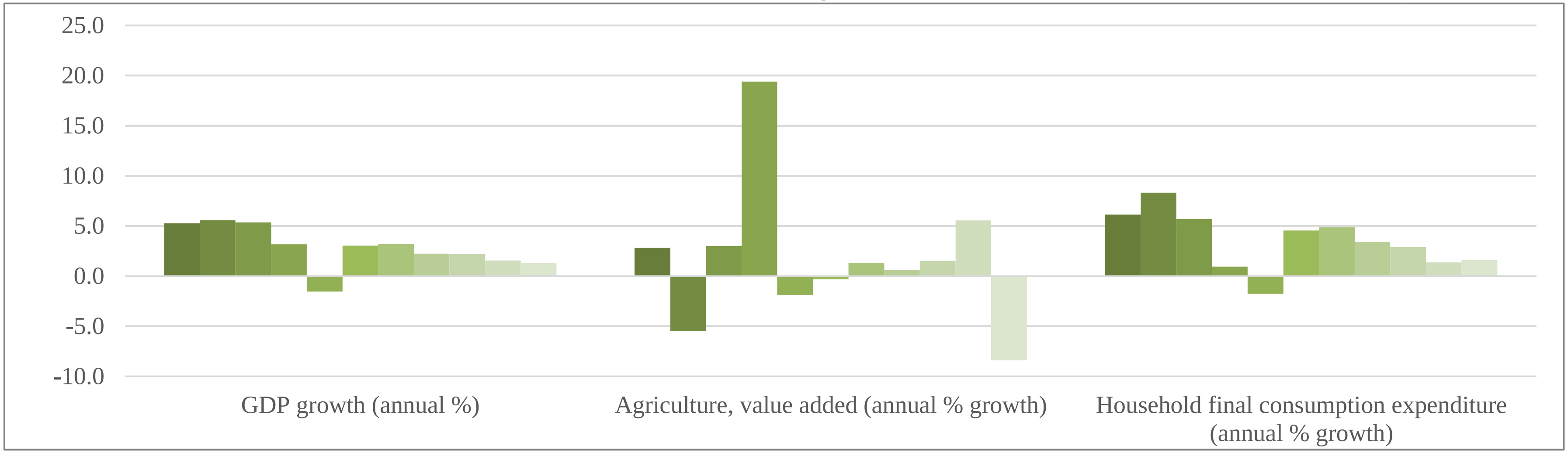
2. Tourism and National Tourism Sector Strategy in Context of Current Economic Outlook

MACROECONOMIC AND SECTOR BACKGROUND

Real Performances of South African Economy 2005-2015, Annual Growth (%)



Source: World Development Indicators, World Bank (2016)

- Gradual slowdown of the national economy
- Erratic patterns of agricultural growth
- Declining trends of households' final consumption expenditures
- Average annual growth rates of 3.3% and 3.2% for the national economy and agriculture over 2005-2014
- Tourism growing above national economy

