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Dear Madam and Sirs

PARLIAMENTARY PUBLIC HEARINGS - COMMENTS ON THE 2021 BUDGET REVIEW

1. We present our comments and submissions on behalf of the South African Institute of Chartered Accountants' (SAICA) National Tax Committee on the 2021 Budget Speech released by Minister Mboweni on 24 February 2021.
2. We once again thank the Standing Committee on Finance (SCoF) and the Select Committee on Finance for the ongoing opportunity to provide constructive comments in this regard. SAICA continues to believe that a collaborative approach is best suited in seeking solutions to complex challenges.

Yours sincerely

David Warneke
Chairperson: National Tax Committee

Pieter Faber
Senior Executive: Tax

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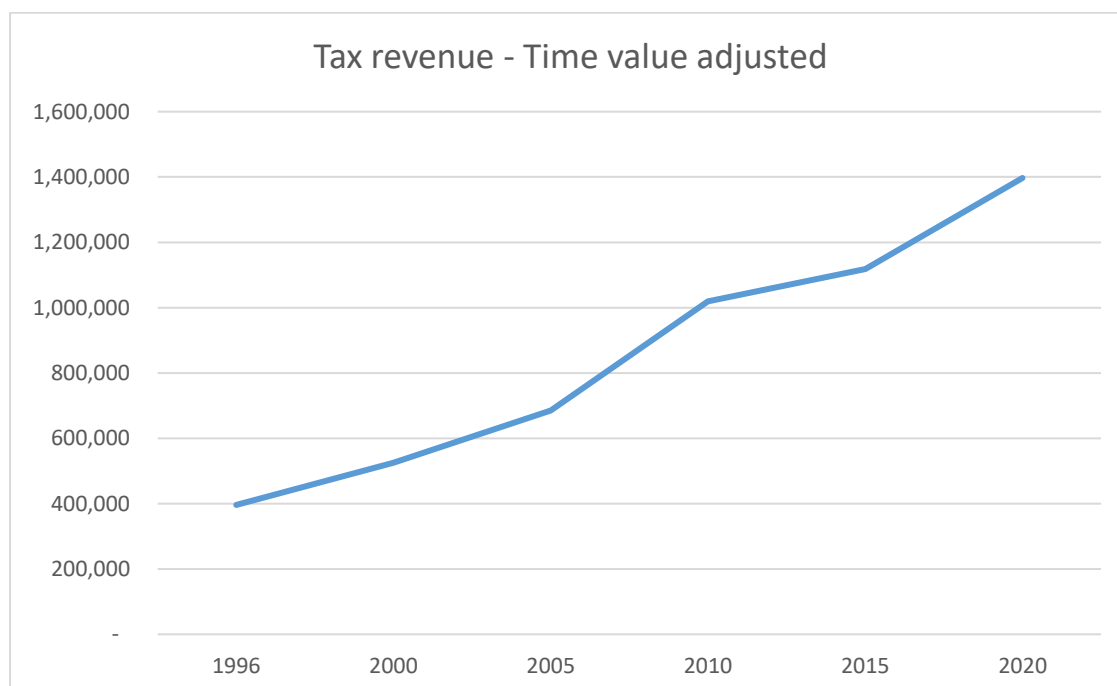


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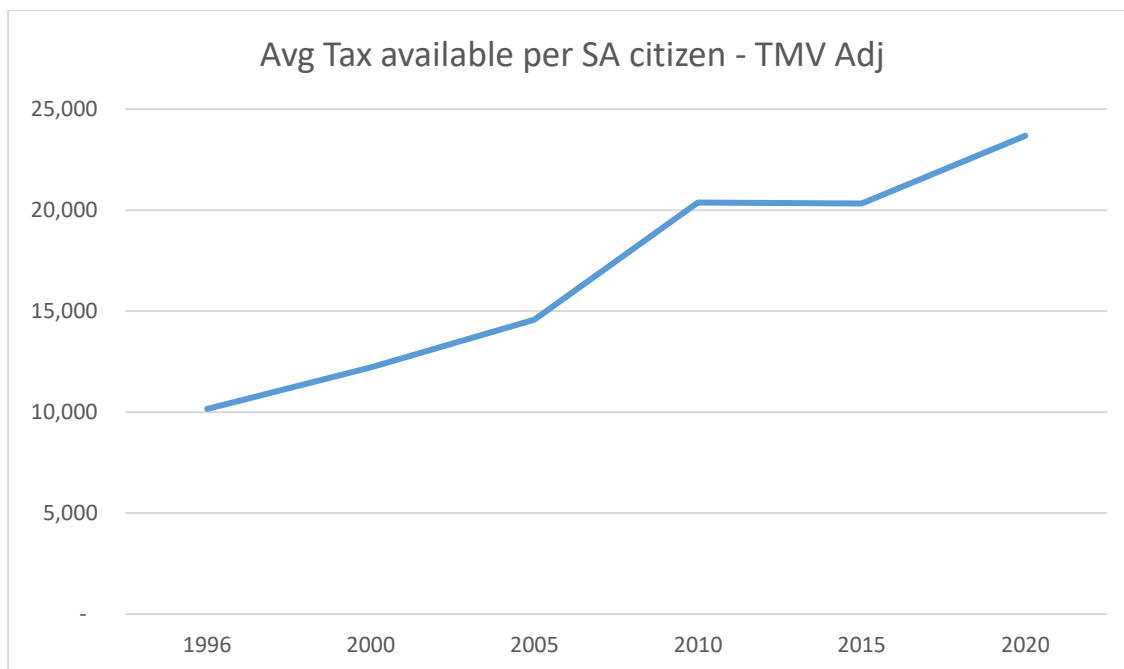
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REFUELLING THE TANK – IS THERE ENOUGH FUEL FOR ECONOMIC GROWTH?

3. South Africa's fuel tank was running on low even before COVID 19 hit our shores and the global pandemic has merely shone a spotlight on the precarious situation in which the South African fiscus was and remains. Minister Mboweni's conclusions resonate in 2020 and are still true today; we are just spending too much! This truth has dismayed a lot of people who are of the view that we are not spending enough. Their truth is not misguided, either, as South Africa has such a backlog of funding matters and so many of its people to care for that it seems unconscionable to reduce spending. For us to be correct on structural overspending does not make others wrong that we need a lot more spending on certain items.
4. The cold reality, as correctly stated by the Minister, is that structural overspending will not fix these backlogs, and in fact makes it worse, so it is not in anyone's interest. Increased and higher spending needs to come from economic growth. The undeniable truth is seen by the growth in debt service costs from just a mere R50 billion in 2007 to nearly R400 billion by 2025. We have not properly invested in our economy for more than a decade and we are facing the consequence that economic growth has plummeted for 15 years despite the world growing around us. As a country we are wasting time on the wrong debates and failing to focus on the real problems where consensus will be required and difficult discussions on implementation need to be had.
5. **We have the financial resources to make significant changes.** Since the beginning of democracy, the South African government has comparatively 3,5 times more tax revenue in today's money than it had in 1996. It even has twice as much as the government of 2005 had in a period when main budget surpluses were produced and debt consolidation occurred.



6. Even when adjusted for population growth we see a significant increase.



7. The main problem does not lie in raising of financial resources, but rather how those financial resources are being applied and invested into the economy in order to generate the returns we require to achieve the desired outcomes.
8. Despite these enormous challenges, Minister Mboweni managed to table a budget that, will on paper at least, focus on refuelling the tank of the economy and will, if the assumptions underpinning it are realised, keep South Africa on the journey of fiscal stability and economic growth.
9. The Budget is based on various **critical and significant assumptions**, from spending control to the impact the current measures will have on economic growth.
10. Submission: Political will is a critical part of the assumptions to realise the Ministers budget and government plans. It should not be negotiable or be allowed to become misaligned.
11. Below we will set out the broader challenges and some narrow focus areas we have identified.

CREDIBILITY CRISIS

12. To remain on the road, whilst averting the large potholes, the tank needs to be refuelled. This will require immediate brave and fearless action by government to *engage and collaborate* with labour, business and civil society if it wants to have any hope of achieving the very ambitious goals set in the budget.



13. To be implemented, the Plan will need broad consensus, a joint approach and accountability. Here we agree with COSATU that less time should be spent on planning and more time on implementation.
14. However, there is a large pothole that must be addressed.
15. The current Minister is not the first to acknowledge challenges and to propose that fundamental changes must occur.
16. In fact, even under then Minister Gordhan controlling the public wage bill was “mandated” but was not realised.
17. In our Disaster Management Bill 2020 oral presentation to the SCoF we again raised concerns that those social partners obligated to find critical consensus at NEDLAC under the leadership of government seemed to only shop talk and not achieve this critical outcome.
18. The President, Minister of Finance, Organised Labour and Business all undertook to address this weakness and much was made of their engagement and collaboration.
19. However as is evidenced from the findings of the Thabo Mbeki Foundation in its paper [Social Compacting and Economic Recovery](#), released last month (February 2021), the following was stated in relation to the Government’s release of “The South African Economic Reconstruction and Recovery Plan” (ERRP) on 15 September 2020:

“To put the matter frankly – in these comments the Business social partner was saying that in fact there was no agreed NEDLAC economic reconstruction plan and that there was need for more urgent discussion by the social partners, led by the Government!”
20. Thus it appears, contrary to what the President had said in his October 2020 Parliamentary Address, that there was no substantive NEDLAC agreement on economic reconstruction and recovery. Business (represented by Business Unity South Africa) would issue their own plans contradicting some of what government had prioritised, but also in many instances had more workable plans, again contrary to the suggestion that all parties had sought and found consensus at NEDLAC.
21. Our first obstacle is therefore not what plans are needed or what money must be spent under this budget, it is overcoming the credibility crisis our government faces. No one will commit money or contribute efforts to effecting plans when they are sceptical as to whether the other party will even do what they say they will do.
22. This is very succinctly summarised by the **Thabo Mbeki Foundation paper** on its quotes from speeches at the NEDLAC summit 2020:

Mr Bheki Ntshalintshali, convenor of the NEDLAC Labour partner, also spoke at the Summit Meeting. Among others he said:

“But there are issues of concern we should not run away from. The widening gap of mistrust among the NEDLAC social partners needs to be attended to because if we don’t it does not help us to get together.”

make big statements because we are in front of television and hope miracles will change (things). The question of retrenchments and job losses besides the many agreements reached in the many Summits make us to lose confidence in this (NEDLAC) process. The unemployment is at the highest levels ever... ..

Considering what Mr Ntshalintshali said, as quoted above, it is worth noting that when Mr Kingston spoke, he also said:

“The engagements between social partners must be credible and the bona fides of all partners must be accepted –we must make act transparently, collaboratively and with integrity. The engagements must be such that every social partner is of equal status and is given the opportunity to contribute wherever they can add real value.”

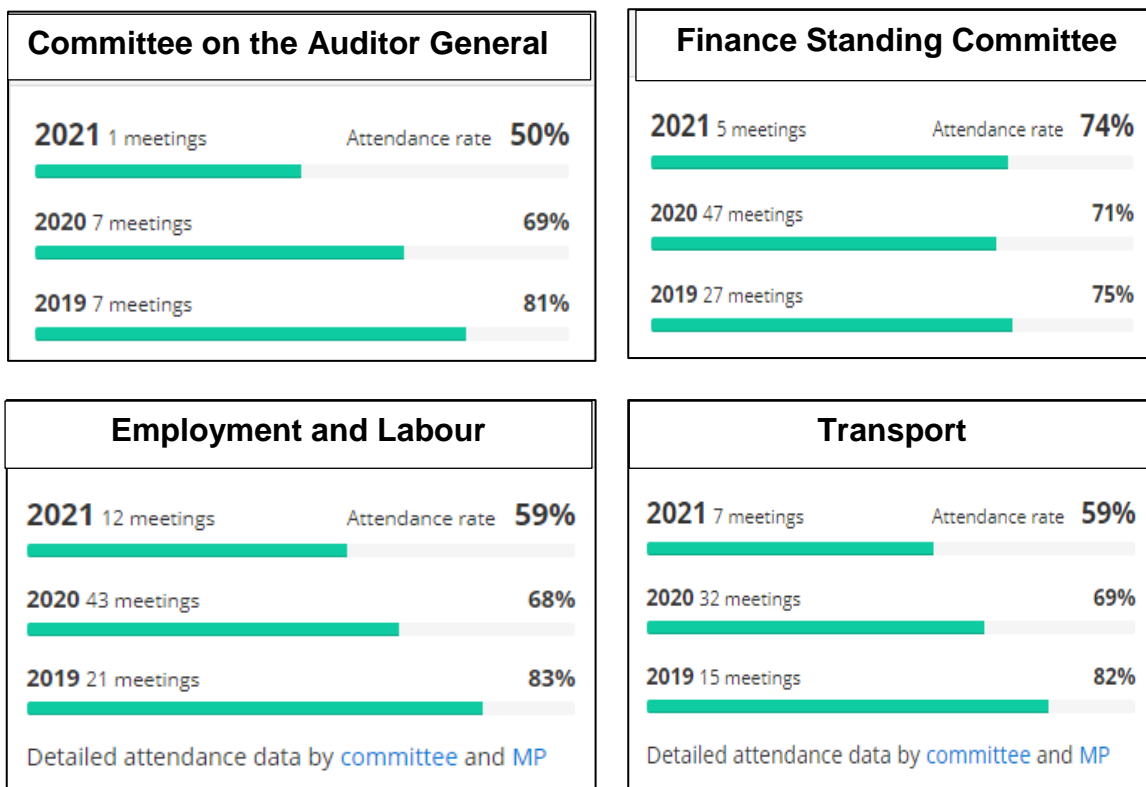
In his comments at the 2020 NEDLAC Summit Meeting, Mr Kingston, representing Business, was, like Government, emphasising the importance of achieving the required Social Compact at NEDLAC.

23. Whether the ERRP did in fact not have consensus from business seems to be less clear cut from what is stated below by B4SA:

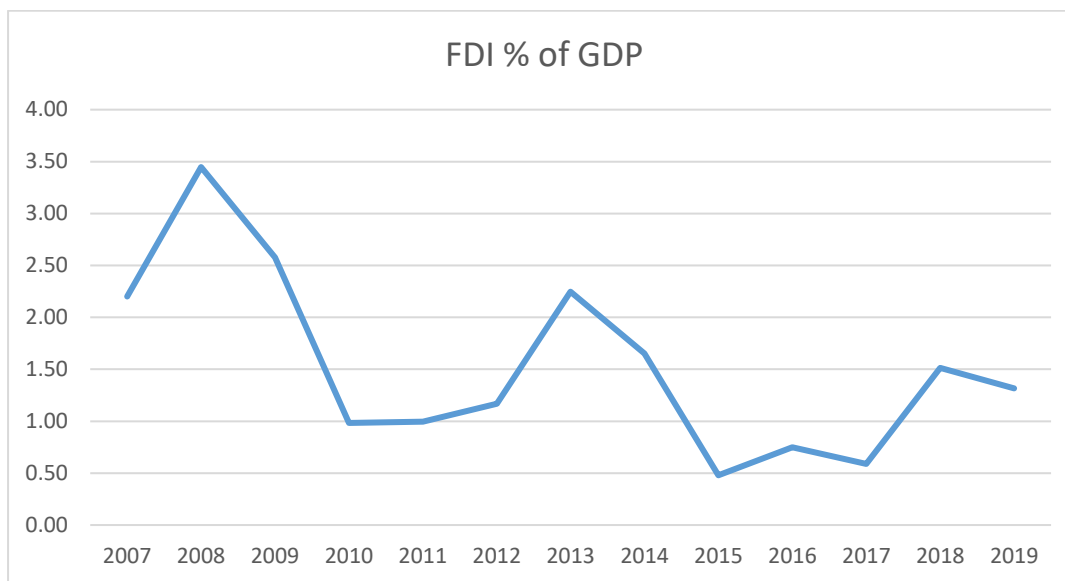
“B4SA’s Steering Committee Chairman, Martin Kingston, said: “We are pleased to see that our recommendations have significantly informed and contributed to the social partners’ discussions at Nedlac, and appropriately referenced in today’s Reconstruction and Recovery Plan presented by the President”

24. Business, by not taking a clear position of what did or did not happen in the ERRP and at NEDLAC also undermines its credibility and it should also be cognisant that what it says did happen should in fact be its final position.
25. This credibility crisis seems to also have influenced the Labour constituency’s views on further consensus. This constituency seemed to have lost faith in NEDLAC particularly. However, as we have set out in our submission, we believe that any implementation of the ERRP or any other plan would fail, and has failed in the past as a result of not having the required consensus, whether this occurs at NEDLAC or otherwise.
26. Those charged with oversight too have made many promises they have not kept.
27. Without this crucial foundation, no plan, no matter how good it is, will succeed. This trust and consensus between government, business, labour and civil society will have to be built, not on speeches and more structures, but on actions that deliver the results and changes that society needs so desperately. Collaboration and coordination will then follow such consensus.
28. Honourable members, this invites the question, who will be the first to make themselves vulnerable to prevent the repeated broken promises to secure a better future? Can we as a nation overcome the “why would this time be different” and “let’s wait for others to act first” fears? Can Labour for example continue to want to first have its demands met?

