

# **NRCS LEVY CONSULTANTS**

**August 2019**

# NRCS Officials

- ❑ **Mr. Edward Mamadise**
  - ❑ Chief Executive Officer
- ❑ **Ms. Abigail Thulare**
  - ❑ Chief Operations Officer
- ❑ **Ms. Mimi Abdool**
  - ❑ Chief Financial Officer
- ❑ **Mrs Eunice Sothoane**
  - ❑ AR Manager
- ❑ **Mr Isaack Malapela**
  - ❑ Acting General Manager Electrotechnical
- ❑ **Ms Meisie Katz**
  - ❑ General Manager FAI
- ❑ **Mr Duncan Mutengwe**
  - ❑ General Manager Automotive
- ❑ **Mr Thomas Madzivhe**
  - ❑ General Manager CMM
- ❑ **Mr Hennie Ferreira**
  - ❑ Acting General Manager LM

# Agenda

**Strategic Overview of the NRCS**

**NRCS Operational Performance**

**NRCS Financial Performance**

**Fee and Tariff Proposals**



# STRATEGIC OVERVIEW OF THE NRCS

## NRCS MANDATE

Administer compulsory specifications/ technical regulations in the interests of public safety and health or for environmental protection and ensuring fair trade.

# Legislative Mandate

**Mandate of the NRCS is derived from the following Acts**

**National Regulator for Compulsory Specifications Act  
(Act No. 5 of 2008)**

**Legal Metrology Act  
(Act No. 9 of 2014)**

**National Building Regulations and Building Standards Act  
(Act No. 103 of 1977)**

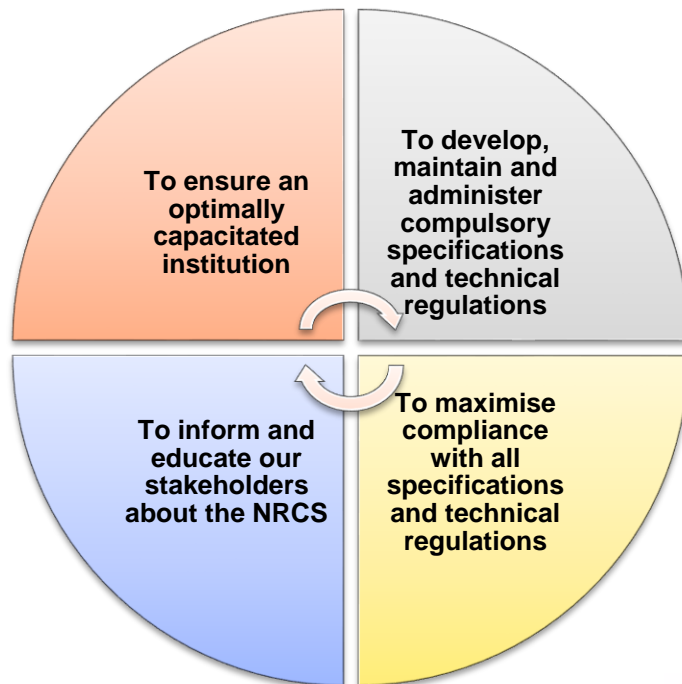
**The Foodstuffs, Cosmetics and Disinfectants Act  
(Act 54 of 1972)**