National Tourism Sector Strategy (NTSS) Targets

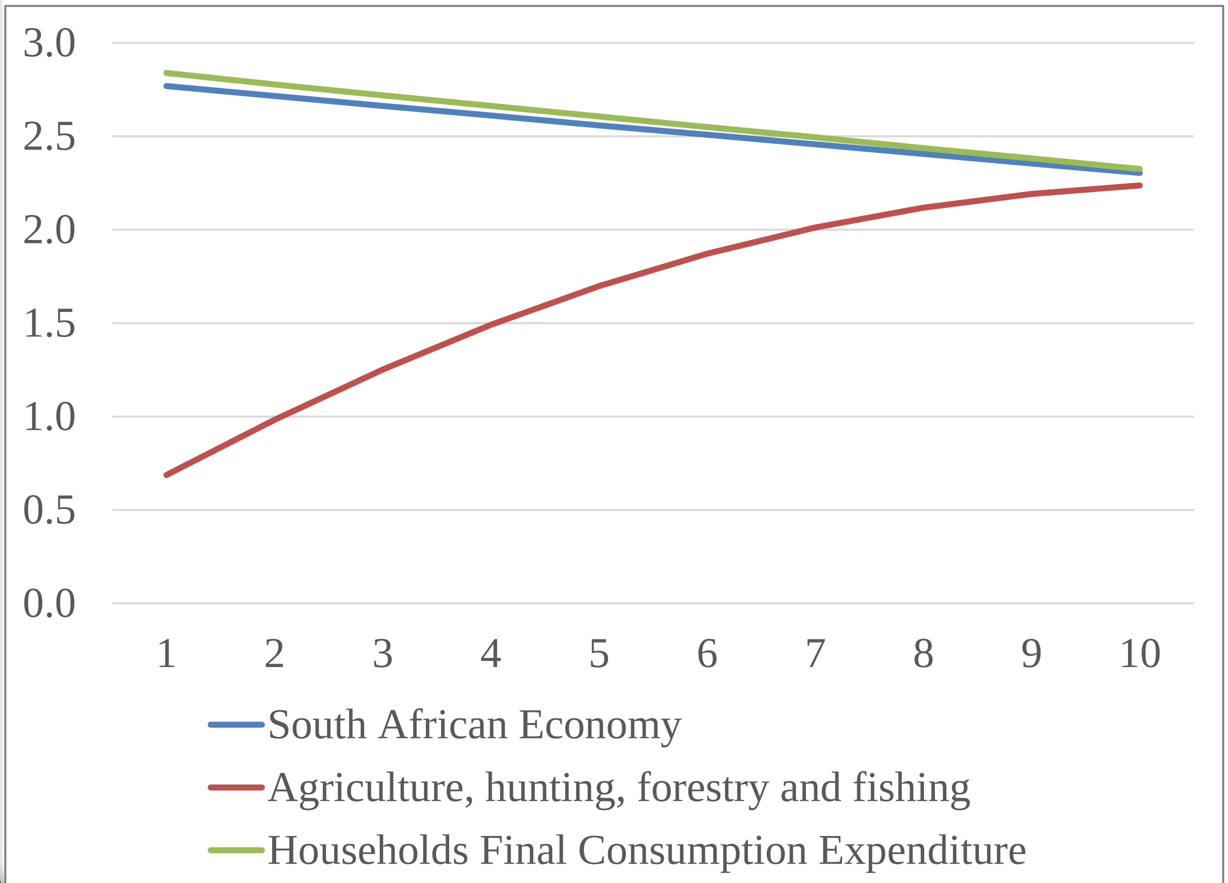
- *Arrivals* – 15 million foreign arrivals by 2020
- Domestic tourists to grow from 14.6 in 2009 to 18m by 2020 and total domestic trips to grow from 30m to 54m, with holiday trips increasing from 4m to 9m
- *Gross Domestic Product (GDP)* – Increase tourism's contribution to the GDP from an estimated R189.4 billion in 2009 to R499 billion by 2020
  - Contribution of domestic tourism to GDP to grow to 60% from 52% in 2009
- *Job creation* – the tourism sector is committed to consolidating its efforts to create jobs and aims to create 225 000 jobs by 2020 – 177 000 in the tourism sector and 48 000 through direct government investment

Assessment of NTSS

- Ambitious but realistic targets an essential component of South African tourism strategy
  - Targets relate to fundamental objectives of tourism policy explicitly concerned with national wealth creation and regional distribution
- Targets are few in number → maintains sharpness of focus in relation to key factors that determine performance of tourism
  - Help capture essence of contribution sector makes to national objectives
- Strategic targets, while not forecasts, provide a sense of direction for tourism policy and facilitate the prioritisation of actions to support the development of the tourism sector
  - Targets reflect assumptions about the future course of the underlying factors that affect tourism development. Therefore assessing realism crucial…