29. Parliament, especially the SCoF and AG Committee has a very significant role to play. Again, we ask the question whether it will rise to the challenge. Does it believe its performance up to now has been credible?
30. When we look at Parliamentary attendance rates, not considering participation or even effective oversight, is this good enough and what our people deserve? Is this reflective of a Parliament doing the best it can for the people in one of the most devastating periods in our history?

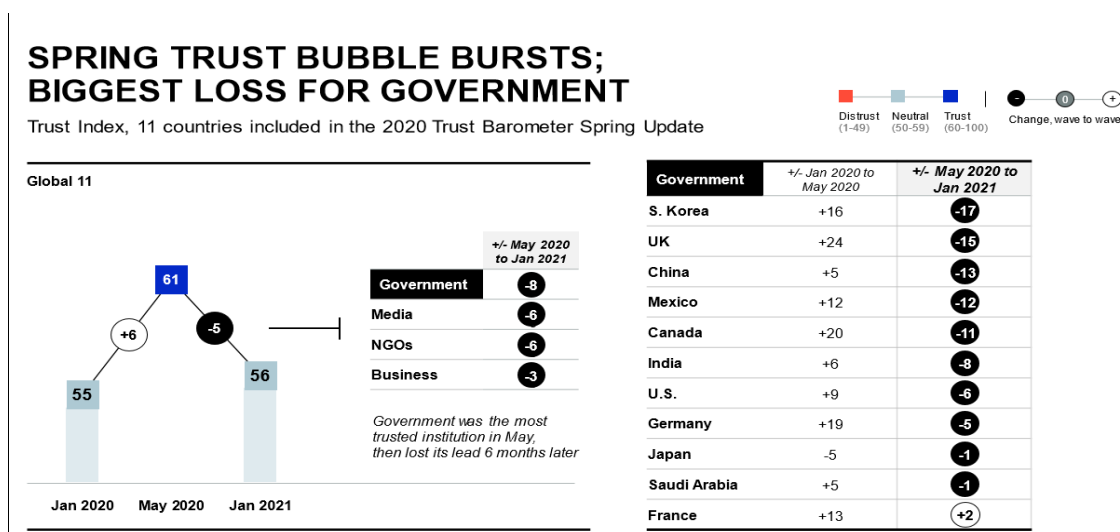


31. With a credibility deficit in the societal compact partners, how do we restore trust in each other?
32. It is also not just society that has lost trust in the credibility of South Africa. Foreign investors vote with their money. The below tells a harrowing story, including that the belief in the **New Dawn** was very short lived.



Restoring Trust

33. Refuelling the tank of the South African economy has to be built on trust, a new social compact: something our own President on 21 October 2020 has acknowledged is critical to build an inclusive economy.
34. The breakdown of trust in governments and its ability to meet its constitutional mandate is not just a South African problem.
35. This point is aptly demonstrated by the Edelman Trust's research that showed that the pandemic has eroded, even further, the trust society has in others, but particularly that trust which society has in Government's ability. It is specifically the lack of trust in governments to do the right thing that has waned, notwithstanding that before the pandemic they led this trust index.



36. Failure to restore this trust poses grave risks in that society and communities may then become less reliant on government and business to save them. This has already started happening as is demonstrated by a recent High Court judgment which not only affirmed the constitutional delinquency of the **Kgetlengrivier Local Municipality**, but found its delinquency so great that the people could legally take over its constitutional mandate to render sewage treatment services.
37. This was all happening when the Auditor General reported in 2019:

"It's a systems breakdown across the country, with only 18 out of 257 municipalities receiving a clean audit"

Water and sanitation: A case study for lost trust

38. This lack of accountability and dysfunction has been going on for years and been reported to those with the power to oversee and intervene. For example, the statement below is from the 2021 Budget Review:

"Water and sanitation: To achieve water security, South Africa needs to close an estimated capital funding gap of about R33 billion per year for the next 10 years through cost-reflective tariffs. At present, governance structures are weak, cost recovery is low, and institutional and regulatory frameworks are inadequate."

39. Again, this was the performance update from this same department.

Selected performance indicators

Table 41.1 Performance indicators by programme and related priority

| Indicator | Programme | MTSF priority | Audited performance | | | Estimated performance | MTEF targets | | |
|--|----------------------------|---------------------------------------|---------------------|----------------|----------------|-----------------------|--------------|---------|---------|
| | | | 2017/18 | 2018/19 | 2019/20 | | 2020/21 | 2021/22 | 2022/23 |
| Percentage of annual international relations programmes implemented per year | Administration | Priority 7: A better Africa and world | — ¹ | — ¹ | — ¹ | 75% | 75% | 75% | 75% |
| Number of river systems with water resources classes and determined | Water Resources | Priority 5: Spatial | 1 | 4 | 2 | 1 | 0 | 1 | 0 |
| Number of wastewater systems assessed for compliance with Green Drop regulatory standards per year | Water Resources Management | settlements and local government | 0 | 0 | 0 | 0 | 963 | 0 | 963 |

40. Here is an extract from the 20 June 2020 SCOPA meeting:

SCOPA asked why the AGSA had not audited Programme 1 of the DWS, as it had reported 100% budget expenditure despite achieving only 38% of its objectives. Members asked how oversight over the Lesotho Highlands Development Authority could be improved, as the project carried inherent challenges by being located in two localities. They continued to express their concern over the mismanagement of the "War on Leaks" programme, which had cost R3 billion without producing the desired results. However, the engagement with the AGSA had provided SCOPA with the necessary information it needed to lead its oversight over the financial health of the DWS and the water boards.

"Andries Sekgetho cited the lack of consequences as a key concern for the auditor-general (AG), saying despite flagging issues at the water boards, there had been no investigation."



41. In a 2018 report by Co-operative Governance and Traditional Affairs Minister Zweli Mkhize, he reported that at least 55 municipalities are distressed or dysfunctional.
 42. He said his department had identified that 31% of the country's municipalities were dysfunctional, while 31% were almost dysfunctional. **Only 7% of municipalities were functioning well** and 31% were reasonably functional.¹
 43. In the annual Green Drop report in 2013, of the 824 treatment plants, maybe only 60 release clean water². report noted that less than 10% of the country's 824 plants were releasing clean water. **The rest were breaking the law, with a third rated as "critical" and in need of urgent repair.** This equates to 50 000 litres of untreated sewage released every second.
 44. In its 2020 report on corruption in the water sector, Corruption Watch list Integrity, Culture of Consequences and honest and ethical people as the top 3 interventions³.
 45. It invites the question as to National Treasury's role in exercising its powers and obligations in terms of section 216 of the Constitution.
 46. To restore trust, the first step of intervention may not be with those empowered to deliver services but by those entrusted with oversight and ensuring accountability.
47. Submission: In order to restore trust, all parties need to put politics aside and recommit themselves to work together to produce an economic restructure plan that all are in agreement with and that will prioritise critical areas for immediate action.
 48. Community deserves a response as to why those obligated to oversee appear to have failed them. How do they trust "the Plan" when those obligated to oversee these plans have failed them?

WHERE TO BEGIN: APPLYING WHAT WE LEARNED BEFORE

49. Any long journey starts at the beginning (i.e. an appropriate plan) and with taking the first step (i.e. the step must be started and finished).
50. Where you have too many problems that continue to shift it creates uncertainty in situational awareness; a "fog" over good decision making. In battle, this is referred to as the fog of war.
51. As Dwight David Eisenhower summed it up neatly "*in preparing for battle I have always found that plans are useless, but planning is indispensable.*"

¹ <https://citizen.co.za/news/south-africa/1996338/sas-municipalities-are-increasingly-drowning-in-their-own-human-waste/>

² <https://mg.co.za/article/2017-07-21-south-africas-shit-has-hit-the-fan/>

³ https://www.corruptionwatch.org.za/wp-content/uploads/2020/03/water-report_2020-single-pages-Final.pdf

52. Once battle begins, there are occasions when officers must make situational decisions outside “the plan”. However, as many lives depend on those deviations, trust and accountability must exist between the officer, those soldiers under his command and those in command.
53. Approaching the problem may sometimes mean that the first step of the plan is to start somewhere by prioritising a few critical matters and then adjust the plan as we see the path unfold.
54. Mr Mark Kingston from B4SA seemed to confirm the same practical approach when he said that the NEDLAC social partners “*must focus on implementation of three or four critical deliverables that will instil confidence and put us onto the first rung of a long ladder to sustainable inclusive growth...*”.
55. As SAICA our experience working with government is that a position of distrust and inefficiency can be jointly turned to success if there a willingness on both sides.
56. So, let’s look at some of the many SAICA case studies⁴ working with government in addressing large challenges:

Schools Financial reporting Project: SAICA, DBE & NT

57. The Department of Basic Education has had challenges properly monitoring spending at schools, which has a direct impact on its oversight and coordination role.
58. This has directly resulted in financial mismanaged and hijacking of school budgets.
59. **After engagement, the problem statement was formulated, namely what was preventing DBE from using data analysis to spot financial trends and exploitations?**
60. The answer was that there was no generally applied financial reporting standard for schools and no central system to report such financial data so that it could be analysed.
61. SAICA has over the last few years collaborated with DBE and NT and SAICA has prepared and submitted to NT in 2020 a proposed standardised financial reporting standard for schools.
62. SAICA believes that this intervention on completion and implementation will have a significant impact on how DBE and NT are able to get a national overview of school’s financial performance in South Africa, understand what the money is being spent on and can make timely intervention to ensure accountability and correction.

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https://www.saica.co.za/portals/0/documents/SAICA_Nation%20Building%20Impact%20Report%202020_web%20file%20resized.pdf



School Governing Body Project: SAICA, PED, DBE and SGB's

63. This project started with SAICA's desire of having a direct impact on the scourge of low quality education for learners at schools.
64. **The question was simple, why were so many previously disadvantaged school's financial management such a mess and why were SGB's not holding school principals and leadership accountable?**
65. After initial engagements 2 things became evident:
 - 65.1 The prescribed financial regulatory regime was, and still is, overly complex in relation to what can be expected and is needed from schools and results in inevitable failure; and
 - 65.2 Historically disadvantaged schools had a 3-fold disadvantage namely an overburdened leadership leading to questionable financial information and late financial processing, lack of access to financial acumen through cost or community limitations and SGB's that could not interpret or trust the financial data but were expected to make informed decisions.
66. With reference to the first matter, SAICA is continuing to work on with the DBE, but on the second matter, SAICA could action it immediately. Following successful engagement, the SGB Program pilot was rolled out with the GDE in the Gauteng province in just 11 schools. In collaboration with our members, we were able to deploy skills at no cost to assist in properly capturing, disclosing financial data and explaining to SGB's the financial data as to what it meant.
67. What soon became obvious was that getting the financial house in order had a significant impact on other areas. With principals and school leadership released to focus on education, rather than financial reporting, academic performance started to increase at these schools. Furthermore, SGB's where parents lacked the ability to interpret financial data were suddenly empowered to make informed decisions on schools and what would benefit their children most in those communities.
68. This project has been so successful that it has been requested by other provincial educational departments and SAICA now implements the project in 3 provinces in nearly 200 schools.

IKUSASA Student Financial Aid Program (ISFAP) Pilot

69. SAICA has for decades been involved in student support and funding with our Thuthuka Bursary programme providing additional support to beneficiaries who are studying towards being Chartered Accountants.
70. South Africa has continually faced challenges in providing occupational specific training and education and NSFAS only caters for students with total household income of R350 000 or less per annum.
71. A particularly difficult challenge was that tertiary education is particularly expensive and inaccessible, to such extent that even the middle class struggle to afford it.



72. As a country this excluded generation caught in a system that focusses on the poor and the rich would become identified as the “missing middle”. The “missing middle” is defined as those students from families with a total household income of between R350 000 and R600 000 per annum.
73. The questions were then how do you:
- 73.1 Set a standard to identify the “missing middle”;
 - 73.2 Create a financial model that is agile enough to allocate funds in various ways to enable study;
 - 73.3 Get funding outside of just government to invest in the future of our youth?
74. The Minister of Higher Education appointed a task team to investigate the challenges led by Mr Sizwe Nxasana.
75. An intervention was identified and SAICA was approached to help design and pilot the program in 2017.
76. The pilot was run within the SAICA Thuthuka Education Upliftment Fund (TEUF) and once the principles were tested and refined, the project was incorporated into a new Public Benefit Organisation ISFAP. SAICA continues to assist and support the project.
77. In 2019, more than 1600 students (90+ pass rate) from various occupations passed their academic year funded and supported by ISFAP.
78. In 2019 R380 million (2018 R320 million) was contributed by the private sector for this project.

PRIORITY FOCUS AREAS

Rebuilding SARS

79. The Minister correctly identifies SARS as a critical part of not only rebuilding the fiscus but also the economy.
80. SARS’ dual role of administrative tax collection and also legal enforcement does however make it a complex balancing act, not unique to South Africa.
81. We therefore welcome the additional financial resourcing of SARS proposed by the Minister.
82. We also welcome the work Commissioner Kieswetter has been doing with his leadership team to change the culture at SARS. In this regard we definitely have seen an improvement where SARS leadership is really trying to change, including in improving their communication, engagement and collaboration.
83. Notwithstanding the high regard SARS has built up over the years predating the previous CSARS, there remain many challenges. Many of these are addressed in detail in our submissions to the **Nugent Commission of Inquiry**.



84. We address some of our ongoing concerns briefly on the next page.

Delayed adoption of GRAP by SARS

85. The Accounting Standards Board in April 2012 approved the adoption of GRAP to replace the Modified Cash Basis of Accounting (MCB) in the Public Sector.
86. Worryingly, little to no movement has occurred nearly 10 years later including at SARS who we believe has requested multiple extensions to April 2022.
87. This delay, as also confirmed by the Auditor General, has contributed to various dubious practices by government including “hiding” unauthorised expenditure by just not paying it which MCB allows departments and organs to do. It also allows SARS to “adjust” refunds by dubious administrative practices, including in disputes as already alluded to by then Minister Pravin Gordhan.
88. Given the current circumstances we do not believe that SARS will meet the April 2022 deadline and there seems no urgency by National Treasury in implementing what is a critical part of improving accountability and enhanced financial reporting.

SARS Governance Structure

89. The Minister announced in Budget 2020 that a discussion document would be issued on the governance of SARS.
90. We accept the Ministers follow up announcement in Budget 2021 that COVID has delayed such release but we also note that the Nugent Commissions report was already finalised in December 2018, giving National Treasury more than 2 years.
91. We hope that Parliament will impress on National Treasury the urgency required in finalising this matter.
92. In this regard we hope that Parliament will also consider our proposal that another oversight structure, such as the proposed Inspector General of Taxation be reconsidered and rather have consideration for a multidisciplinary SARS Advisory Council, as SAICA had proposed. We do not believe that another oversight and reporting structure will enhance SARS and that a SARS Advisory Council will add a lot more in building social cohesion, SARS capacity and SARS efficiency.

SARS Senior Official list

93. In 2018, SARS categorically undertook to Parliament to release the long outstanding Senior SARS Official list that has been outstanding since 2012, notwithstanding that it forms a critical part of the functioning of the Tax Administration Act.
94. No indication or follow up has since occurred.

SARS Accountability

95. The current CSARS, Honourable Kieswetter has correctly identified that one of his many challenges is healing the SARS staff trust gap created by his predecessor.

96. However, what we have not seen is his acknowledgement of the abuse taxpayers have faced and that SARS officials should be held accountable for and prevented from doing. We do recognise the CSARS for identifying a matter we have noted before as a contributor to tax morality, namely that SARS officials conduct and attitudes result in the compliant and non-compliant receiving the same hard handed approach, reducing the trust society has in SARS.
97. This hard handedness has usually been justified in Parliament by SARS in sweeping statements of addressing tax evasion, where compliant taxpayers are seen as collateral damage rather than highlighting SARS abuse.
98. A further challenge is the blatant ignoring of the law by some SARS officials. In this regard we note the reports by the Tax Ombud confirming SARS systemic disregard for legal times and that SARS has systemically abused the dispute process where 70% of appeals are conceded by SARS. This culture of ignoring the law had its lowest point when the Tax Ombud found SARS in its 2016 report to have ignored a court order for 12 months.