# NRCS ACTIVITIES

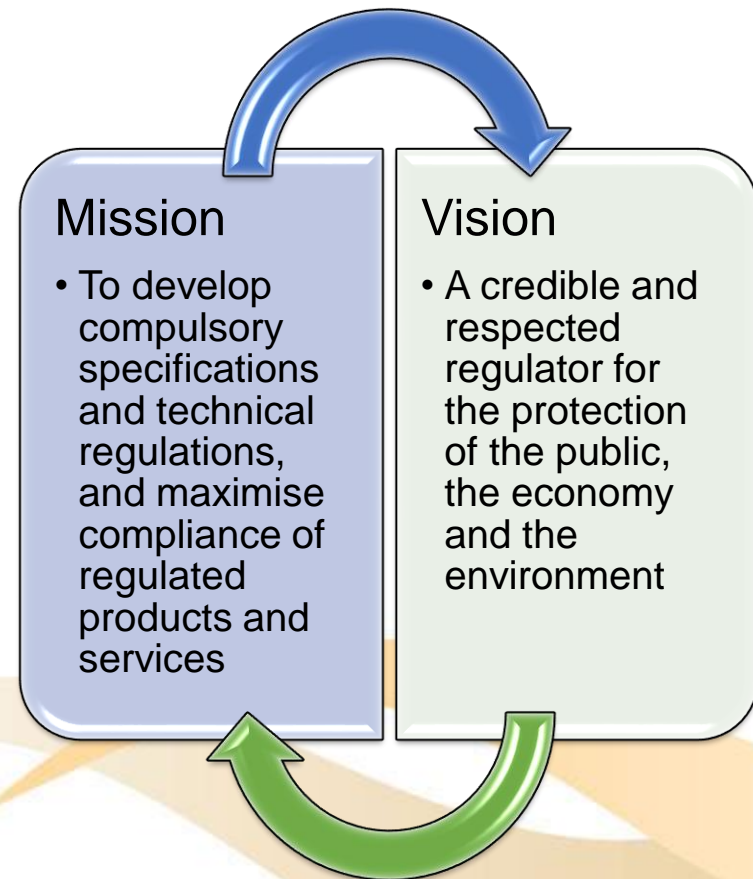
- **Pre-market approval** of NRCS regulated products
  - Before regulated commodities enter the market, approval granted based on compliance to the administrative requirements and technical compliance as per test reports, certificates of conformity or own testing
  - The NRCS issues certificates (Letters of Authority, Homologation or Type Approval certificates)
- NRCS conducts **Market Surveillance Inspections**
  - Inspectors visit manufactures, importers and retailers to inspect and if needed sample products
  - Inspections are meant to eradicate non-compliances
- **Sampling and testing**
  - Sampling is done to establish compliance or non-compliance
  - To retain evidence in the form of a sample
- **Sanctions**
  - If non-compliance is proven, enforce corrective action and/or recall and/or return to country of origin and/ or destruction and/or notify the media and public

# NRCS Strategy, Mission and Vision

## NRCS Strategic Goals



## Mission & Vision



# Regulated Industries

Industry Sector	Product regulated / Service rendered
Automotive	Vehicles, Replacements components, Manufactures Importers and Builders
Chemicals, Materials and Mechanicals	Building materials ( Cement, treated timber, safety glass & glazing material), Chemicals (disinfectants & detergent-disinfectants), Micro-biological safety cabinets, Personal Protective equipment ( Swimming aids, personal flotation devices, respirators & Safety footwear), firearms & shooting ranges, plastic carrier bags, cigarette lighters, non-pressure paraffin stoves & heaters, pressurized paraffin appliances
Electro-technical	Electrical appliances and products, Electronic appliances and products
Food and Associated	Fishery products, canned meat and processed meat
Legal Metrology	Measurable products and services, measurements in trade, health, safety and the environment, any measuring instrument used for a prescribed purpose and gaming equipment
Building Regulations	Ensure uniform interpretation of National Building Regulations and Standards Act, administer review Board



# Challenges and Strategies

## Challenges

- ☐ Inadequate testing facilities in South Africa for some regulated products e.g. Motor cycle helmets.
- ☐ Capacity constraints, given resources available
- ☐ Escalating cost of regulation
- ☐ Importation of products without NRCS Approval
- ☐ Generation of revenue reliant on trends and markets.
- ☐ Non-compliant levy payers
- ☐ Internal control weaknesses – ICT system

## Strategies

- ☐ SARS & NRCS Collaboration (Code alignment project)
- ☐ NRCS and other government departments & entities
- ☐ System modernisation
- ☐ Border enforcement
- ☐ Levy collections and under-declarations
- ☐ Meeting the current LOA turnaround times

# NRCS Highlights

- ❑ IPAP: Lock in and Lock out principles implemented
- ❑ Non-compliant products to the value of R319 million were removed from the market.
- ❑ The NRCS conducted 50 178 inspections
- ❑ The NRCS issued 17 656 approval certificates for Electro-technical (72%), Automotive (24%) and Chemicals, Materials and Mechanicals (3%) , (1%) for Measuring Instruments products
- ❑ Issued 12087 health guarantees which ensured that all exported fishery and associated products were accepted in foreign markets.
- ❑ Issued 9239 compliance certificate for imported products
- ❑ Corporate social investment (Safe paraffin stove campaign)
- ❑ Levy Audit successes (R22mIn in FY 2018/2019)