Simulation and Results: Assessing NTSS Feasibility

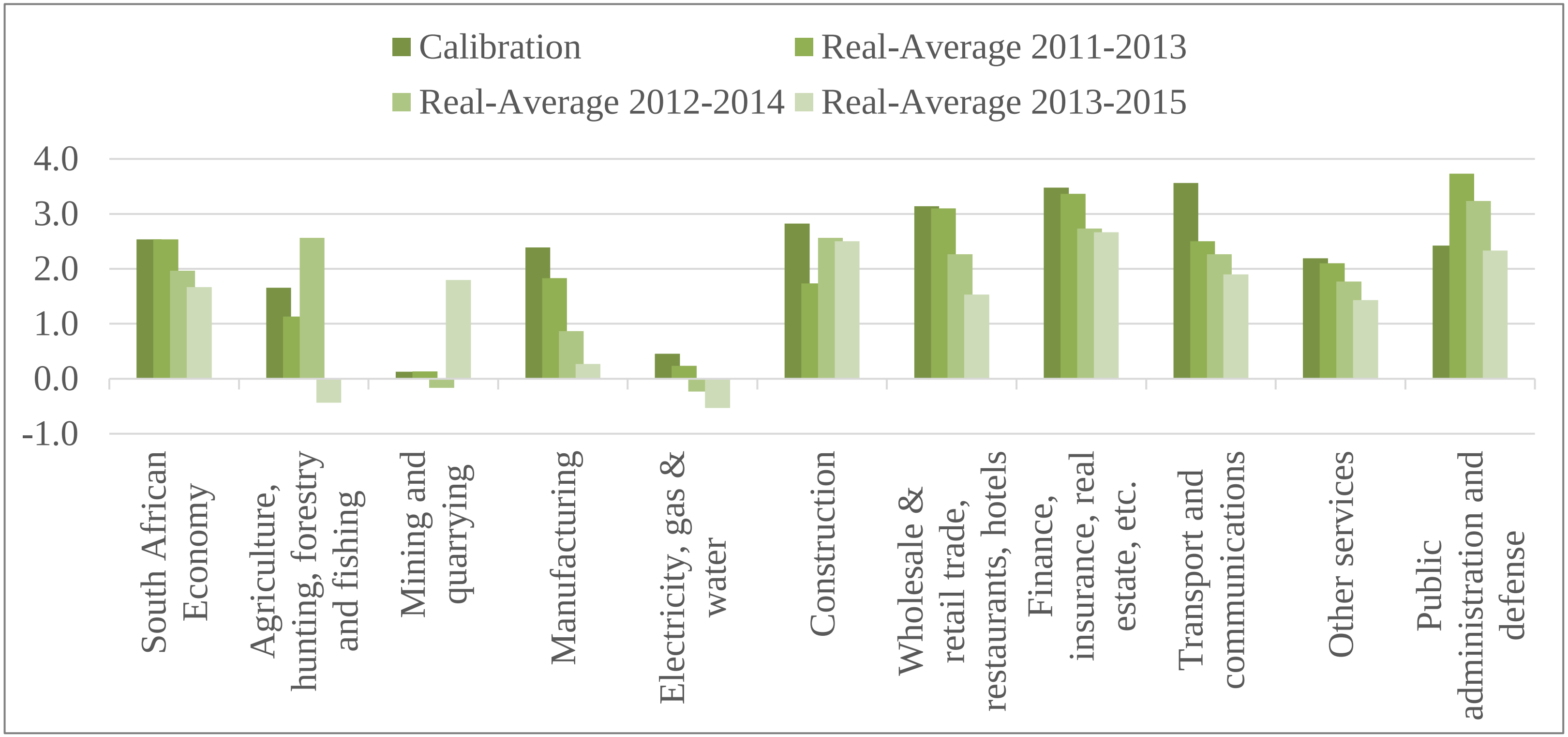
Calibrated Performances of South African Economy over a 10-year Period, Annual Growth (%)



- Gradual slowdown of the national economy
- Tourism continues growth above national economy
- Increasing growth of agriculture, converging to the economy-wide average of 2.3% per year
- Declining trends of households' final consumption expenditures
- Share of rural households in total expenditures stable at 20%

Simulation and Results: The Reference

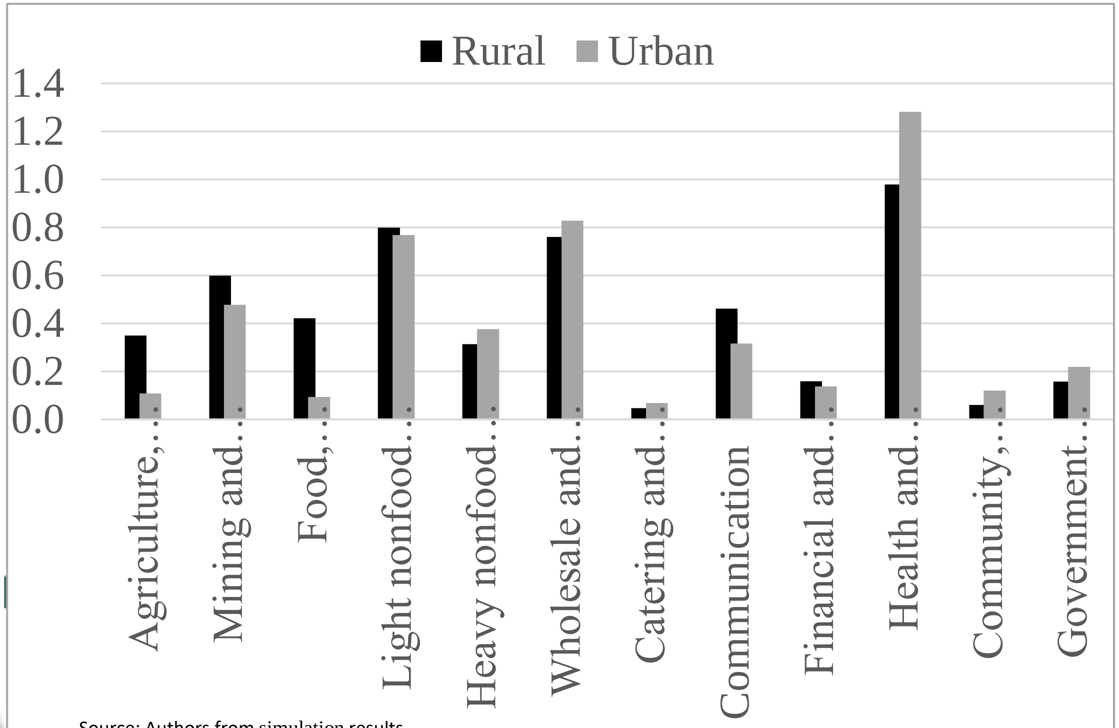
Real and Calibrated Average Annual GDP Growth Rates by Industry (%)