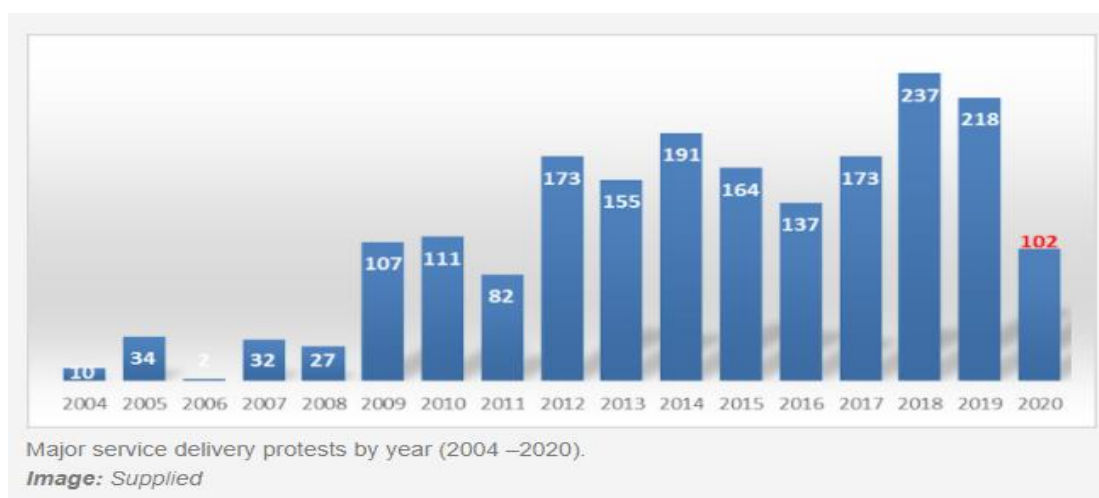
PRIORITISATION OF NEEDS

99. In the 2017 MTBPS the Parliamentary Standing Committee on Finance challenged civil society to give input on how to grow the economy. SAICA, through its National Tax Committee took up this challenge and identified that the lack of consensus and accountability underpinned growing the economy and undermined interventions planned for its revival. In SAICA's 2018 Budget Review presentations to Parliament, the **SAICA 7** (improved employment relations, violent crime reduction, improved education, agreed infrastructure priorities, economic policy stability, defining government's role in the economy and currency stability) were submitted and presented as critical consensus items to rebuild the economy. This was again reiterated in 2020 at the height of the pandemic with South Africa ranking amongst the worst in the world in many of these areas.
100. In light of where the country currently finds itself, SAICA has identified two of its seven key areas that is suggested the government prioritises. These two areas are addressing employment relations through engagement on the wage bill and infrastructure revitalisation areas.
101. This again aligns with B4SA Mr Mark Kingston approach when he said social partners *"must focus on implementation of three or four critical deliverables that will instil confidence and put us onto the first rung of a long ladder to sustainable inclusive growth..."*.
102. It also aligns to Organised Labour's views that we must now enter a stage of doing not further planning. "The Plan" can also be adjusted as we learn from the doing as long as we have planned and coordinated who must do what.

Employment Relations: Wage bill- Structural mix and productivity

Agreeing a change in focus and implementation

103. Unemployment and poverty lie at the heart of this struggling economy. That is the challenge we are seeking to address. As a point of departure it is prudent to state that government and media insistence of using the “adjusted” employment rate is less than helpful and undermines its credibility.
104. **We must be honest with ourselves, the unemployment rate is 42,6%, not 32,5%. We are not entitled to our own facts and this “fake news” is a disservice to society.**
105. To date the focus of business and civil society was at reducing the public sector wage bill. A detailed study was done for B4SA on the matter and it confirms concerns about a public sector wage bill that seems out of control and comparatively overstated⁵.
106. While paying high taxes generally makes most people very unhappy, taxpayers in Denmark are happy to hand over their tax money to the government. Denmark has one of the highest tax rates in the world (45%), yet the taxpayers in this country feel their taxes are a payment for their quality of life and gladly hand over their money to the revenue authorities. Their tax contributions not only reduce their risks, uncertainties and anxieties (such as how they are going to fund their child’s school education) but it also prevents extreme unhappiness.
107. South African taxpayers currently have the polar opposite experience to that faced by the Danish taxpayers. Taxpayers are loathed to see any further public sector wage increases as the increase in wages has not brought with it a corresponding increase in service delivery (productivity). This is evidenced by the number of service delivery protests that have taken place over the years – 218 in 2019, less in 2020 due to the lockdown months when public gatherings were outlawed and policing was rigorous to enforce the state of disaster regulations.



⁵ <https://www.intellidex.co.za/wp-content/uploads/2020/11/Intellidex-Public-Sector-Wage-Bill-Nov-2020.pdf>

108. However, it is possible to imagine that South African taxpayers, similar to those in Denmark, would be willing to pay high taxes (which they currently do in any case) to fund the public sector wage bill IF they were receiving value for their money – that is, if the service delivery matched their payments. This will, however, require that public service becomes much more productive.
109. What we see is not just concerns about lack of control and oversight, but at its core **lack of productivity i.e. value for money**.
110. Restructuring a country is however not like restructuring a company even though we would wish it to be as easy. A company does not have to consider societal cohesion and its control of the employment value proposition (i.e. salaries) and outright control of the company by its management (i.e. employees don't get to vote them out) means it faces fewer risk.
111. We are therefore cognisant that just actually cutting (not soft ceiling increases) is a lot more difficult proposition and definitely in the short term won't solve unemployment. We are enamoured by the following related tribute by Adv Geoff Budlender to the late Arthur Chaskalson and how our constitutional democracy actually works⁶:

*"I remember the famous Grootboom case in the Constitutional Court. It was a difficult case about the right to housing. Counsel for the government started his argument. He talked about the structure of the Constitution and the bill of rights, separation of powers, and so on. After about five minutes Arthur interrupted him. He leaned forward and said **"Mr X, leave aside for a moment these questions of constitutional theory. Just tell me this: where does the government suggest these people should sleep tonight?"***

112. This pragmatic approach applies equally notwithstanding who was at fault, including government, unions and public sector employees. If you cut the public sector wage bill, where will these people work tomorrow? A question rightly posed by unions and parliament.
113. We cannot ignore this question.
114. The budget, however, does not propose a cut but ceiling caps on growth in the wage bill.
115. One of the assumptions on which the budget heavily depends is the reduction of the wage bill – a R303 billion reduction over the medium term (2020 Budget: R160 billion plus the 2021 Budget: R144 billion). Yet the word 'reduction' does not seem to imply a 'cut' as can be seen from the following table contained in the budget speech:

⁶ <https://www.groundup.org.za/article/tribute-arthur-chaskalson/>

| Table 5.5 Consolidated government expenditure by economic classification ¹ | | | | | | | |
|---|--------------------------------|----------------------------------|-----------|-----------|--|-------------------------------------|--|
| | 2020/21 Revised estimate | 2021/22 Medium-term estimates | 2022/23 | 2023/24 | Percentage of total MTEF allocation | Average annual MTEF growth | Average annual MTEF growth excluding COVID-19 |
| R million | | | | | | | |
| Economic classification | | | | | | | |
| Current payments | 1 148 546 | 1 208 223 | 1 245 844 | 1 281 571 | 60.8% | 3.7% | 4.7% |
| Compensation of employees | 636 958 | 650 404 | 656 021 | 659 269 | 32.0% | 1.2% | 1.5% |
| Goods and services | 269 944 | 279 474 | 273 394 | 274 975 | 13.5% | 0.6% | 3.7% |
| Interest and rent on land | 241 644 | 278 345 | 316 429 | 347 327 | 15.3% | 12.9% | 12.9% |
| of which: | | | | | | | |
| Debt-service costs | 232 852 | 269 741 | 308 013 | 338 591 | 14.9% | 13.3% | 13.3% |

116. It is evident that there is no cut in the wage bill, just a reduction of the growth and share of spending on public-service wages over the medium term. With regard to the latter, we refer you to SAICA's Budget 2020 commentary and the concerns raised with this reduction calculation, in that it is based on expenditure not tax revenue.
117. We await the outcome of the appeal to the Constitutional Court on the government's reneging of the third year of the wage agreement. Not only will it have a substantial impact on the credibility of the current budget but it will also set the scene for the new wage agreement negotiations that need to be entered into in relation to the next three years.
118. The status of these negotiations is not known and it will be interesting to see if the numbers included in the budget submitted to Parliament reflect what will actually be paid to public sector employees. This has not been the case in the past, as adjustments have continually been made in the Medium Term Budget Policy Statement, despite National Treasury apparently knowing that higher wages had been agreed with the unions notwithstanding Regulation 79 requiring National Treasury to approve these agreements as they exceeded budgets. The Labour Appeal Court judgement in this regard reinforces budgeting controls.
119. The above, however, cannot be the end of this tale as even smoothing the public sector wage bill is not sustainable. So, if we cannot use the lever of actual cuts, then let's use the lever of productivity increases through accountability and proper leadership.
120. Submission: For an alternative to job and wage cuts, Labour will have to start agreeing on measures that enhance accountability and productivity from its members. Civil society, Business and Government need to agree on accountability measures and interventions for overseers and leadership who have failed this country.

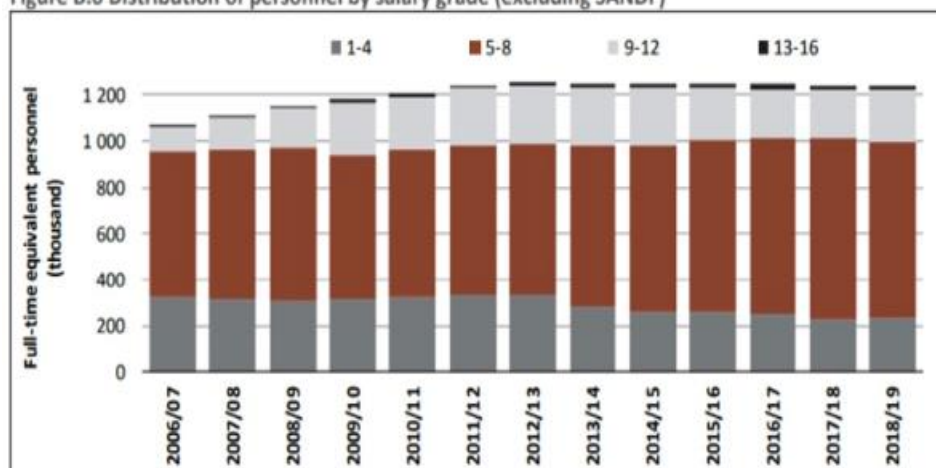
Mix of employees

121. SAICA is acutely aware of the plight faced by many nurses, police officers, teachers etc. Not only are most nurses overworked due to the shortage of nurses in the country and the added burden of treating COVID patients, but they also receive poor salaries and their working conditions are not always ideal. Discussion of pay reductions for these

individuals seems incompressible. This plight applies to many other public sector workers as well, not just nurses.

122. It is therefore critical that the government considers the structural mix of its employees in the various sectors before renegotiating the wage reductions. The 2020 Budget succinctly indicated the problem with the current mix in the Figure below.

Figure B.6 Distribution of personnel by salary grade (excluding SANDF)



Source: National Treasury (PERSAL data)

123. What is glaringly obvious is the huge growth in the R540 000 to R964 000 band (grade 9-12) and the R1,2m to R2,1m bands (grade 13-16) in just the last 12 years. The majority of staff numbers are, however, in the R250 000 to R450 000 band (grade 5-8). The decrease in the R130 000 to R240 000 (grade 1-4) is also quite noticeable. As this represents the average private sector wage band and considering average wages and household income in South Africa, you would expect more staff in this category for government.
124. We need transparency from government on actual service delivery positions and those administrative or political in nature so we can assist in interrogating the employee mix. Unions have a large role to play in this process as the societal partner on the ground.

125. Submission: In order to ensure a sustainable wage path, the structural mix (composition of employees) needs to be addressed - fewer bureaucrats and more staff at the coal face of delivery are needed and they should be remunerated accordingly.

Accountability

126. The introduction of Performance Agreements for Ministers and their availability to the public for scrutiny was welcomed. However, as we have seen in the Water and Sanitation case study, little has come from this as it was hoped that the appropriate consequence management will take place in instances of non-performance.
127. Similarly, in the case of all other public sector workers, reliance is placed on the collective bargaining processes with no individual performance monitoring taking place that we are aware of. The consequence management as reported by the Auditor General also



seems to be dysfunctional with underperforming employees just moving from one department to another.

128. We have noted the R50million expenditure incurred in 2020 on a study on revised performance management systems, though we are yet to see an agreement and consensus with labour as to what this means for their members and how it will be enforced.

129. Organised Labour should, however, accept that if they refuse productivity and accountability interventions, job and salary cuts will be inevitable as the economy spirals further downwards and not even “political understanding” will prevent that.

130. Submission: The collective bargaining process as relates to performance management does not provide the accountability that is required to ensure individual productivity and performance standards are achieved. Individual performance management agreements need to be instituted across the public sector.

131. Submission: A ‘public sector productivity pact’ as recommended by BUSA should be entered into between the government and public sector workers where they agree to minimum standards for *both* wages and productivity.

132. This compact would have three essential components:

- a) An agreement on ratios of payroll costs to GDP and to tax revenues that are sustainable;
- b) An agreement on the time frames over which the adjustment is to be made; and
- c) An agreement that government, public sector unions, and business will work together to develop productivity enhancement plans for the public service.

133. Government, business and unions would thus need to collectively design and participate in a rigorous, reliable, transparent, credible and legitimate process aimed at generating a deeper understanding of productivity challenges in the public sector and how to address these.

134. We acknowledge that this is a challenging task, but the potential value to society is worth the effort considering the alternative damage that can be caused by further service delivery protests.

135. Civil society is also willing to do its part and small changes can have a big impact as the SAICA schools program in all nine provinces has shown. SAICA members have been voluntarily deployed to schools to assist and improve on financial reporting and controls and this has had a major impact on both financial and academic performance of the schools and learners. Similar initiatives in the health care and TVET colleges are also yielding positive results.

The right skills

136. Linked to productivity is the need for the public sector to employ individuals that have the right skills for the job they are appointed to perform. In this regard, SAICA welcomes the opportunity to provide comments on the discussion document: *“A National Implementation Framework towards the Professionalisation of the Public Service”*.
137. Stemming from this submission, it is noted that both the Municipal Finance Management Act, No. 56 of 2003 (MFMA) and the Public Finance Management Act, No. 1 of 1999 (PFMA) require that the chief financial officer (CFO) be responsible for the effective financial management of the institution including the exercise of sound budgeting and budgetary control practices; the operation of internal controls and the timely production of financial reports.
138. However, the Auditor General has over the years identified that one of the root causes for poor audit outcomes in both the PFMA and MFMA audits is key officials lacking appropriate competencies. The Minister of Finance tried to address the lack of competency levels of officials responsible for financial and supply chain management at municipalities and municipal entities by issuing the Municipal Regulations on Minimum Competence levels on 15 June 2007 which was later amended on 26 October 2018.
139. The Municipal Regulations on Minimum Competency Levels seek to professionalise the local government sector and to make it a career choice for talented officials and to some extent mitigate some of the root causes of poor financial management and service delivery. The Regulations addresses the minimum higher education qualifications, work related experience and core managerial and occupational competencies that are required by financial and supply chain management officials.
140. The Regulations state that the CFO of a municipality or municipal entity must generally have skills, experience and capacity to assume and fulfil their responsibilities and exercise the functions and powers assigned to them in terms of the MFMA.
141. All financial and supply chain management officials who did not meet the minimum competency levels at the effective date of the Regulation had until 2 August 2018 to meet the minimum competency levels. A financial and supply chain management official who was appointed on or after the commencement of the Regulation had to attain the minimum competency level within 18 months from the date of appointment.
142. The status of the minimum competency levels for CFOs as at 30 August 2018 (11 years after implementation) were as follows:

| Province | Number of Municipalities | Chief Financial Officers (CFO) | No. of CFOs meeting minimum competency | % of CFOs meeting minimum competency |
|----------------|--------------------------|--------------------------------|--|--------------------------------------|
| Eastern Cape | 39 | 26 | 11 | 42.3 |
| Free State | 23 | 25 | 13 | 52.0 |
| Gauteng | 11 | 25 | 3 | 12.0 |
| KwaZulu- Natal | 54 | 41 | 11 | 26.8 |
| Limpopo | 27 | 22 | 6 | 27.3 |
| Mpumalanga | 20 | 16 | 6 | 37.5 |
| Northern Cape | 22 | 27 | 7 | 25.9 |
| North West | 31 | 11 | 3 | 27.3 |
| Western Cape | 30 | 25 | 19 | 76 |
| TOTAL | 257 | 218 | 79 | 36.2 |

Source: National Treasury minimum competency levels database as discussed at Parliament on 18 September 2018.

143. The above indicates that as at 30 August 2018, the vacancy rate for CFOs at municipalities was 15.2%; and only 36.2% of CFOs appointed at municipalities met the minimum competency level.
144. Therefore 63.8% of municipalities who had CFOs appointed as at 30 August 2018 were not complying with section 83(1) of the MFMA in terms of the required competency.
145. The above reflects a breakdown in the performance management development system, and effective and appropriate disciplinary steps not taken against officials failed to comply with the legislation and who failed to meet the minimum competencies levels.

146. Submission: The need for a strong performance management development system and consequence management system to aid in the professionalization of the public service is clearly needed based on the evidence above. We refer you to the SAICA submission on the '**Professionalization of the Public Sector**' document for further inputs in this regard.
147. Upskilling of staff, including at SARS considering its important mandate, is essential. We thus welcome the allocation of additional funds to SARS and hope that at least some of it will go to upskilling its staff. The Commissioner's acceptance of assistance from RCB's to assist with training is also a welcome development.