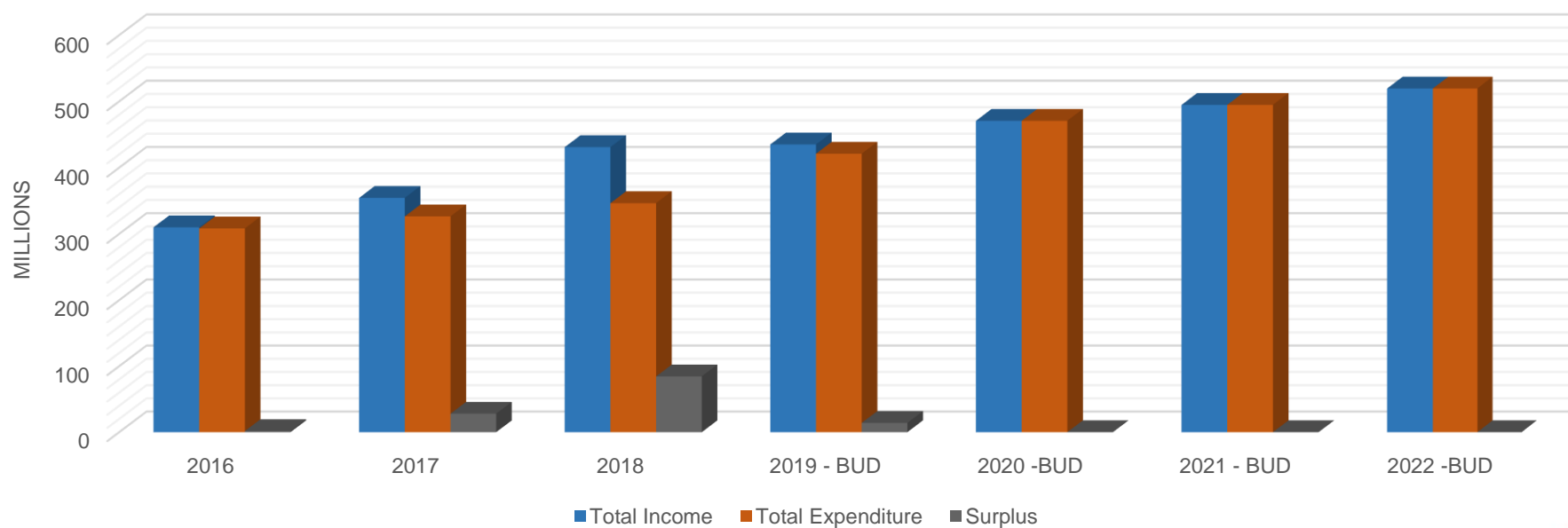
**Organisational Performance**

**Operational Performance**

**Financial Performance**

# Financial Status: Income Statement

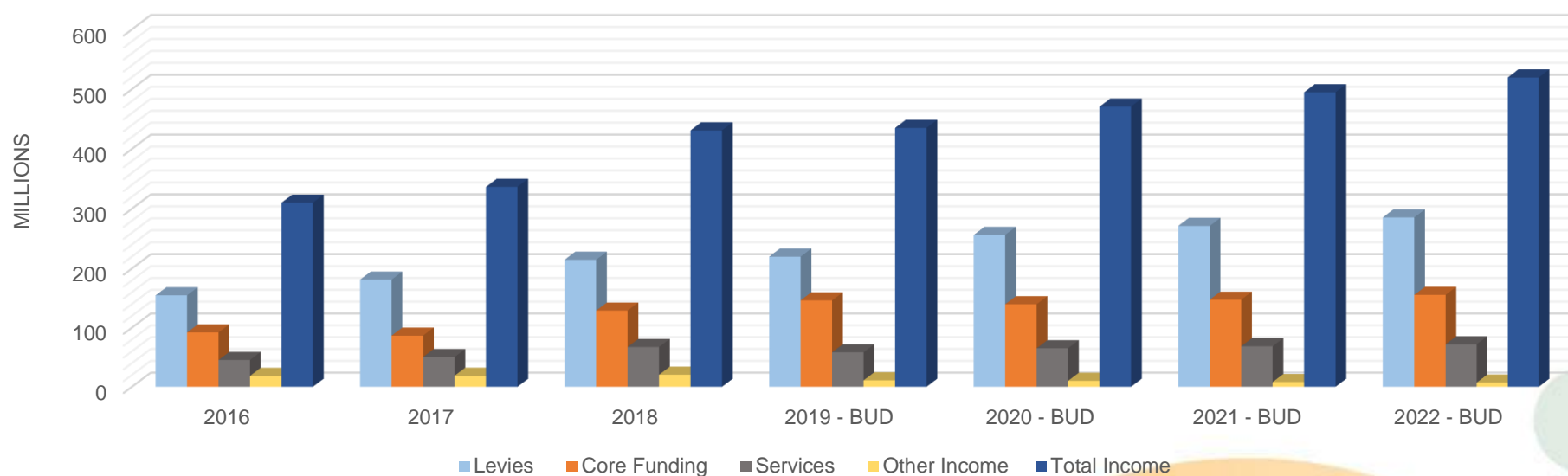
## Financial Status: Income Statement



	2016	2017	2018	2019 - BUD	2020 -BUD	2021 - BUD	2022 -BUD
Total Income	309 926 876	354 318 072	430 907 063	434 986 000	470 674 000	494 679 000	519 412 000
Total Expenditure	308 310 807	326 360 639	346 397 063	420 986 000	470 674 000	494 679 000	519 412 000
Surplus	1 616 069	27 957 433	84 510 000	14 000 000	0	0	0