Relatively good economy and sector-wide calibrations

SIMULATION AND RESULTS: SECTOR GROWTH POLICY

Relationship between industries' growth and households' final consumption, percent change in urban and rural households final consumption due to 1% annual increase of sector-specific total factor productivity



Source: Authors from simulation results

Industries' growth impacting more rural than urban households' final consumption (pro-rural):

⇒ **Food, beverage and tobacco**
⇒ Agriculture, forestry and fishery
⇒ Mining and quarrying industry
⇒ Communication services
⇒ Light manufacturing industry
⇒ Financial and insurance, and business services

Industries' growth impacting more urban than rural households' final consumption (pro-urban):

⇒ Health and veterinary services
⇒ Wholesale and retail services
⇒ Heavy manufacturing
⇒ Government services
⇒ Community, social and personal services
⇒ Catering and accommodation

Lessons for NTSS Review

Tourism and Growth Policy Targets

- The projection is for Tourism to continue encouraging overall growth to recover ↔ NTSS GDP target feasible
- Tourism growth has significant effect on national economy growth rate (contributing around 2.5% of total GDP in 2013) ↔ Implying target to increase Tourism contribution to GDP feasible
- Average annual growth rate of 4.1% in the Tourism sector impacts positively the rest of the economy, i.e. 1 billion additional value added in constant 2013 ZAR in non-tourism sectors ↔ trended revenue targets positively impacted hence feasible
- Pro-urban impact of tourism growth as households' final consumption increase more for urban than rural households, both income and price effects are pro-urban ↔ focus more on social objectives of poverty reduction

Lessons for NTSS Review [cont.]

- **NTSS and Growth Policies**
  - NTSS as framework broadly supports NDP achievement and is a critical step
  - But policies are only as effective as their implementation
    - Landing the NDP agenda at the tourism sector level involves both aligning plans with targets and making choices on actions to meet them
    - In a world of finite resources not all policy goals can be pursued equally and at the same time
  - Going forward:
    1. Consider the gaps – poverty reduction and pro-urban for example
    2. Moderation of growth due to (a) higher base volumes, (b) lower GDP growth as economies mature, (c) lower elasticity of travel to GDP, (d) international geopolitical instability

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3. Departmental Analysis

Background to National Department of Tourism (NDT)

- NDT established as a stand-alone department in 2009
- The department is responsible for one public entity (i.e. South African Tourism)
  - Market South Africa internationally and domestically
- Four main programmes: Administration, Policy and Knowledge Services, International Tourism and Domestic Tourism
- Priorities over the 2016 medium term expenditure framework: developing new tourism attractions, supporting rural enterprises and growing domestic tourism

Programme Spending and MTEF Budget

Programme (R'mil)	Audited Outcome 2012/13	Audited Outcome 2013/14	Audited Outcome 2014/15	Revised Estimate 2015/16	Medium Term Expenditure Framework Estimates 2016/17	Medium Term Expenditure Framework Estimates 2017/18	Medium Term Expenditure Framework Estimates 2018/19	Real Annual Average 2012/13-2015/16	Real Annual Average 2016/17-2018/19
Administration	179	212	220	234	237	245	253	3.46%	-2.69%
Policy and Knowledge Services	794	909	930	1 181	1 273	1 325	1 400	8.11%	-1.09%
International Tourism	27	38	45	47	55	56	59	13.99%	-2.36%
Domestic Tourism	372	354	363	307	445	441	461	-11.13%	-4.02%
Total	**1 372**	**1 513**	**1 558**	**1 769**	**2 010**	**2 067**	**2 173**	**3.08%**	**-1.95%**