Infrastructure revitalisation

148. Although the 2021 Budget states that it boosts infrastructure spending by providing R18 billion over the medium term, prioritisation of infrastructure spend seems haphazard. The infrastructure projects totalling R340 billion gazetted last year include 51 strategic projects and 12 special projects focusing on water and sanitation, energy, transport developments, agriculture and agro-processing, affordable housing, fish farming and a satellite hub along with other special projects.
149. What we cannot see is an overall “helicopter view” of each area and how projects address specific strategic areas at national, provincial or local government level and how the budget priorities align to “the Plan”.
150. For example in Water and Sanitation the National Water and Sanitation Master Plan highlights many key issues but does not seem to properly allocate responsibilities to all three tiers of government where those functions may lie⁷. We also note that notwithstanding that government knew of the water crisis in the 2000’s, this Master Plan was only created in 2018/2019, a similar tale to our electricity challenges.
151. Infrastructure requires a national implementation plan and focus areas that are mapped to the budget. These can focus on 3-4 key areas just to start as we can align the plan as we start implementing and learning from the inevitable mistakes we will make.
152. B4SA set out 12 priorities which we have mapped to 3 key areas.

| | Projects & Initiatives | Specific Projects / Opportunities | GDP impact ⁽¹⁾ | Jobs ⁽¹⁾ |
|------------------------|---|---|----------------------------------|-------------------------------------|
| Electricity | Secure and affordable electricity supply | <ul style="list-style-type: none"> Address Eskom operating and capital structure / update IRP Embrace Gas economy: Revise IRP gas to power targets, enable extension of Pande-Temane, invest in LNG imports | up to R177bn capex | 88,000 created 248,000 protected |
| | Fast-track Green economy | <ul style="list-style-type: none"> Accelerate renewables deployment via REIPPS and REIPP6 Launch Green stimulus and national green funding strategy | up to \$83bn of green funding | 500,000 indirect |
| Logistics | Implement Transnet’s road to rail strategy | <ul style="list-style-type: none"> Address bottlenecks issues to grow rail volumes Expand Saldanha railway capacity Private concession Lephalale-Maputo line | Transport R66bn p.a. | Transport 19,000 p.a. |
| | Ports expansion | <ul style="list-style-type: none"> Improve competitiveness relative to global peers Expand capacity for agriculture & mining | - | Mining 70,000 by 2024 |
| | Road infrastructure | <ul style="list-style-type: none"> Complete BRT implementation Clarify role of minibus taxis within public transport | Construction up to R100bn p.a. | Construction up to 100,000 p.a. |
| Electricity dependency | Full Spectrum utilisation | <ul style="list-style-type: none"> Digital migration, permanent allocation, network sharing “Use it or lease it”, Rapid Deployment Plan, WOAN licences | Telecomms R15 - 20bn p.a. | Telecomms >55-65,000 p.a. |
| | E-learning & digital health platforms | <ul style="list-style-type: none"> Ensure more affordable connectivity Increase access and financial inclusion | Tourism R17-34bn p.a | Tourism 70-120,000 p.a |
| | E-commerce acceleration | <ul style="list-style-type: none"> More powerful and less costly systems Migration of Govt & SMMEs to Digital | | |
| Water dependency | Water infrastructure | <ul style="list-style-type: none"> Complete delayed projects /coordinate with sectors | Agriculture R10 - 15bn p.a. | Agriculture 60-80,000 p.a. |
| | Maximise commercial agricultural output | <ul style="list-style-type: none"> Cannabis industrialisation: has wide industrial product use Improve access to finance and enabling infrastructure | | |
| Logistics | Import replacement focus | <ul style="list-style-type: none"> Target high value sectors and new wild-card products Develop regional trading corridors | Manufacturing R21-35bn p.a. | Manufacturing 28-70,000 p.a. |
| | Increased financial inclusion and lower cost of capital | <ul style="list-style-type: none"> Enable acceleration of digital financial services ecosystem, establish new challenger banks Funds targeting SMMEs, agriculture and Green economy | ~R50-90bn p.a. from steady state | 220-470,000 from steady state |

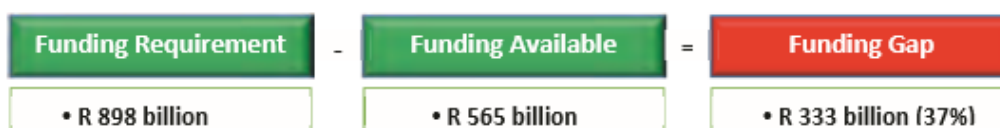
⁷ https://www.gov.za/sites/default/files/gcis_document/201911/national-water-and-sanitation-master-landf.pdf

153. Submission: It is clear that we have not properly mapped the key initiatives and dependencies properly. Though they should not stop implementation they will enhance such implementation and reduce timelines. This includes mapping to various tiers of government.
154. Monitoring and measuring of implementation success and accountability measures are lacking in all these plans and are primary not secondary considerations.
155. Lastly, crime impacts all these key areas. Crime intervention should be prioritised to align with governments key areas.

Water and sanitation

156. The first area of prioritisation is water infrastructure. South Africa is a water scarce country and thus all efforts should be taken by the government to ensure that the water infrastructure is sound in order to provide quality drinking water to it citizens. Yet, many residents of our country are faced with methane bubbles popping on the river's surface near to them as sewage pipes that are clogged force raw sewage to flow into the rivers.
157. There are many examples of this, one is the Vaal River system, on which approximately 19 million people depend on for drinking water and commercial use. Yet this water is polluted beyond acceptable standards according to the South African Human Rights Commission (SAHRC), which set up an inquiry into long-running problems in the river system. According to the commission, without timely and effective response from government, Gauteng's most vital water resource may very well have been irreparably damaged.
158. The Minister notes in Budget 2021 that we will require R33 billion over 10 years in funding the gap for water infrastructure. This seems to have been extracted from 2019 Master Plan:

Funding Gap over the next decade



159. It seems that large assumptions were made in calculating this funding gap given the performance of this department in spending 100% of budget and delivering less than 38% of results. Also given that only 7% of municipalities have fully functional sanitation and seemingly no resources or skills to fix or maintain, how does this plan address **accountability**?
160. Some of the funding proposals will face extreme challenges for example the proposal on reducing demand. Given that most municipalities rely on water and electricity sales for more than 50% of their revenue, reduced sales will leave a funding gap. As we have seen from load shedding, that funding gap is then made up by extreme price increases.

161. As to the scope of overall quantification of the backlog we also have concerns. The City of Johannesburg alone has a water infrastructure maintenance backlog of R16 billion, this does not even water access roll outs. Our initial calculation of national, provincial and local government published needs of the backlog set it at closer to R2 trillion.
162. Are these numbers credible to really show the overall problem?
163. There also seems to be no **transparency** as to how the Master Plan is monitored and measured against targets, accountability enforced and public disclosure as to progress made.
164. Submission: Under global development goals agreed in 2015, governments pledged to provide access to clean water and sanitation for all by 2030. The government must urgently prioritise funding for water and sanitation projects. People can temporarily live without electricity and create alternative electricity generation, but they cannot live without quality drinking water. As the water is being contaminated by the collapsing sewage system, urgent attention must also be given to the fixing these systems.
165. The biggest risk to achieving these goals is a lack of accountability and enforcement of consequence management for which there seems to be very little political will.
166. Furthermore, we propose that the National Water and Sanitation Master Plan allocate responsibilities and quantify financial resources required at all 3 tiers of government where the primary responsibilities lie. Interventions and action items would differ depending on the tier of government and how it would be funded. PPP seems to mostly be limited to loan funding in the Master Plan whereas it already concedes that government does not have the skills required to implement. PPP should extend beyond funding. Civil society has shown how quickly they can react in actually meeting needs timeously, agility government seems to lack⁸. Even communities have now started taking over maintenance and repair functions.
167. The timelines for this National Water Master Plan started back in 2016/2017 with planning and consultation running into 2025. In this the Master Plan has already failed to address the looming crisis facing our country. Many of this interventions should have been completed before 2022. Again Governments failure to implement is undermining “the Plan”.
168. Lastly effective monitoring, measurement and consequence management for failure to implement needs to be specifically addressed.

Electricity generation

169. The second area of prioritisation should be electricity, yet the financial and structural sustainability of Eskom is still uncertain.
170. The reason why electricity is so important is that telecoms, digital economy and certain logistics roll out remain dependent on it to empower the poorest communities and also

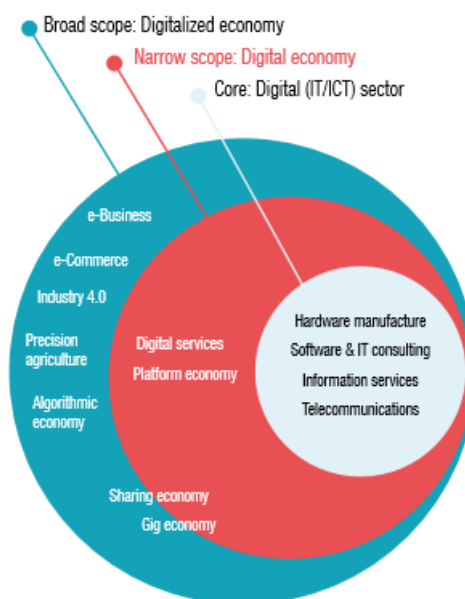
⁸ <https://giftofthegivers.org/water-provision/>

rejuvenate our rural areas and their economies. A manufacturing and beneficiation economy also cannot function without stable electricity supply.

171. The United Nations makes this exact point when dealing with the digital economy and digital infrastructure when it states⁹:

*“It should be noted that in discussions about the dynamic digital economy, reference is frequently made to “digital infrastructure”, a concept that still lacks a widely accepted definition. It may be useful to consider different levels of digital infrastructure: (i) ICT networks (the core digital infrastructure for connectivity); (ii) data infrastructure (data centres, submarine cables and cloud infrastructure); (iii) digital platforms; and (iv) digital devices and applications. Some experts also include the data themselves as part of the digital infrastructure.⁸ In the case of digital platforms, while they are not strictly infrastructure (they can also be agents participating in the activity that takes place on them), they also perform infrastructure-like functions by connecting two or more sides of a market. **Moreover, at a zero level, electricity infrastructure is essential to enable the use of digital infrastructure, as these technologies need power to run.**”*

Figure 1.1. A representation of the digital economy



Source: Bukht and Heeks, 2017: 13.

172. Transparency continues to be lacking and the overall Master Plan seems outdated¹⁰. The IRP again seems to not have a full overview based on the specific level of government, an overall quantification per level of government, funding model per level of government and lastly a success measurement, monitoring and accountability plan.

⁹ https://unctad.org/system/files/official-document/der2019_en.pdf

¹⁰ https://www.gov.za/sites/default/files/gcis_document/201409/energysecmasterplan0.pdf

173. This is quite clear from the DoE 2019 Annual Performance Plan that is filled with **more plans and very little actual implementation deliverables**. The urgency of what is needed seems to escape the leadership of the DoE and those who are responsible to oversee them.

| Strategic Objective | 5 Year Strategic Plan Target | Audited/Actual Performance | | | Estimated Performance | Medium-Term Targets | | |
|---------------------------------|------------------------------|--|--|---|---|--|--|--------------------------|
| | | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
| SO 2.1 Improved energy security | Finalised IEP | Study of the socio-economic impact of technologies in the electricity sector completed | Study on the macroeconomic impact of the IEP completed | Cabinet approved draft IEP issued for final public consultation | 2017/18 Table the Cabinet Memo on the IEP, taking into account the public comments | Gas demand/supply analysis including Gas-to-Power | Gas Import Strategy (including strategic location of import terminals) | Gas-to-power Master Plan |
| | | Study on the externality costs of different electricity technologies completed | Final IEP published | | | Gas Infrastructure Master Plan (including bulk transportation) | N/A | N/A |
| | | | | | | Regional Gas Master Plan | N/A | N/A |

| Strategic Objective | Performance Indicators | Audited/Actual Performance | | | Estimated Performance | Medium-Term Targets | | |
|---------------------------------|--|--|---|--|---|--|--|--------------------------|
| | | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
| SO 2.1 Improved energy security | Study of the socio-economic impact of technologies in the electricity sector completed | Study on the macroeconomic impact of the IEP completed | Cabinet approved draft IEP issued for final public consultation | Table the Cabinet Memo on the IEP, taking into account the public comments | 2017/18 Table the Cabinet Memo on the IEP, taking into account the public comments | Gas demand/supply analysis including Gas-to-Power | Gas Import Strategy (including strategic location of import terminals) | Gas-to-power Master Plan |
| | Study on the externality costs of different electricity technologies completed | Final IEP published | | | | | | |
| | Gas Infrastructure Master plan report | | | | | Gas Infrastructure Master Plan (including bulk transportation) | N/A | N/A |
| | Regional Gas Master Plan report | | | | | Regional Gas Master Plan | N/A | N/A |

174. The procurement of electricity from independent power producers (IPP) later this year is thus welcomed and should be expanded so as to remove dependency on Eskom. Without electricity, the government's plans to roll out broad band spectrum and technology cities will not materialise. This will also have a dire effect on education, local manufacturing and general business trade.
175. B4SA has made numerous good and practical implementation proposals though we would advise prioritising even the 12 priorities into what is primary and what is dependency.

176. Submission: The IRP and Master Energy plans should have an overall map and selection matrix (i.e. what are we choosing to prioritise from the full list) matched to each tier of government and aligned to a funding model.
177. Measurement and monitoring of success is critical parts of these documents which they currently lack as well as accountability and consequence management improvement plans.

Logistics infrastructure

178. The question and plan for logistics in theory very simple namely, **how do you get people, goods and services to other people across the globe?**
179. Though not addressed here but part of the SAICA 7, as noted **crime** is one of the biggest obstacles in achieving this logistics outcome and no plan will succeed without an integrate crime prevention plan in relation to our logistics plan. If crime destroys faster than we can implement we will be fighting a losing battle as we see daily in relation to electricity and rail infrastructure.
180. Logistical infrastructure should focus on the integrated movement of goods and people to other people. This means that dependencies and interlinked transport of goods should be mapped as per the desired priority.
181. For example, if South Africa wants to prioritise manufacturing movement of goods, then the logistics of moving resources to manufacture to plant, manufactured goods to customers and people to those places of manufacturing should be mapped and prioritised across all logistics chains irrespective if it is road, rail, air freight or sea freight. It makes no sense being able to move manufactured cars efficiently by rail or road just to be delayed at ports and losing the efficiencies gained.
182. Submission: An integrated approach based on what we prioritise to move is required across all three levels of government.

HOW DO WE FIX THIS? ACCOUNTABILITY AT THE HEART OF THE PROBLEM

183. What is clear from all the above is that the country is in a precarious state. Although the budget has tried to address the urgent concerns of the country, crime and corruption as well as financial controls and service delivery at the municipalities and local government offices have rapidly deteriorated as is explained in the annual Auditor General Reports.
184. The continuous reporting of irregular, fruitless & wasteful expenditure and unauthorised expenditure by government entities is another area of concern. Our understanding is that if Parliament or a provincial legislature does not approve an additional amount for any overspending, that additional amount becomes a charge against the funds allocated for the next or future financial years under the relevant vote (section 34 of the PFMA). This means that the overspending will be funded by a department's future savings achieved against its vote or funds available due to reprioritization of expenditure.
185. Should the unauthorised amounts be approved by Parliament, the question has to be posed, why have these amounts been consistently approved with no seeming consequence management taking place?
186. Submission: From our review of the different department's budgets (votes), it is not clear where these amounts are reported. To ensure transparency, these amounts should be clearly indicated on the budgets.
187. However, it is not accountability on identified unauthorised expenditure that is concerning, but that unidentified unauthorised expenditure seems to be rampant

practice. Looking at the 2018/2019 Auditor General report on the PFMA outcomes, the AG has this to say:

188. *“Overall, the trend of departments failing to manage their finances properly continued. Some departments did not pay their creditors when their budgets started running out and thereby avoided unauthorised expenditure; but the payments were then made in the following year, effectively using money intended for other purposes. Some departments overspent their budgets and still had outstanding liabilities at year-end. This continuing ‘rollover’ of budgets is having a negative impact on departments’ ability to pay creditors on time and to deliver services. The education and health departments are affected the most, and the possible effect on service delivery will have an impact on the most vulnerable in society.”*
189. In essence the auditor general observes that departments are deferring amounts to creditors as unpaid rather than paying creditors and deferring payments to the next budget cycle. This enables them to not have to classify such overspend as unauthorised expenditure. This practice is demonstrated by the following from the AG report:

We are also concerned about some of the other departments due to the reasons shown in the following table:

| Department | Vulnerable position | Unauthorised expenditure | Deficit | % of cash shortfall funded by next year's operational budget | Claims as % of next year's budget |
|--|---------------------|--------------------------|-----------------|--|-----------------------------------|
| Home Affairs | No | - | No deficit | 39,4 | 80,2 (R2 088 million) |
| Justice and Constitutional Development | No | - | R108,6 million | 31,3 | 37,9 (R2 356 million) |
| Social Development | No | - | No deficit | 14,9 | 35,4 (R152 million) |
| Water and Sanitation | Yes | - | No deficit | 11,7 | 16,2 (R885 million) |
| Human Settlements (KZN) | No | R1,909 million | No deficit | 10,3 | 58,2 (R119 million) |
| Cooperative Governance, Human Settlements and Traditional Affairs (LP) | No | - | No deficit | 11,2 | 167,7 (R339 million) |
| Public Works (EC) | No | - | No deficit | 16,5 | 29 (R320 million) |
| Cooperative Governance and Traditional Affairs (MP) | No | - | R28,03 million | 27,5 | 50,1 (R41 million) |
| Energy | No | - | No deficit | 17,8 | 42,7 (R125 million) |
| Higher Education and Training | No | - | R250,58 million | 22,3 | 26,6 (R150 million) |

190. What we see are both provinces and departments deferring such expenditure. This can be seen by some departments spending up to 167% of the following year's budget in the current year.
191. This begs the question, where is the oversight and why are those obliged to oversee and hold accountable the executive in its implementation not functioning?