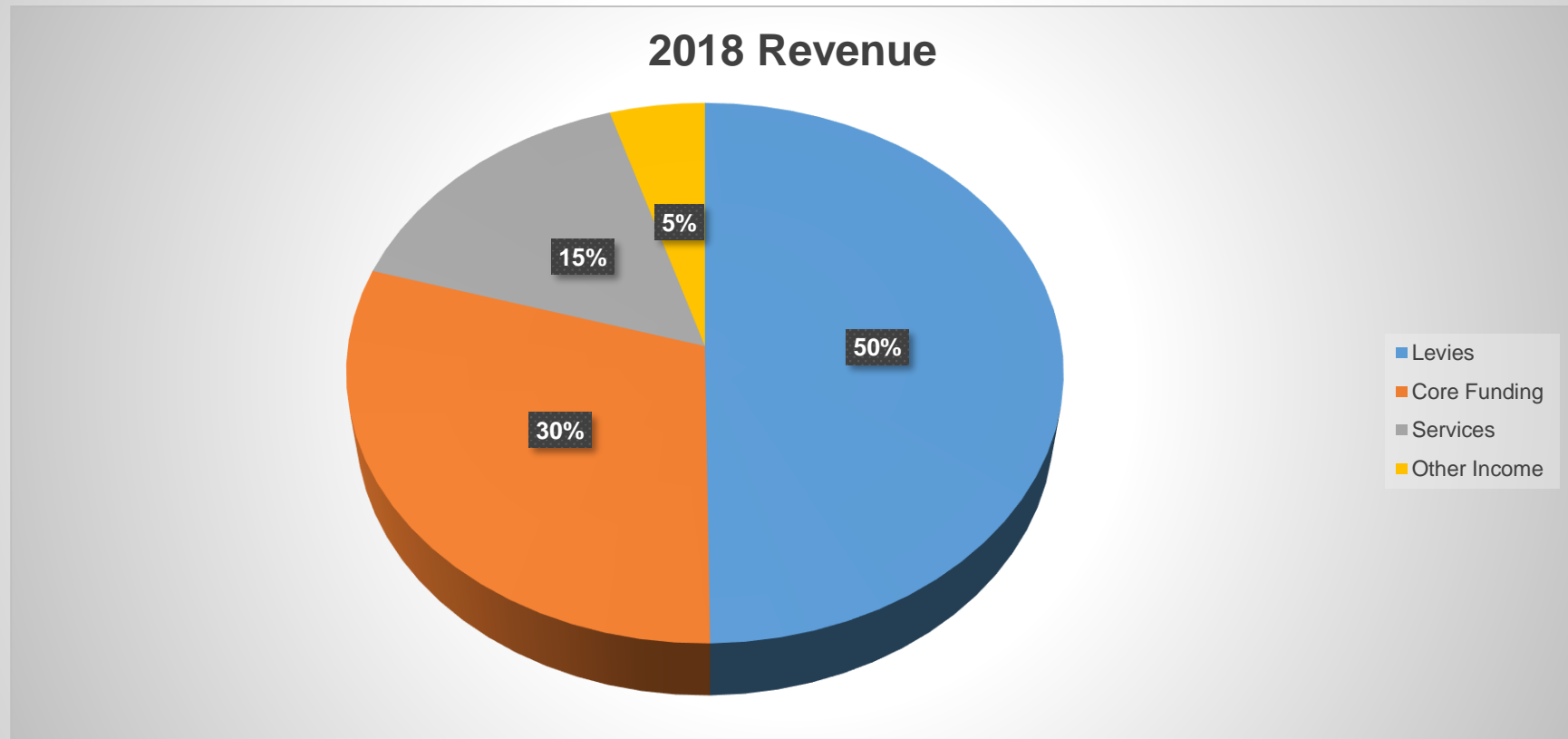
# Financial Status: Revenue

## Financial Status: Revenue



	2016	2017	2018	2019 - BUD	2020 - BUD	2021 - BUD	2022 - BUD
Levies	154 590 878	181 178 385	214 553 000	219 753 000	256 045 000	271082000	285244000
Core Funding	91 732 000	86 418 000	128 745 000	146 104 000	139 501 000	147 173 000	155 268 000
Services	45 223 056	50 204 997	67 287 000	58 231 000	65 101 000	68 421 000	71 842 000
Other Income	18 380 942	18 600 000	20 322 000	10 898 000	10 027 000	8003000	7058000
Total Income	309 928 892	336 403 399	430 907 000	434 986 000	470 674 000	494 679 000	519 412 000

# Financial Status: Revenue



# Levy Audit Qualification

## Levies are Incomplete/ Inaccurate which results in NRCS audit qualifications:

### Bona fide error

If a levy payer has incorrectly classified the levy commodity which they import or manufacture a bona fide error has been made. Lists of regulated products are available on the NRCS website [www.nrcs.org.za](http://www.nrcs.org.za) and technical specialists are available to advise.

### Under-Declaration

The NRCS has the right to request any information it deems necessary for a period of five years. If under-declaration is suspected please notify a Levy Officer. A Levy Auditor will appointed to investigate.

### Non-Submission of Returns

As at the end of March 2019, 10 -15 % of the levy returns due to the NRCS had not been submitted yet. 100% achieved through estimate as per NRCS Act.

### Penalty

NRCS will levy a penalty charge of R500 to all late submission and non-submissions as of 1 January 2019.

- *A levy is the equivalent of a tax*