- Department’s budget for 2016/17 is R2.0 billion, representing a real growth of 6.55% from the 2015/16 allocation
  - Main driver of growth in the 2016/17 budget is the Domestic Tourism Programme which is set to grow by a significant 35.90% in real terms between 2015/16 and 2016/17
    - Growth is in respect of the Social Responsibility Implementation subprogramme and more specifically, the introduction of a new spending area in support of rural enterprises
      - Notwithstanding significant growth mentioned above, this programme projected to show largest real annual average decline in its allocation over the two outer years of 2016 MTEF period (-4% p.a)
  - Over the outer two years of the 2016 MTEF period, allocation to NDT projected to decline by 3.13% in 2017/18 and by 0.76% in 2018/19

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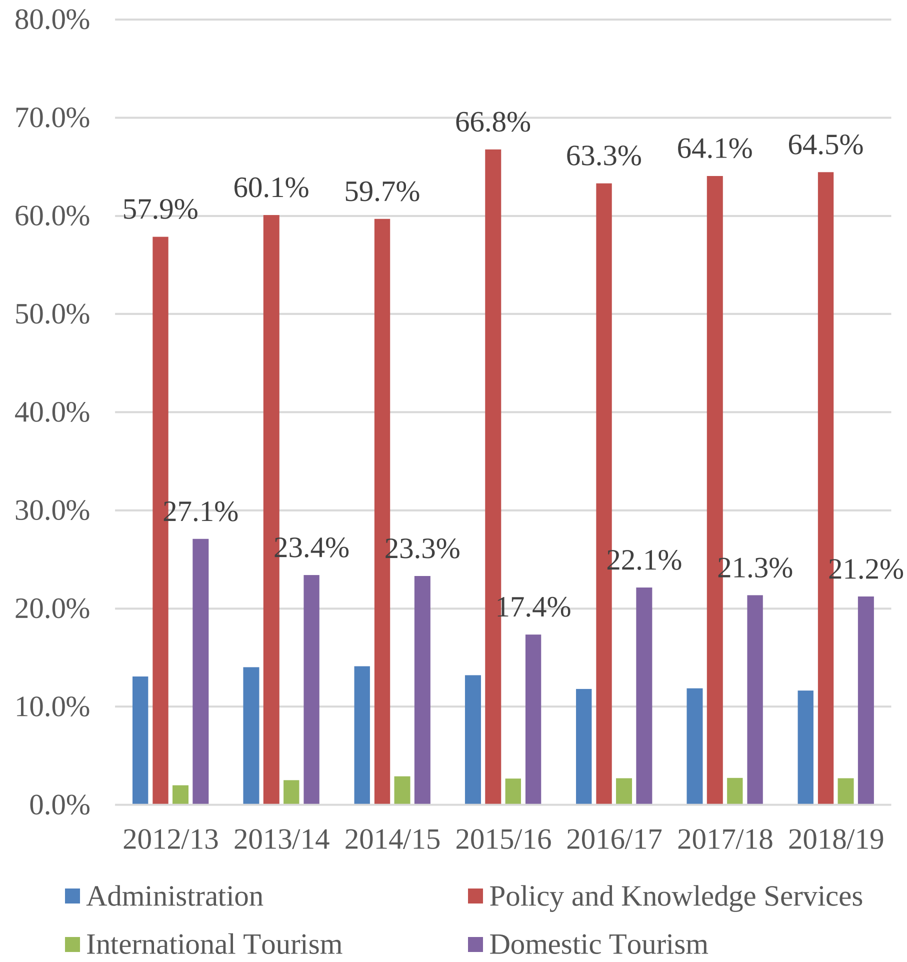
Prioritization of Spending and MTEF Budget

- Clear prioritisation of Policy and Knowledge Services programme over the entire period reviewed
  - In 2015/16 Tourism Incentive Programme introduced as part of the Policy and Knowledge Services Programme
  - Transfers to South African Tourism (SAT) fall under this programme
- Domestic Tourism is the second largest programme
  - Proportion allocated to this programme declines over the period – from 27.1% in 2012/13 to 21.2% in 2018/19
  - NDT's allocation in respect of EPWP falls under this programme