192. As SAICA we, together with our members, look forward to not only participating in the much needed consensus on the way to address the wage bill but also to knuckling down and collaborating with government and stakeholders in changing the lives of so many that are desperate and despaired. We concur with the Minister that our beautiful country and people have the possibility of a similar beautiful future. It is, however, up to those with the power to implement change to rise and be the responsible leaders we need.
193. We therefor urge the National Treasury to use its powers (obligation) in terms of section 216 of the Constitution, to ensure that all organs of state are practicing fiscal discipline. Should they fail to do so (which many seem to have been doing according to the Auditor General's reports) the National Treasury should stop further transfer of funds to these entities as required in this section.
194. We also once again urge Parliament to exercise its oversight powers over the executive and organs of state by ensuring that they fulfil their positive obligations of fiscal discipline to prevent the blatant abuse of taxpayer funds. Should parliament not do this, its future is uncertain, as civil society has proved that it will no longer stand by and let their hard earned taxpayer money be misspent. As is seen from the Kgetlengriver Municipality, civil society is ready to take over the role of government should it need to, in order to secure their basic human rights.

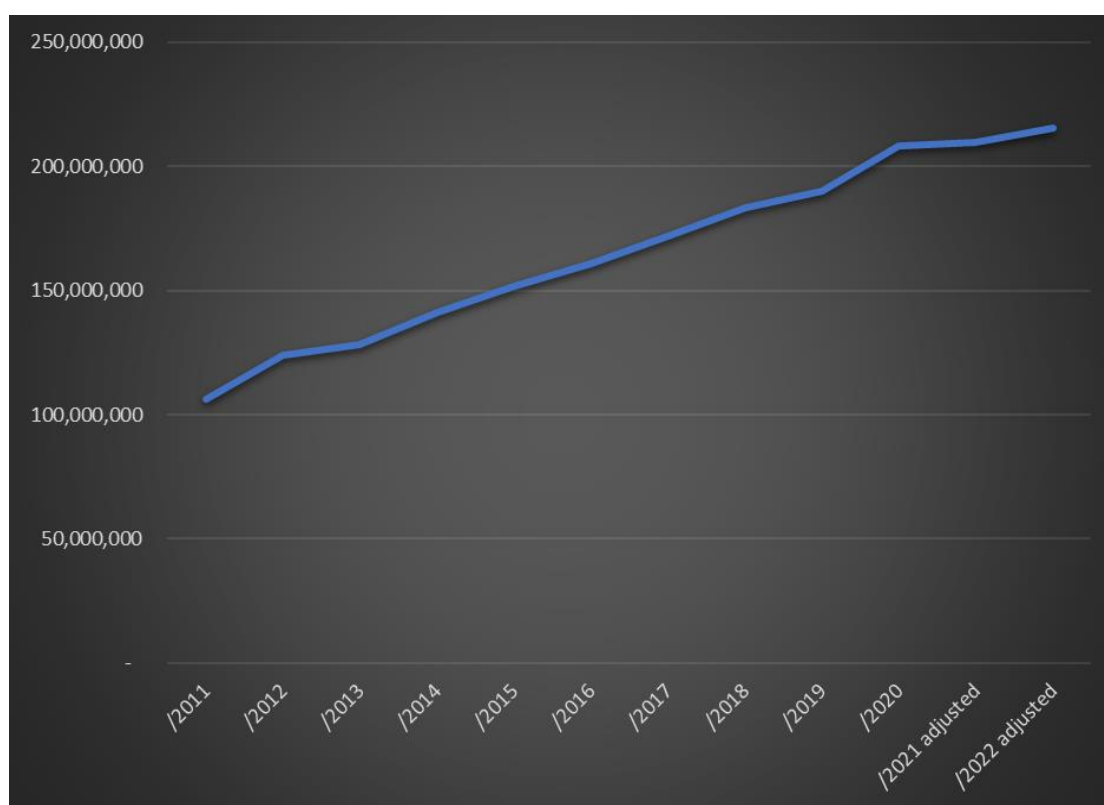
DATA ANALYSIS TO ENABLE ACCOUNTABILITY

195. As was done last year, SAICA analysed expenditure by Department¹¹ to determine where Government is spending, what it is spending on and whether it is getting value for money. We examined eight of the separately disclosed expenses in the national Budget (compensation being one of them), and provide high-level insight on these below. We do, however, need to once again mention our general concerns on the integrity of the data.
196. Based on our initial analysis, the following is apparent:
- 196.1 The change in the different Departments (some consolidated, others split into other departments) has made it difficult to track the expenses year on year.
- 196.2 The data does not appear to tie up year on year and audited outcomes appear to change significantly each year.
- 196.3 There are huge anomalies in the growth of specific expense line items which could be capturing errors or these amounts could be correct. Reasons for these differences should have been interrogated before approving the budget.

¹¹ The analysis was done on Ministries as at 2019. The National School of Government, the Public Service Commission and the Civilian Secretariat for the Police Service (added in 2020) have not been included in the analysis.

- 196.4 The numbers reported on are often difficult to analyse. For example, main budget, consolidated at national / provincial level and consolidated with listed entities do not have the same comparative detail making it difficult to consistently compare data sets.
197. The expenses analysed over the last 12 years are: compensation, consultants, contractors, agency and support, legal fees, catering, fleet costs and travel and subsistence expenses.
198. Overall, over the last 12 years, these eight cost items have generally shown an increase year on year and the question has to be posed: Should these expenses (specifically consultants, contractors, agency and support/consulting fees) not be reduced taking into account the high wage compensation levels and the need to reduce spending in order to reduce in the budget deficit?
199. The total expenditure on these items over the last 12 years is graphically depicted below.

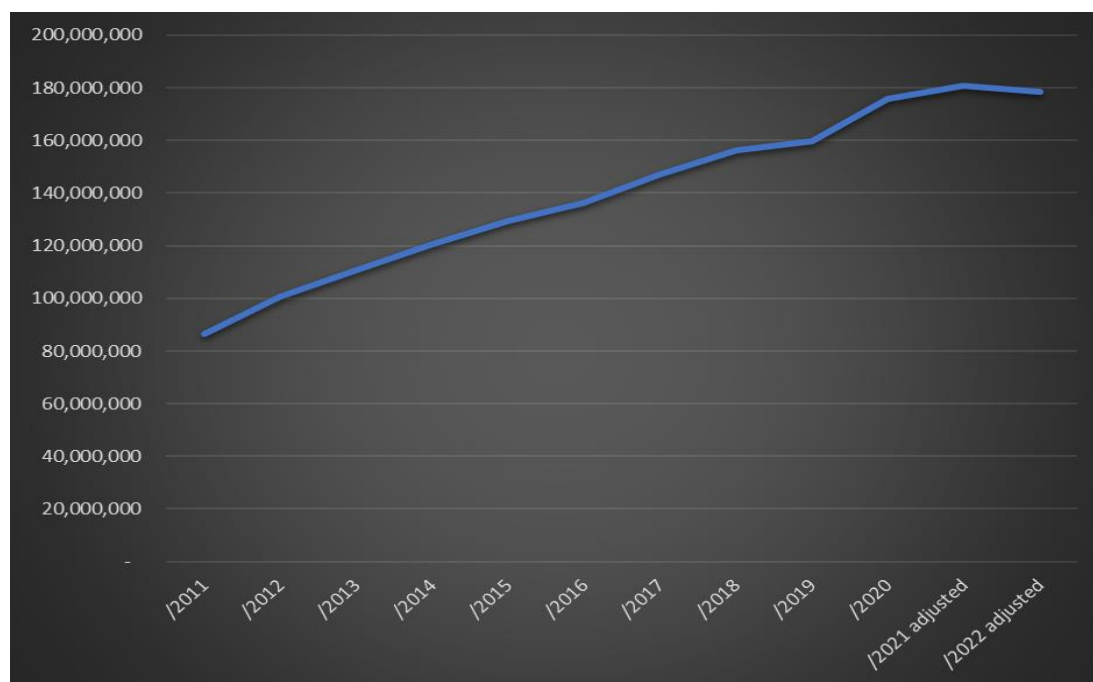
Total cost for selected Departments in R'000 (R215.5 Trillion in 2022):



Compensation costs (wage bill)

200. As mentioned by the Minister, one of the assumptions on which the budget heavily depends is the reduction of compensation costs. An overview of the compensation costs over the last twelve years is set out below.

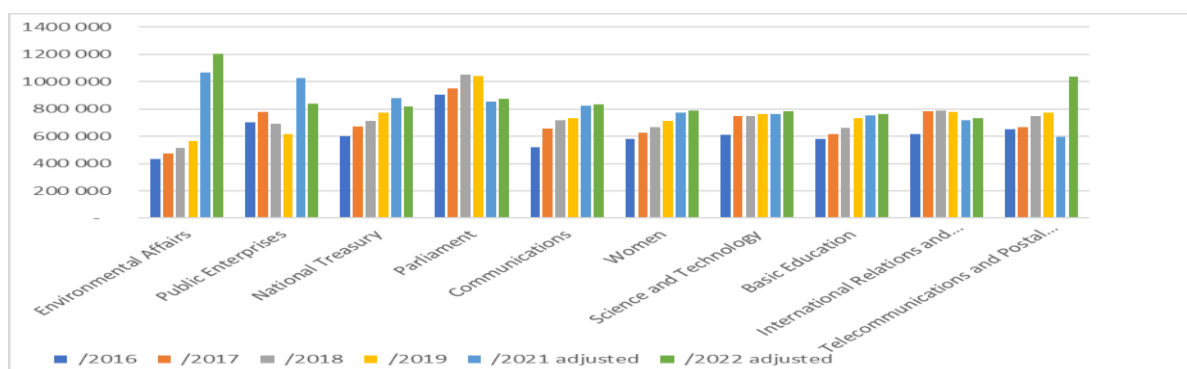
Total compensation costs (All departments – R'000):



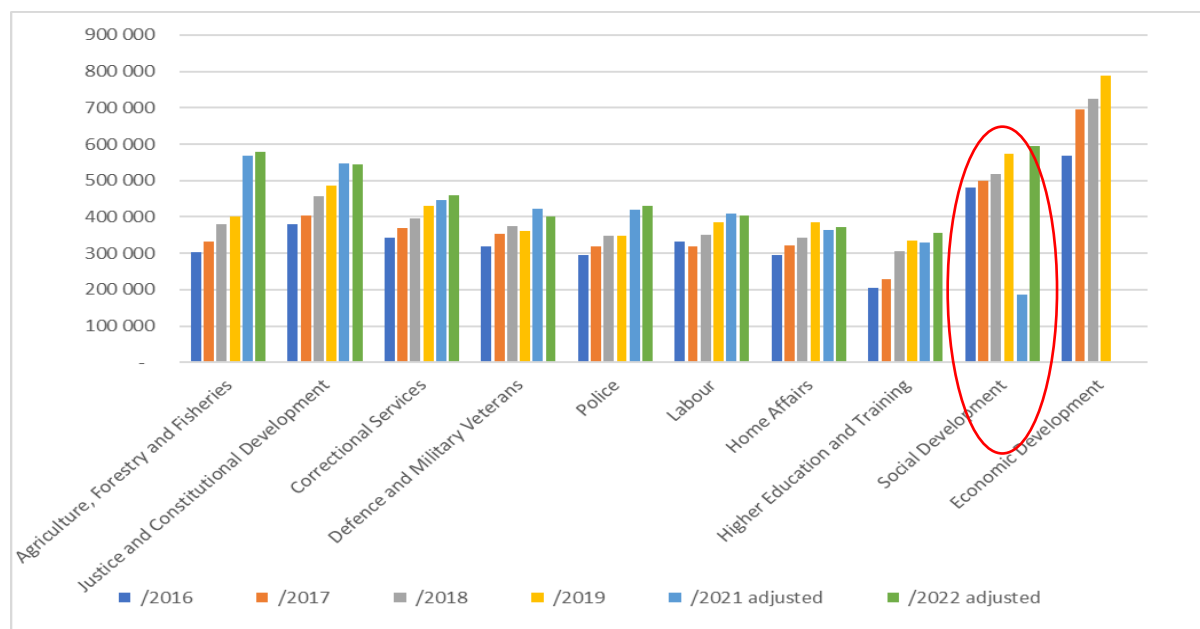
201. Although a slight reduction in the compensation payable is evident in 2022, the question still remains whether this will materialize considering the constitutional court case that still needs to take place and the outcome of the wage negotiations.

202. When analysing the compensation spend further, the average cost per employee for the top 10 departments was calculated from the information available and is depicted below.

Top 10 selected Departments by compensation cost / employee



Bottom 10 selected Departments by Compensation cost / employee

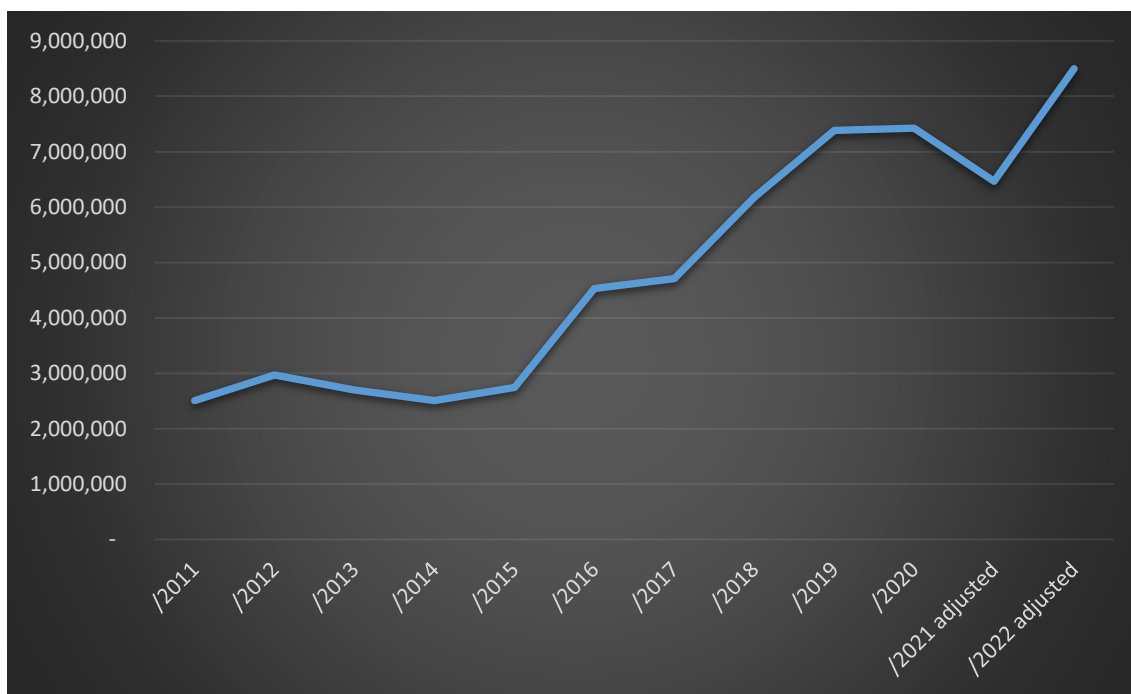


203. It is evident that there are certain interesting trends in this data and this may be due to the combination or splitting of the different departments, but what is clear is that compensation is not on a downward trajectory in all departments as steep increases are evident (for instance Social Development). *Has Parliament satisfied itself that they know why certain steep increases are predicted for certain departments in 2022?*
204. As pointed out last year, most of the annual reports note that the high average salary does not mean that the staff are overpaid, but instead that it represents the skill level of the staff. We again question why more skilled staff are needed in Basic Education (in the top 10) than in Higher Education (in the bottom 10), especially considering who each of these departments need to consult, manage and create learning environments for. *Has an answer to this question been obtained by Parliament?*

Total outsourcing costs: Consolidation of costs in respect of consultants, contractors and agency and support services

205. The costs incurred in respect of external consultants, contractors and agency and support over the last 12 years caught our attention due to the quantum of the costs – particularly in 2022.