- *If the NRCS does not recognise all levies due to it, its revenue is incomplete*
- *A combination of levy audits and follow up on outstanding levies attempts to address this*

# Plans to address the Audit Qualification

## The NRCS Plans in 2018/2019

1. Updating all customer information;
2. Issuing of the declaration forms to all customers and sending reminders;
3. Forms are available on the NRCS website;
4. Inspectors assisting customers to register, return the forms during the site visits;
5. Ensuring customers submit their levy declarations and make payment within 30 days during the LOA application process;
6. Estimation of non-compliant customers;
7. To ensure all customers submit the mandatory quarterly declaration forms (please refer to next slide);
8. To charge a penalty of R500.00 per mandatory submission in case of non or late submissions as per the NRCS Act as of 01 January 2019.



# Annual Levy Declaration: Deadlines

## **GNR.101 of 20 February 2015: Regulations Relating to the Gazetting of Levy Periods: Amendment (Government Gazette No. 38479)**

### DEPARTMENT OF TRADE AND INDUSTRY

It is hereby made known under [section 36](#) of the National Regulator for Compulsory Specification Act, (Act [5 of 2008](#)) that I, Dr Rob Davies, the Minister of Trade and Industry, under section 2 (4) and (5) of the National Regulator for Compulsory Specifications Regulations (Regulation R.924 dated 15 October 2010), hereby with effect from date of publication, amend of the Regulations by the deletion of the existing **Regulations Relating to the Gazetting of Levy Periods** published by Government Notice No R.668 of 5 September 2014 and the substitution thereof, as follows:

Period 1: 1 January - 30 June, of each year

Period 2: 1 July - 31 December, of each year

I further introduce mandatory levy declaration as follows:

<i>Type of submission to NRCS</i>	<i>Levy declaration 1</i>	<i>Levy period 1</i>	<i>Levy declaration 2</i>	<i>Levy period 2</i>
<b>Period covered</b>	1 January - 31 March of each year	1 January - 30 June of each year	1 July - 30 September of each year	1 July - 31 December of each year
<b>Submission purpose</b>	Levy declaration	Levy declaration and payment	Levy declaration	Levy declaration and payment
<b>Due date for submission to NRCS</b>	31 April annually	31 July annually	31 October annually	31 January annually

# Financial Matters

## Successes

- ☐ Strengthened Levy Audit functions
- ☐ Compliance check on applications (Levy, Debtors, Fees)

## Challenges

- ☐ Some clients in the industries are none compliant (levy declarations, payment)
- ☐ Some clients do not declare their levy commodities in full.
- ☐ A small percentage of clients do not split their quarterly declarations.
- ☐ In most cases clients will make a payment without also sending the completed levy return form.
- ☐ Some clients will declare Nil Returns every year even after an LOA has been issued.
- ☐ Adverse economic conditions
- ☐ Declining government funding

## Key Strategies

- ☐ Automation of the NRCS levy declaration function
- ☐ Levy audit focus on non compliance (under-declaration, incorrect declaration, non-declaration)
- ☐ Email statements

# Increases for the 2019-2022 Financial Year

## 2018/2019 Increase

- ❑ Minister gazetted an increase of 4.9% on 3<sup>rd</sup> May 2019 in lieu of the 2018/2019 financial year;
- ❑ Based on CPIX;
- ❑ Effective 1 July 2019 – December 2019.

## Proposed Increases 2019 to 2022

- ❑ To increase levies over the next 3 years based on NT CPIX assumptions;
- ❑ An agreement was reached with the **dti&c** and NT to apply a 3-year increase plan from 2019 to 2022;
- ❑ The CPIX assumptions are as follows:
  - 2019/2020 = 5.0%;
  - 2020/2021 = 5.1%;
  - 2021/2022 = 5.0%;

# Legal Metrology: Rationale

## Scope

- ☐ Legal Metrology Act, 2014 and Regulations (August 2018)
- ☐ Regulating of measuring instruments and measurable products in the fields of trade, health, safety and measurements of law e.g. traffic law enforcement

## Rationale for approach

- ☐ Legal Metrology is funded by a government grant allocated to the NRCS and due to NT challenges these grants are being reduced;
- ☐ No Levies

## Approach

LM fees charged are applicable to:

- ☐ Type Approval services
- ☐ Calibration laboratories (masspieces, balances and volume measures),
- ☐ Verification, mostly be private designated bodies,
- ☐ Certificates of authority to verify
- ☐ Verification Officers examinations and practical evaluations, and
- ☐ Gambling devices, application for letter of certification (LOC)

# Legal Metrology: Proposal for increases

Please refer to attached proposals - Excel

- ❑ [NRCS Proposed tariffs 2019-2020 - 1 August 2019.xlsx](#)



# Electro Technical: Scope

- **Electrical Transmission** (power transformers, power supplies, reactors ect.),
- **Electrical Distribution** (cables, circuit breakers ect.),
- **Domestic Appliances** (kettles, microwares, sockets, adaptors, ect.),
- **Heavy Industry** (electric cables, extruded solid dielectric insulation ect. ),
- **Light Industry** (transportable motors, air conditioners, equipment measurement & laboratory etc.),
- **Electrical & Electronically Operated Devices** (Electrical and audio-visual equipment, TV's, music systems, DVD players, radios),
- **Lighting Industry** (fixed luminaries, compact fluorescent, incandescent lamps),
- **Energy Efficiency** (lighting products, hot water storage tanks, dishwashers, refrigerators, ect.)
- **Draft compulsory specification in VC9108** – Energy Efficiency and Performance of General Service Lamps (GSL)
- **Draft compulsory specification in VC9110** – Safety of General Service Lamps (GSL)