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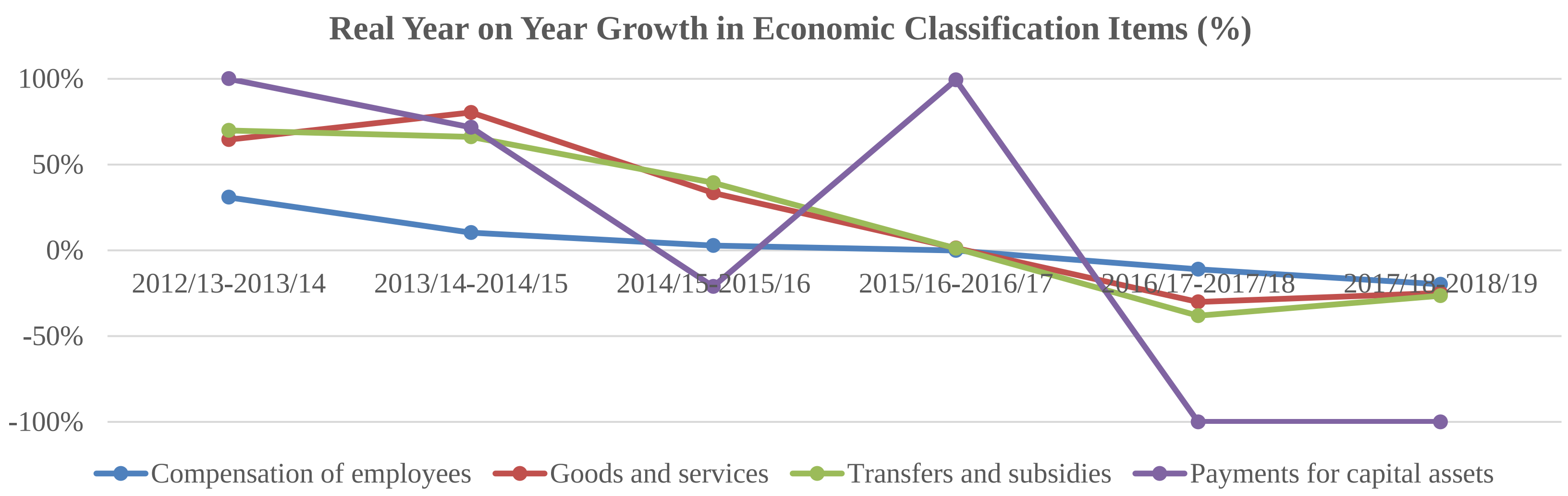
Spending by Economic Classification



- Transfers and subsidies largest item but projected to decline in all three years of the 2016 MTEF period
- Compensation of employees illustrates similar trend of declining allocations over the 2016 MTEF period – the result of Cabinet approved reductions to lower aggregate expenditure ceiling
- With the exception of a large increase in capital spending (from R3 million in 2015/16 to R56 million in 2016/17, this item also projected to decline over the two outer years of the 2016 MTEF period

Public Entity Reporting to the Minister

- South African Tourism (SAT)
  - Responsible for marketing South Africa internationally and domestically and putting in place measures to maintain and enhance standards of tourist facilities and services
- Department to allocate R3.2 billion to SAT over the 2016 MTEF period
  - Following a real annual average growth of 3.2% in allocations to SAT between 2012/13 and 2015/16, allocations to the entity projected to decline by a real annual average rate of 0.6% over the 2016 MTEF period
  - Focus over the medium term: marketing SA as a tourism destination of choice, and increasing the contribution of tourism to the SA economy by growing the number of tourist arrivals from an expected 10.4 million in 2016/17 to 11.4 million in 2018/19

Departmental Transfers to SAT

Year	Funds Allocated (R'000)	Funds Spent (R'000)
2012/13	754 024	754 024
2013/14	866 333	866 333
2014/15	880 009	880 009
2015/16	977 712	977 712
2016/17	1 024 847	n/a
2017/18	1 076 089	n/a
2018/19	1 138 502	n/a