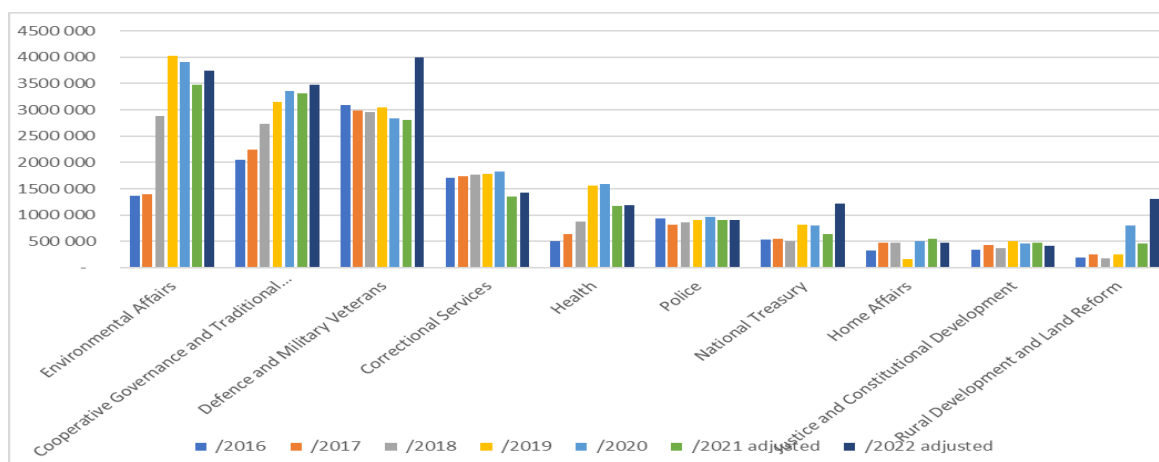
Total outsourcing costs (agency & support / contractors / consultants) - All departments – R'000):



206. Our first concern is why are these costs so high when compensation for full time employees is also high. *Has an answer to this question been interrogated by Parliament?* Our second concern is the substantial increase in these costs in 2022. *Is Parliament satisfied that there are good reasons for this large spike in these costs in relation to prior years?*

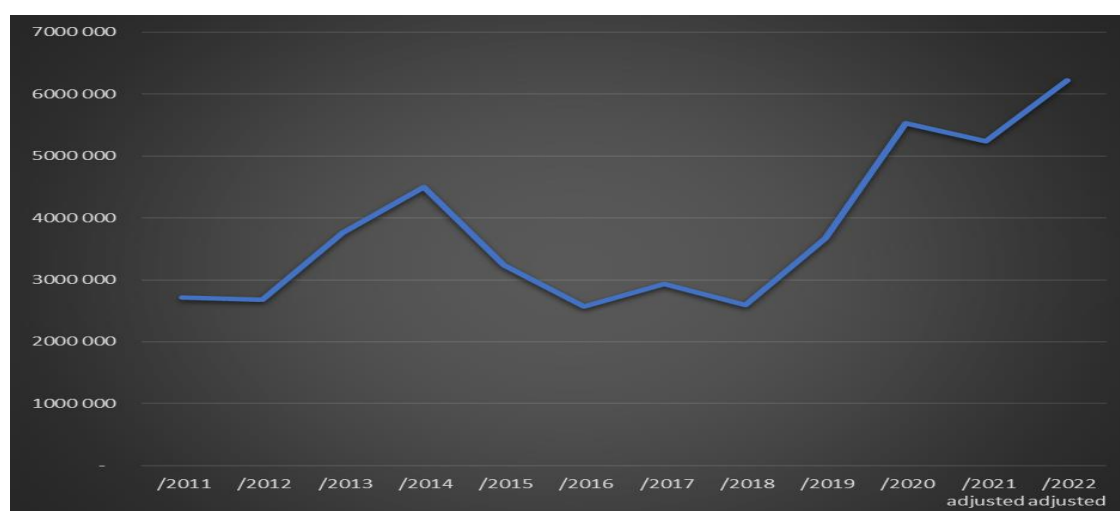
207. Drilling further down into the data, we set out below a summary of the top 10 departments that spent/will be spending the most on agency and support, contractor and consultants.

Total outsourcing costs (agency & support / contractors / consultants) (Top 10 – R'000):



208. The reason for certain of the departments such as Cooperative Governance and Traditional Affairs as well as Defence and Military Veterans having spent so much on these fees is not immediately evident. *Has Parliament satisfied itself of why this is the case?*
209. If these three expenses are analysed separately, the total spending trend on consultants over the last 12 years is graphically presented below.

Total consultant costs (All departments – R'000):



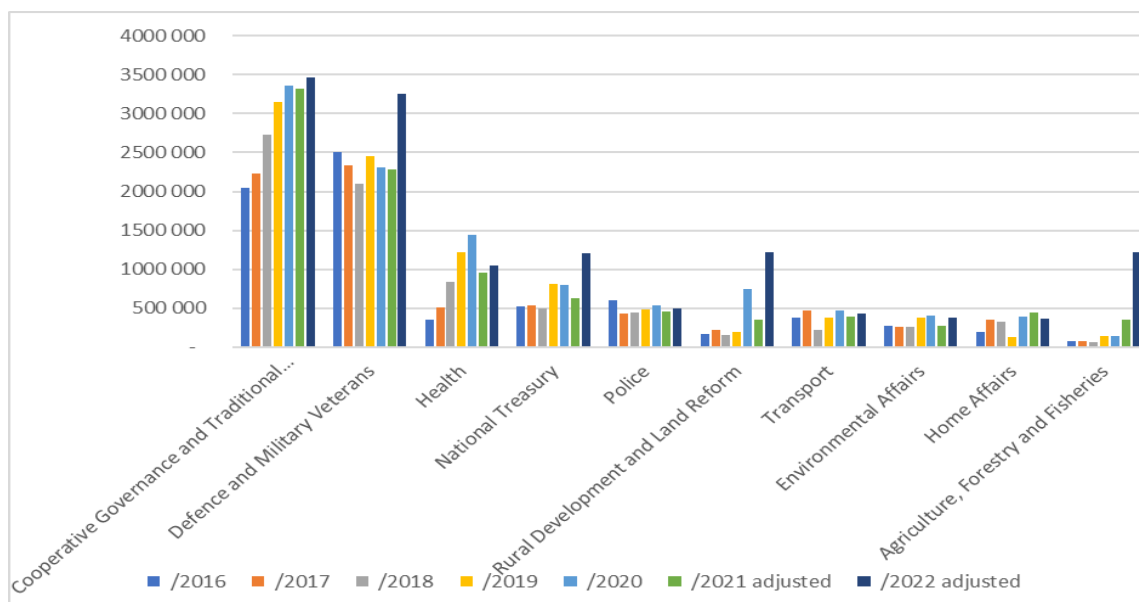
210. Consulting costs have more than doubled from 2011 clearly bringing the question of productivity and high wages of the public sector into account. Looking at the 2021 and 2022 amounts, it seems despite a small dip in the costs in 2021, the cost of consultants is once again set to rise in 2022. A similar trend is found for contractor costs – see below.

Total contractor costs (All departments – R'000):

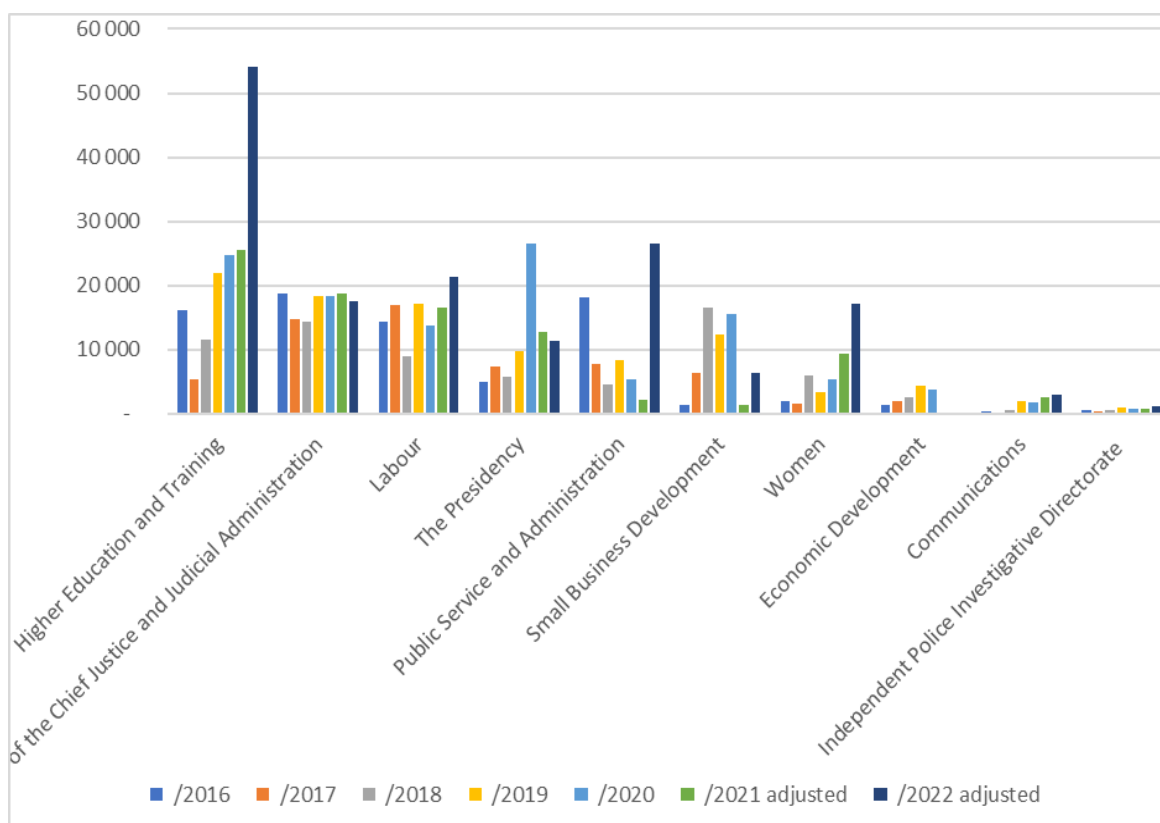


211. We drilled down further and analysed the contractor and consultant costs per department to gain slightly more insight into which departments have spent large amounts in the past and what they are planning on spending on consultants and contractors in 2022.

Total contractor and consultant costs / department (Top 10 – R'000):

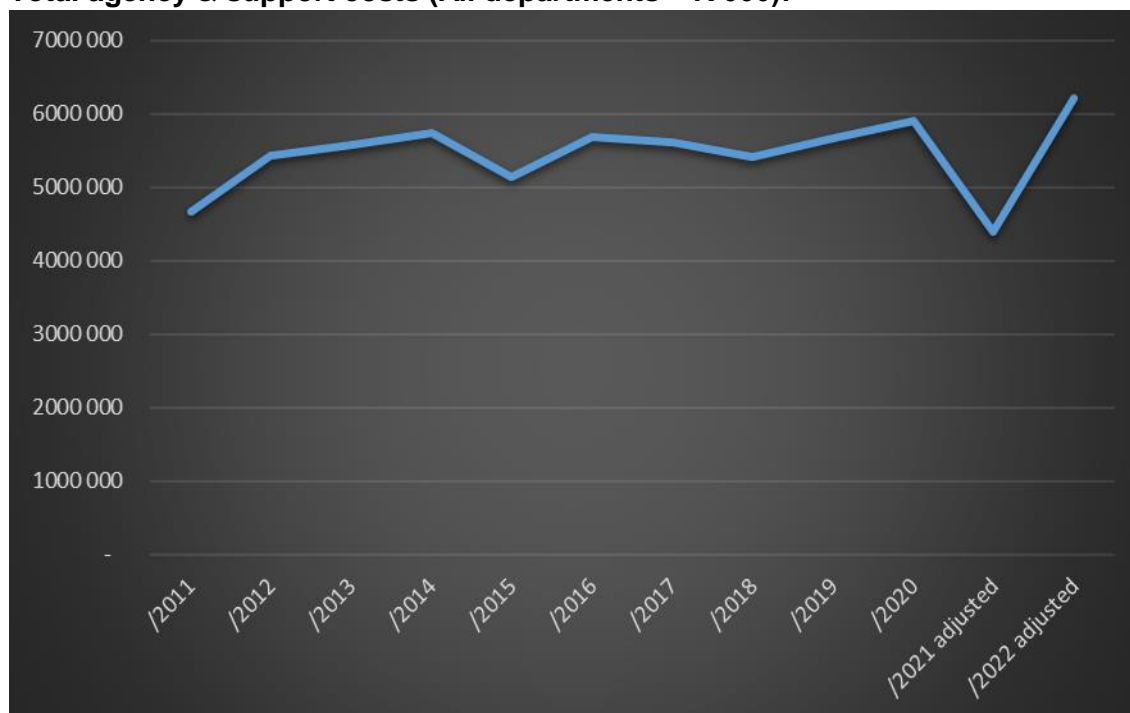


Total contractor and consultant costs / department (Bottom 10 – R'000):



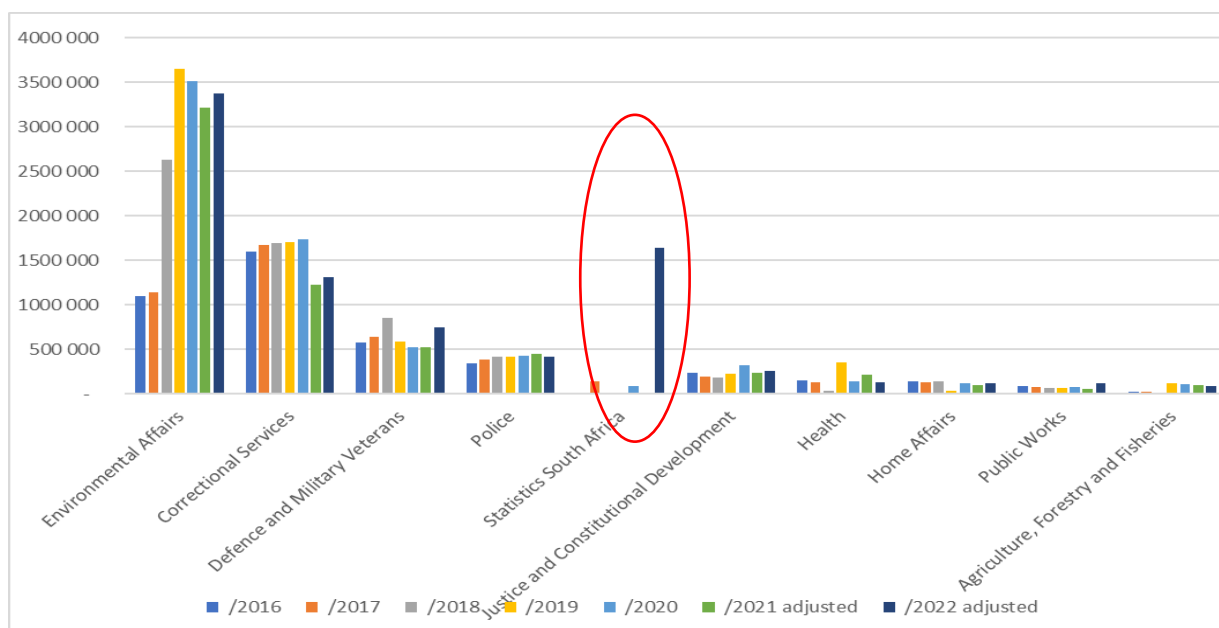
212. Co-operative Governance and Traditional Affairs and the Defence and Military Veterans departments seem to be the departments spending the most on consultants and contractors. *Has Parliament satisfied itself that they understand why this is the case?*
213. Even on those departments spending the lowest amounts on these consultants and contractors, there are interesting spikes in the costs for 2022. *Has Parliament satisfied itself that it understands why this is the case – special projects perhaps?*
214. The agency costs were analysed next.