# Electro Technical: Rationale for Levy Increases

- ❑ **Tough economic and social conditions:** resulting in the flood of cheap but unsafe consumer goods, which increases regulatory costs.
- ❑ **Shortening product and technology life-cycles:** e.g. products become obsolete while LOA is still valid, resulting in increased volume of applications
- ❑ **Increase in scope of technical regulations:** additional human capital requirements with increasing scope (at the beginning of FY 2019/20, 6 candidate inspectors were appointed as qualified inspectors to assist with the ever increasing workload).
- ❑ **High testing costs:** increased regulatory costs. In some cases products have to be tested overseas due to unavailability of local testing capacity and/or capability
- ❑ **High cost of destruction:** Success of market surveillance activities, especially at the ports of entry, results in large volumes of non-compliant products to be destroyed.

# Proposed Increases – Electro Tech

Please refer to attached proposals – Excel

- ❑ [NRCS Proposed tariffs 2019-2020 - 1 August 2019.xlsx](#)





# CMM : Rationale for Proposed Levy Increases

- ❑ To maintain efficiency and effectiveness in regulating industries falling within the chemical, mechanical and material sectors scope –

Personal Protective Equipment ; Floatation Devices & Swimming Aids

Flame Producing Devices ; Health Related Products

Construction Materials ; Environmental Protection

Shooting Ranges

- ❑ To ensure capacitation and resource provisioning for the unit to reach national coverage in its market surveillance inspections / activities
- ❑ To process and issue pre-market approvals timeously
- ❑ To facilitate logistical arrangements for the storage, transportation & destruction of non compliant products
- ❑ To make provision for stakeholder engagements, education and awareness

# Proposed Increases – CMM

Please refer to attached proposals - Excel

Please refer to attached proposals – Excel

- ❑ [NRCS Proposed tariffs 2019-2020 - 1 August 2019.xlsx](#)



# Automotive: Regulated Products

- **Motor vehicles (cars, bakkies, busses, trucks, motorcycles, three wheeled vehicles)**
- **Trailers (caravans, light and heavy trailers, interlinks, tipper and tank trailers)**
- **Replacement components (Lights, safety glass, brake pads, brake shoes, elastomeric cups and seals, hydraulic brake and clutch fluid)**
- **Agricultural tractors**
- **Motorcycle safety helmets**
- **Child restraints for use in motor vehicles**
- **Pneumatic tyres for passenger, commercial motor vehicles and trailers**
- **Ball type couplings and towing brackets for towing caravans and light trailers**
- **Special vehicles covered under the National Road Traffic Act (e.g. Cranes, graders)**

# Automotive: Rationale for Proposed Levy Increases

**BASED ON GENERAL INCREASE OF REGULATORY COSTS ALIGNED WITH CPI FORECAST**

## **REGULATORY ACTIVITIES INCLUDE:**

- ☐ **Premarket approvals**
  - ❖ Increased scope for pneumatic tyres
- ☐ **Market surveillance activities**
  - ❖ Thorough investigations based on complaints received
  - ❖ Cost of destruction of non-compliant products
  - ❖ Sampling and Testing of regulated products
- ☐ **Increased Port of entry activities**
  - ❖ Tyre inspections for approval processes
- ☐ **Improved Stakeholder engagements**
  - ❖ International forum participation
  - ❖ SADC participation
  - ❖ Local industry roadshows
- ☐ **Training of core personnel to improve competencies**

# Proposed Increases – Automotive

Please refer to attached proposals – Excel

- ❑ [NRCS Proposed tariffs 2019-2020 - 1 August 2019.xlsx](#)



# FAI: Rationale

## Scope

- ☐ FAI Levies

## Rationale for FAI proposed increases

- ☐ Fee disparity between low volume and high volume producers
- ☐ SMME's disadvantaged financially
- ☐ Intra-Industry cross subsidisation
- ☐ To provide a more equitable basis of pricing between high volume producers/ importers and low volume producers/ importers
- ☐ FAI unit does not realise sufficient levies to cover its costs
- ☐ **Levy increase alternatives**
  - ☐ Levy scale review
  - ☐ Single scale for levies

# Proposed Increases - FAI

Please refer to attached proposals – Excel



**Thank you**

**Questions**