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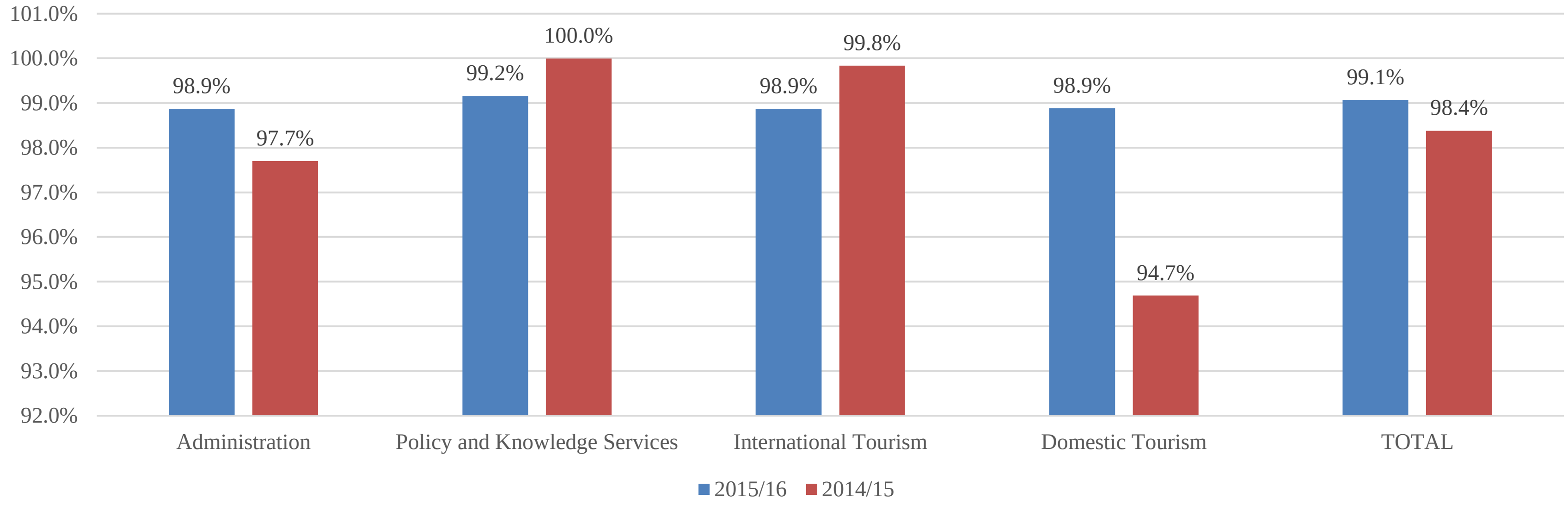
4. Annual Report Analysis

DEPARTMENTAL SPENDING PERFORMANCE



- The departmental spending has marginally improved from 98.4% in 2014/15 to 99.1% in 2015/16. Reasons for underspending include:
  - Implementation of cost containment measures
  - Underspending on the Tourism Incentive Programme
  - Exchange rate fluctuations when payments were made

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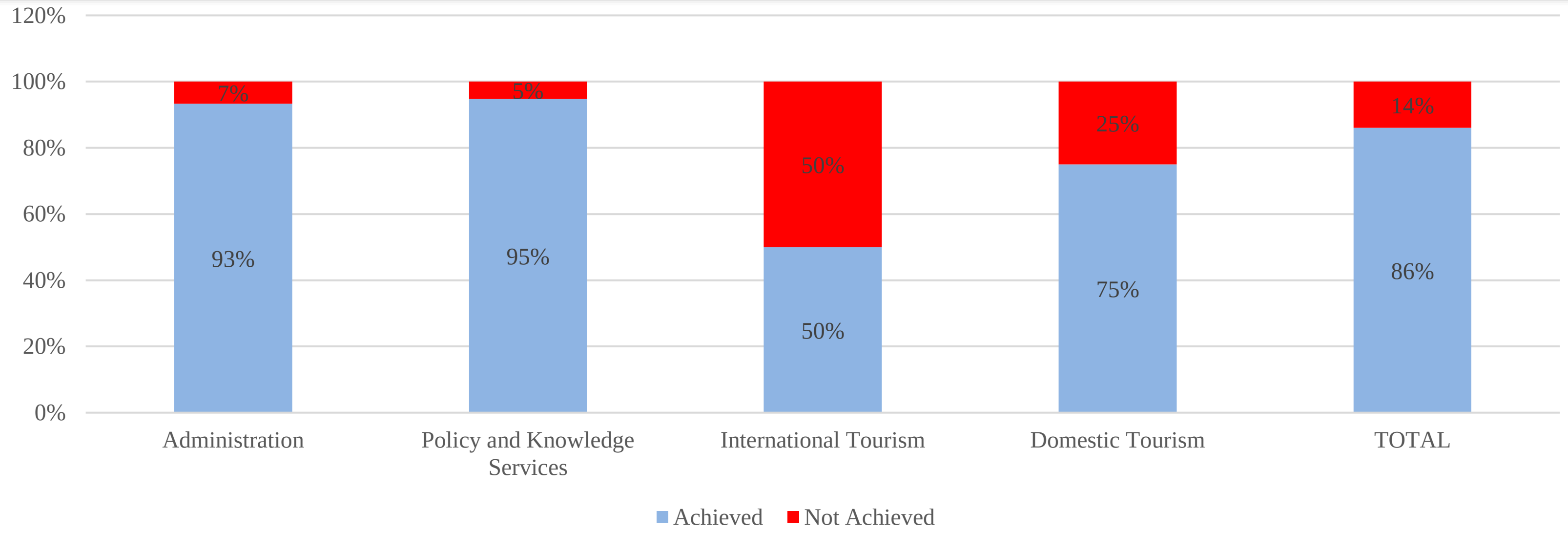
ASSESSMENT OF PERFORMANCE TARGETS (1 OF 3)