Total agency & support costs (All departments – R'000):



215. The trend for agency costs is very similar to that of the consultants and contractor costs, particularly in 2021 and 2022, with the costs shooting up to new record levels in 2022.
216. We then considered agency and support costs per department and we also found certain very interesting spikes, especially in 2022. For instance, Statistics South Africa after not having spent much on agency costs in the past few years, is now planning on spending R1.6bn. *Has Parliament satisfied itself that these are valid expenses that will be incurred or are these typing errors?*

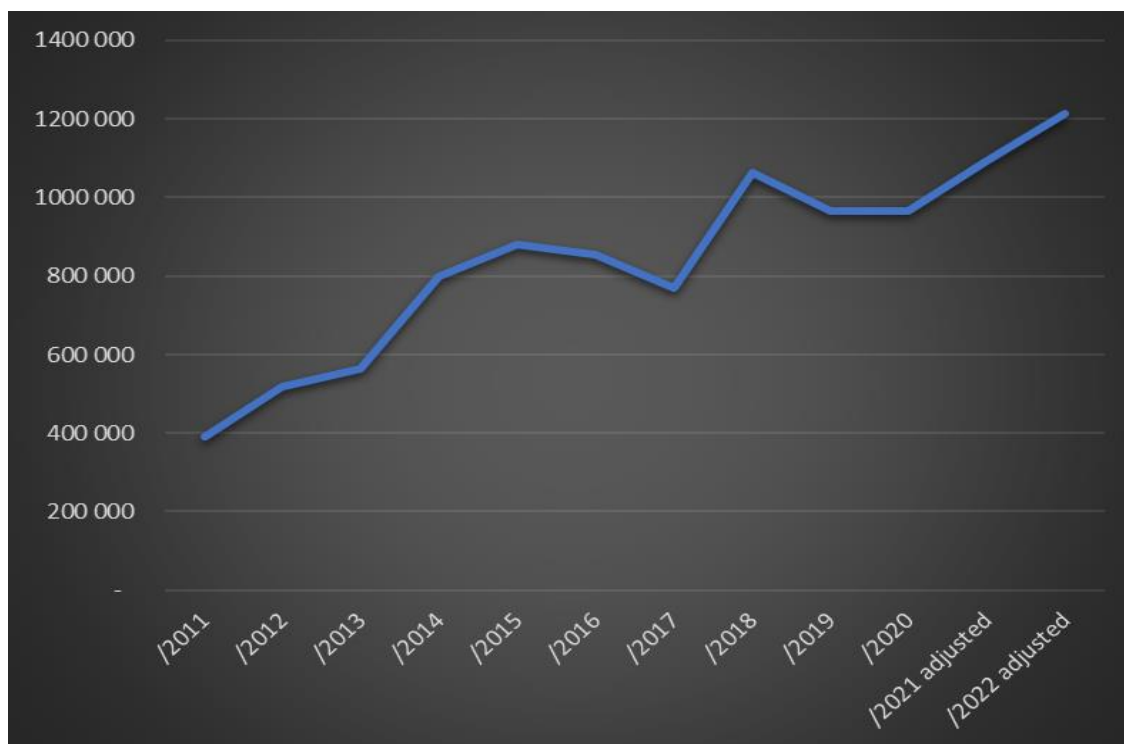
Total agency & support cost (Top 10 – R'000):



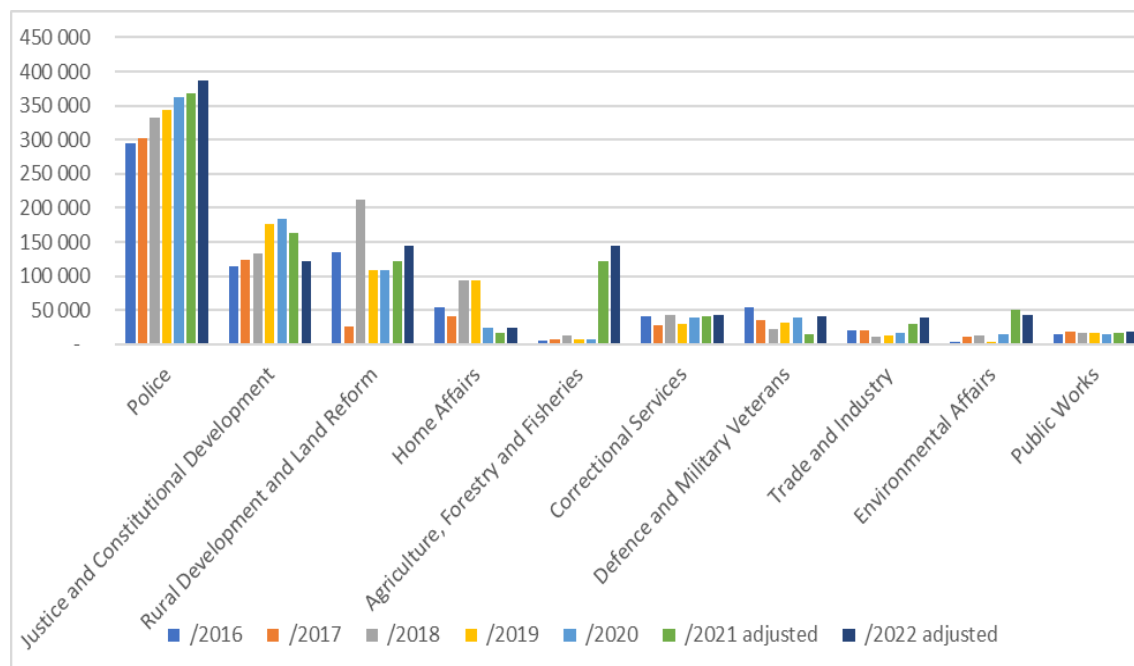
Legal costs

217. Legal costs have more than tripled since 2011 and a steep increase from the amounts paid in 2020 is evident in respect of 2021 and 2022.

Total legal service costs (All departments – R'000):



Total legal costs / department (Top 10 – R'000):



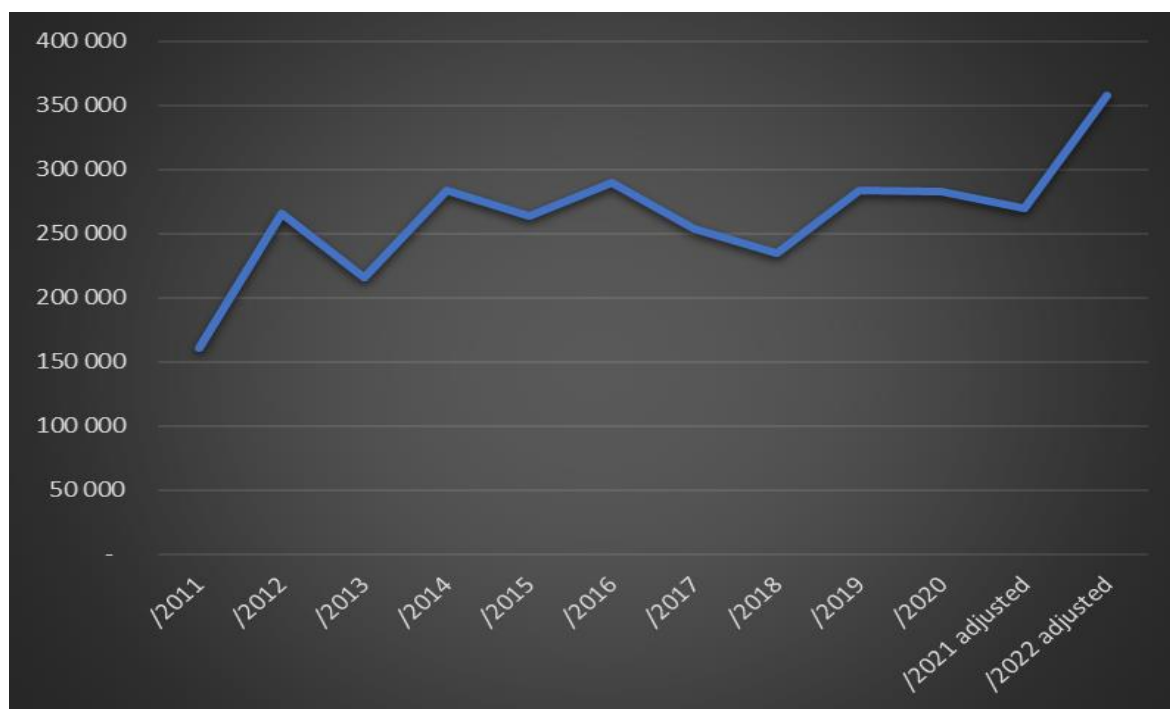
218. We once again assert that the increase in legal fees, especially in the Police, seems to be related to competence of the staff in performing their duties. *Has Parliament considered what action is being taken in this regard and has it satisfied itself as to why Rural Development, Defence and Correctional services are on this list? Has Parliament considered why the State Law Advisor is not assisting these departments considering that the State Law Advisor's website states that its mission is to provide reliable legal advice, representation, legislation and legislative drafting services to the State in a cost effective and efficient manner?*

219. *Has Parliament investigated whether it would not be more cost efficient to incur costs on training the staff appropriately rather than on these exorbitant legal costs?*

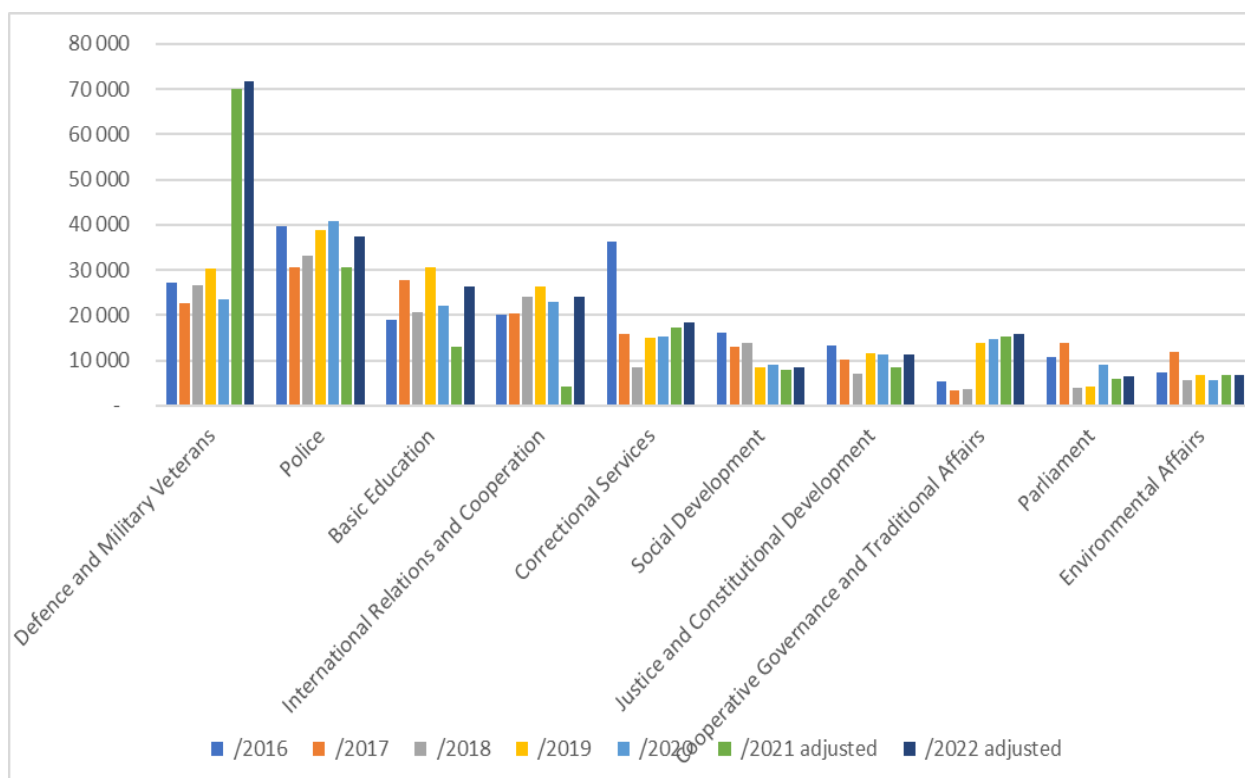
Catering costs

220. Catering costs have also more than doubled since 2011. What is even more worrying is that despite the fiscus being severely constrained, there is a huge increase in catering costs projected for 2022.

Total catering costs (All departments – R'000):



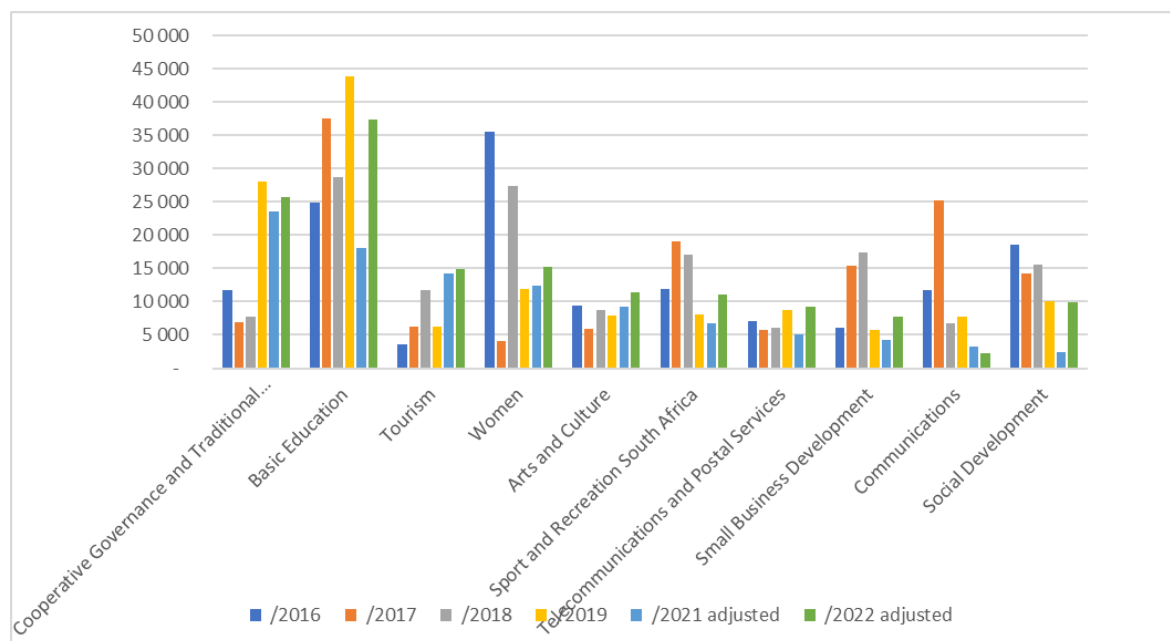
Total catering costs / department (Top 10 – R'000):



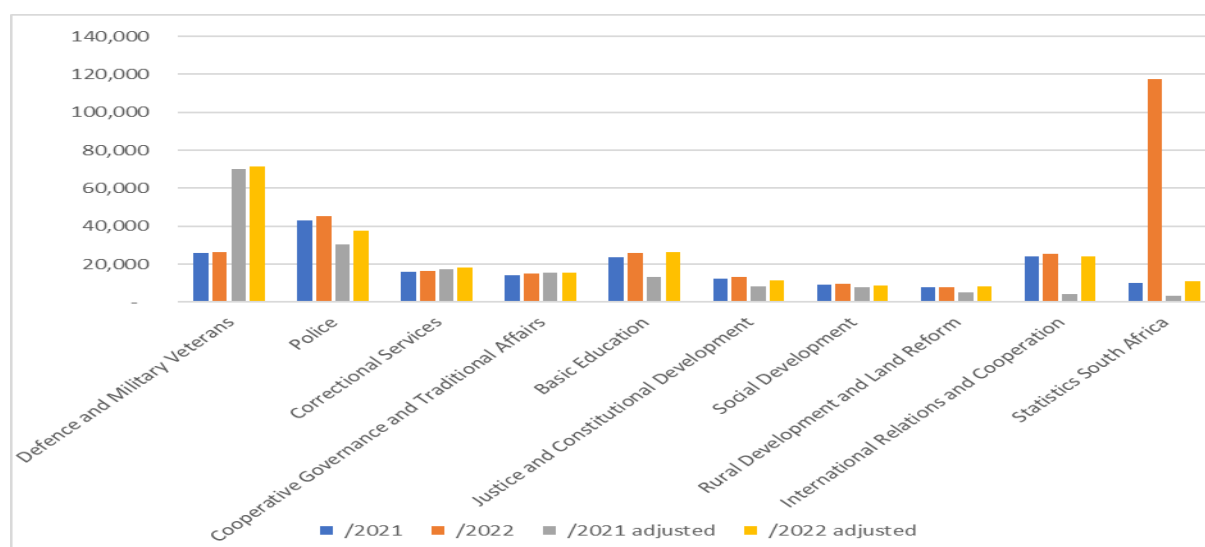
221. National Treasury noted in prior years that catering costs in respect of some departments need to be reviewed with a view to reducing expenditure in this area. Based on the

analysis of the expenditure (see graph above and below), it is unclear why Basic Education and Co-operative Governance and Traditional Affairs are incurring such high costs. *Has Parliament considered why this is the case?*

Catering costs / Employee (Top 10 – R'000):



222. A further analysis was performed to determine how the estimates made in 2020 for 2021 and 2022 were changed in 2021. The following was found in respect of the top ten differences:

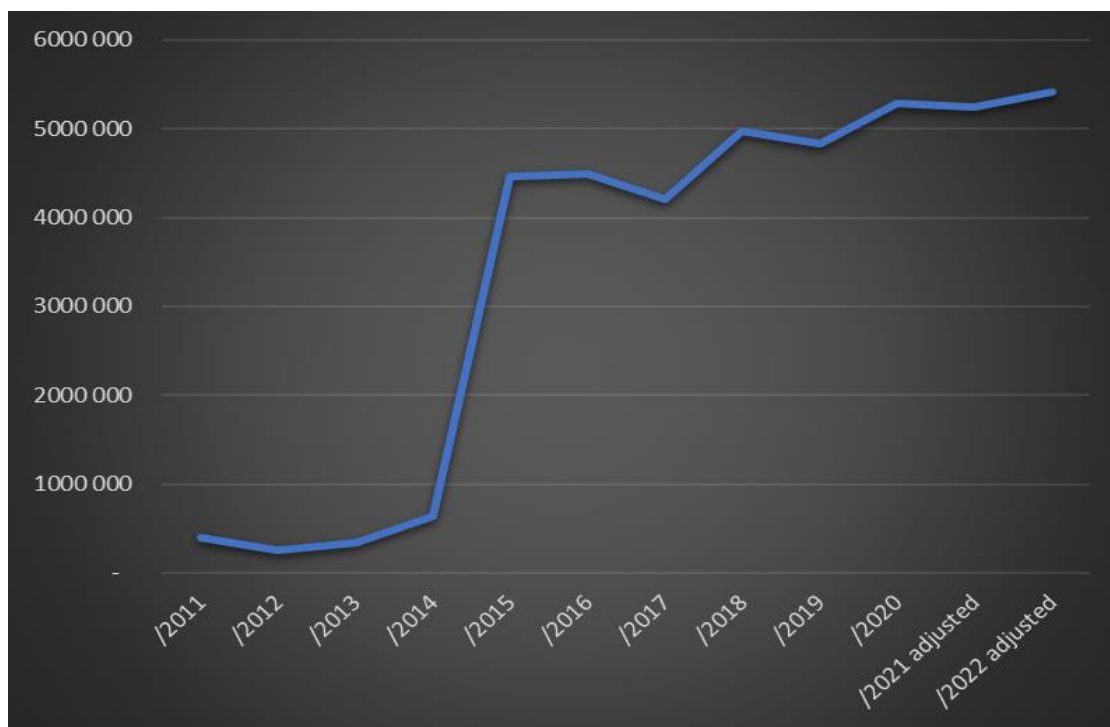


223. *Is Parliament satisfied with the reasons behind the changes made, specifically by the Department of Defence and Military Veterans?*