- The department achieved 86% of all its performance targets in 2015/16
  - Close alignment between targets met and budget spent suggests performance indicators closely aligned with work volume of the department and hence, resource allocation
  - The performance indicators are generally well developed, and in most instances, comply with the SMART principle. However, there is still significant room for improvement

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Assessment of Performance Targets (2 of 3)

- An assessment of the performance indicators reveal the following:
  - Some indicators, especially under the *Administration* programme, use percentages instead of numbers. This creates vagueness as its not possible to tell how targets were measured.
    - E.g. "100% achievement of workplace skills plan" – not clear what constitutes 100%.
  - Some indicators not specific and lack an output
    - E.g. "department's cabinet and cluster coordination protocol reviewed and implemented " – unsure what output was achieved (E.g. report compiled, etc.)
  - Some indicators have no targets
    - E.g. Universal Access awareness held – unclear of the target and also the manner in which awareness raising took place (E.g. workshop, flyers, etc.)

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Assessment of Performance Targets (3 of 3)

- Performance indicators and targets are inconsistent
  - E.g. PI = “No. of capacity building initiatives at supporting sector transformation”
    - Target = "executive programme to capacitate black women managers developed”
    - The target was reported as achieved, yet the indicator and target are not speaking about the same thing
- Duplication of strategic objectives across programmes
  - E.g. capacity-building programmes implemented across three of the four programmes. While this suggests capacity-building is a key objective in the sector, it is not clear whether NDT should necessarily be the implementing agent or play a coordinating/leadership role in expanding rollout in the sector

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Transfer Payments

- Besides SAT, the department also makes transfer payments to non government organisations (NGOs), universities and other agencies (E.g. Gauteng Tourism Authority)
  - In many instances transferred funds were not spent (E.g. R30 million transfer to IDC)
  - Underspending of transfers related to the Tourism Incentive Programme in the main. This raises a concern about the timing of transfers and if agencies were given sufficient time to spend the money
  - A further concern relates to whether the department has proper mechanisms in place to properly monitor the spending of transfer payments

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5. Concluding Remarks

- Despite constrained economic environment, Tourism contribution to GDP and employment projected to increase in 2016
- Whilst the NDT's budget grows to R2 billion in 2016, over the rest of the 2016 MTEF period, the allocation to the department is projected to decline by 3.13% in 2017/18 and by 0.76% in 2018/19
- The committee should enquire from the department:
  - About the reasons for the underspending on the Tourism Incentive Programme as no clear explanation was provided in the annual report
  - Whether proper monitoring and reporting mechanisms are in place to monitor the spending of transferred funds to NGOs, universities and agencies

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Appendix A: FFC Recommendations Relevant to the NDT

RELEVANT RECOMMENDATIONS FROM 2017/18 ANNUAL SUBMISSION

FFC Recommendation	Government Response
Given that funding for Public Employment Programmes (PEPs) (i.e. Community Works Programme (CWP) and Expanded Public Works Programme (EPWP)) is insufficient to cover all unemployed, focus should be based on giving unemployed individuals without access to a grant priority. At present, a significant share of participants are either on a social grant or employed elsewhere. Government should also carefully balance the need to improve the conditions of employment and expanding PEPs	Response to recommendation/s to be found in Annexure W1 of 2017 Budget Review to be tabled in February 2017

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