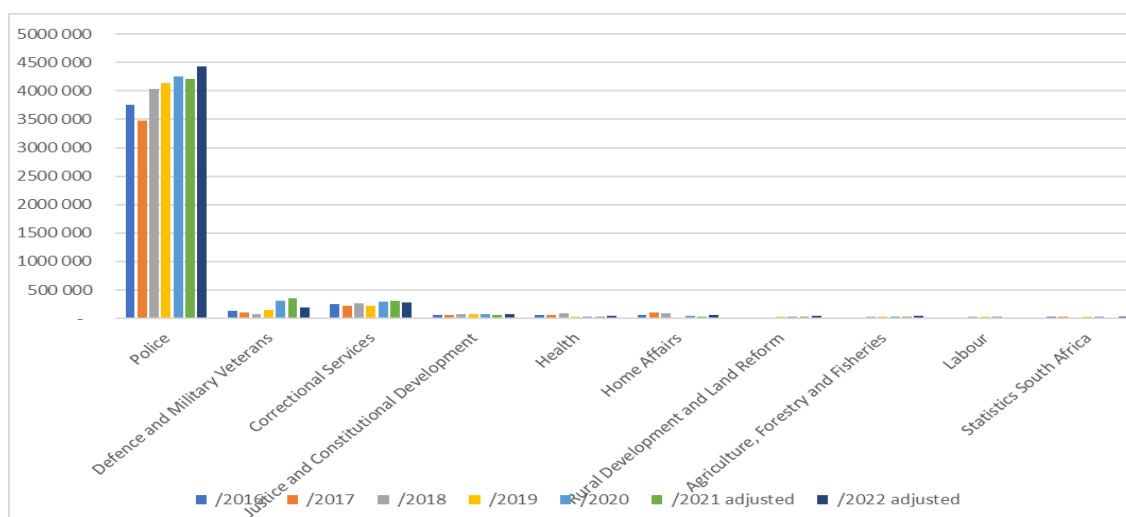
Fleet services

224. Fleet services are roughly five times more than they were in 2011 and these costs do not seem to be abating in 2022.

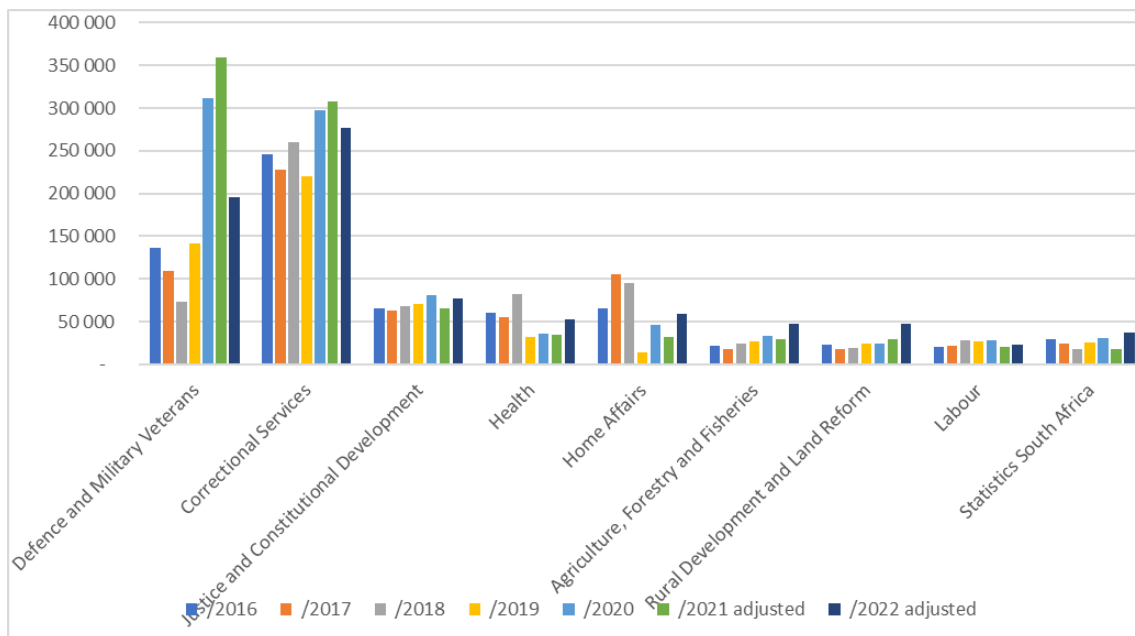
Total fleet costs (All departments – R'000):



Total fleet services costs / department (Top 10 – R'000):



Total fleet services costs (excluding Police Department) / department (Top 10 – R'000):



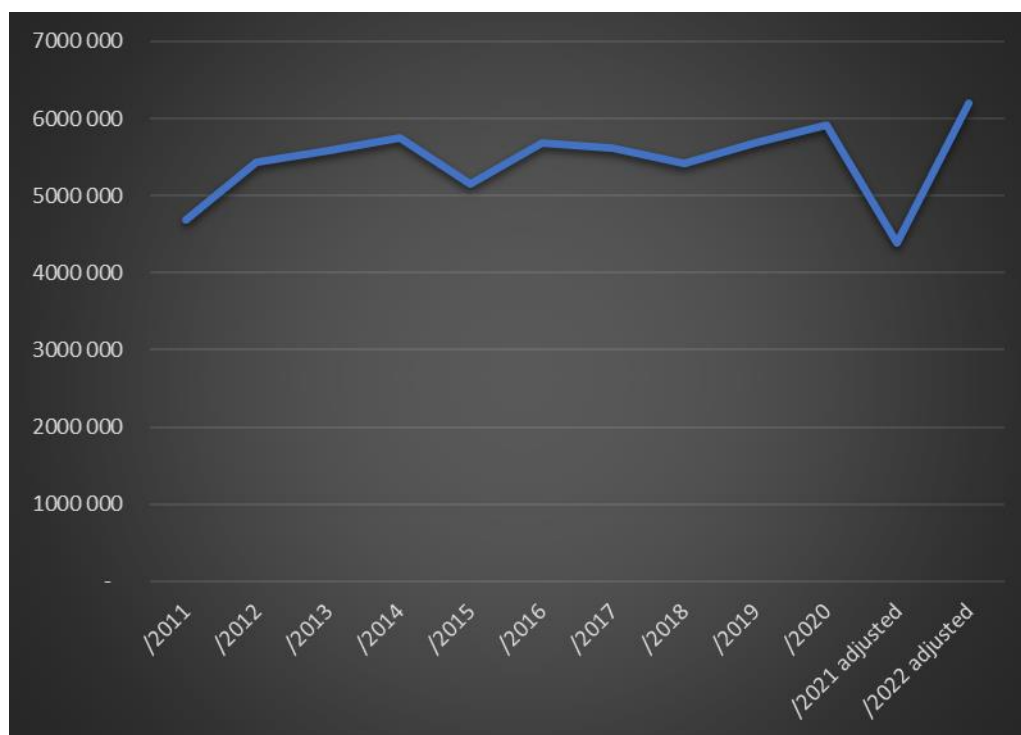
225. The Police have, understandably, the most significant fleet costs in comparison to the other departments. Yet, we still question whether the increased fleet costs have led to higher police visibility and a reduction in crime as crime continues to be a huge concern and one of the significant factors contributing to poor economic growth. Given the high expenditure levels in terms of compensation and fleet costs, one would expect the Police Services to be more effective in reducing crime.

226. *We again ask whether Parliament has questioned why Defence and Military veterans would need to purchase so many normal vehicles, especially given their mandate.*

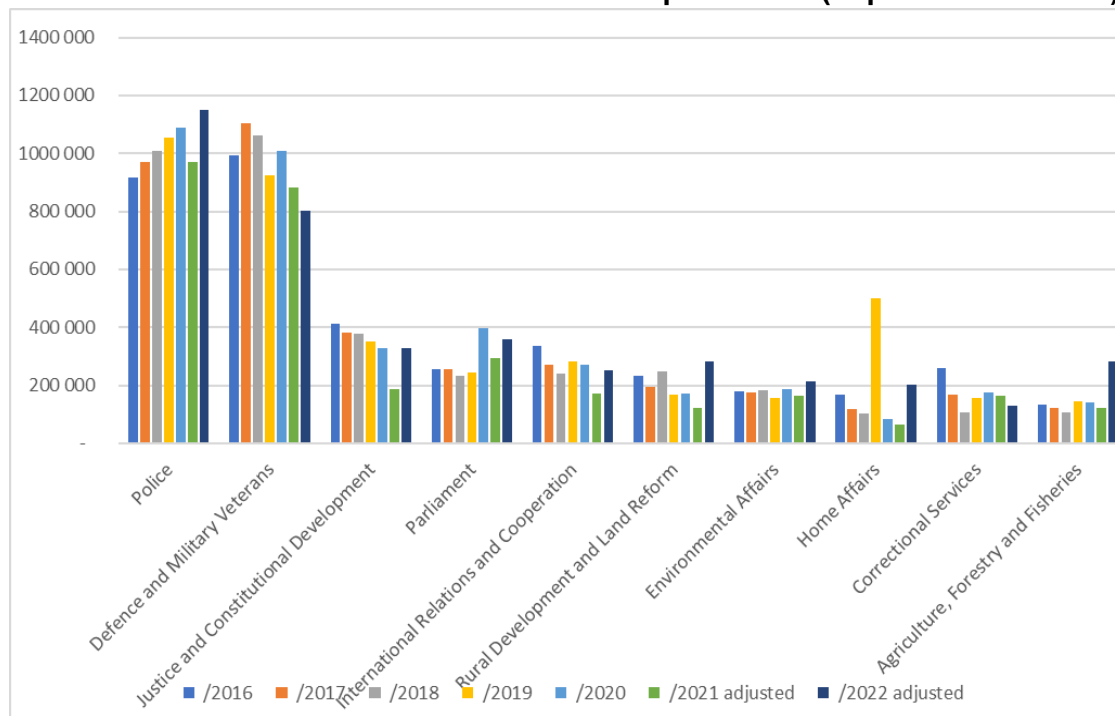
Travel and subsistence

227. Travel and subsistence expenses, as was expected, took a big dip in 2020 due to COVID-19, but these expenses are expected to once again rise and exceed all previous year's levels in 2022. Considering the new way business is currently being conducted (eg. Parliamentary hearings and other meetings are held online) it is concerning that there is such a large rise in travel and subsistence expenditure planned. *Has Parliament considered whether this planned increase is reasonable considering the success of using online communication and also the precarious fiscal position the country is in?*

Total travel & subsistence costs (All departments – R'000):



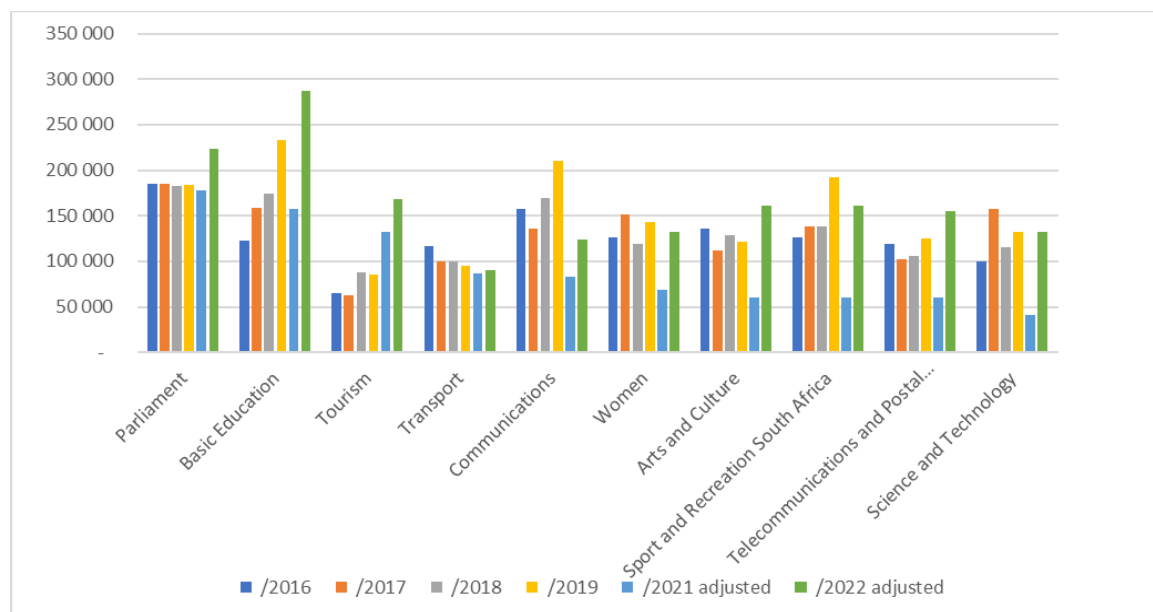
Total travel & subsistence costs / department (Top 10 – R'000):



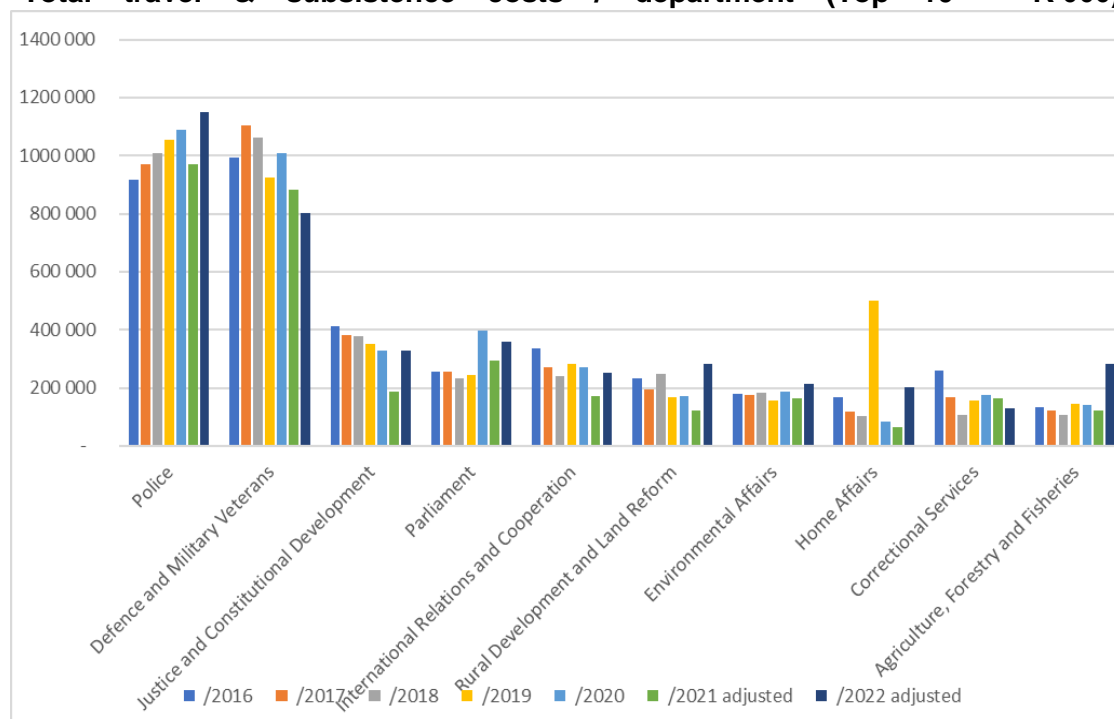
228. Once again, Police and Defence lead this expenditure category and it is important to interrogate why this is the case. Parliament, however, has itself not been blameless (see below) and expenditure on travelling continues to grow in 2022. *Has Parliament*

considered why the Department of Basic Education is spending so much on travel and subsistence?

Travel & Subsistence costs / Employee (Top 10 – R'000):



Total travel & subsistence costs / department (Top 10 – R'000):



229. As mentioned in our submission above, we urge Parliament to exercise its oversight powers over the Executive and organs of state by ensuring that they fulfil their positive obligations of fiscal discipline. Parliament needs to start asking the right questions and get satisfactory answers before it approves the budget!