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Ref #: 771714

Submission File

18 November 2021

Mr Allen Wicomb and Ms Sepanya
Parliamentary Standing Committee on Finance
90 Plein Street
Cape Town
8001

Mr Mangweni
Parliamentary Select Committee on Finance
90 Plein Street
Cape Town
8001

BY E-MAIL:

Allan Wicomb, Standing Committee on Finance (awicomb@parliament.gov.za)
Teboho Sepanya, Standing Committee on Finance (tsepanya@parliament.gov.za)
Nkululeko Mangweni, Select Committee on Finance (nmangweni@parliament.gov.za)

Dear Sirs and Madam

SUMMARY OF SAICA'S COMMENTS ON THE 2021 MEDIUM TERM BUDGET POLICY STATEMENT (MTBPS)

SAICA continues to express concern that although the correct challenges are being identified and acknowledged as regards to fiscal policy and design, interventions are either based on broad assumptions (e.g. government will cut expenditure, wage bill won't increase or economy will grow) or a pervasive lack of accountability enforcement. There also remains too many matters outside of the budgeting and fiscal policy planning that will have a material impact.

Furthermore, those empowered with the duty of oversight such as National Treasury and Parliament seem to either underestimate or not enforce the powers they have in ensuring effective oversight.

Foreign and local stakeholders, including investors and the public, can only make and implement decisions to support the policies of government where they are confident that government is able and politically willing to implement what it says it will and hold those accountable who undermine such effective and efficient implementation.

A. PROMISES MADE AND BROKEN BY GOVERNMENT

Expenditure ceilings not adhered to

1. The main budget expenditure ceiling provides an upper limit within which departments prepare their budgets, yet these ceilings are consistently not adhered and what is concerning that the MTBPS states that the revenue improvements since the 2021 Budget (which are regarded as temporary) will allow for an increase in the spending ceiling over the MTEF period.

2. The continual "shifting of the goal posts" every 12 months as relates to expenditure creates the impression that government is unable or unwilling to implement its own initiatives to ensure fiscal sustainability.

3. Submission: Government cannot control revenue, but it can control expenditure. When the country finds itself under revenue and debt pressures and it sets goals to improve such metrics, it should adhere to them to instil public and investor confidence.

4. As the improvement in revenue is regarded as temporary and the fiscal outlook is not certain, the expenditure ceilings should not have been raised and should be reduced to meet the promises of reduced debt funding by the government.

Wages continue to increase

5. There seems to be little deep understanding or consensus as to why the public service wage has continued so quickly to crowd out other spending or even if it is an overall cost problem.

6. However, the Minister has concluded and agreed that it is a problem especially as relates to its overall quantum and high growth trajectory as an expense item.

7. Despite the many promises made to monitor and reduce public service compensation, the recent public-service wage agreement **breached the budget ceiling** for compensation of employees by R20.5 billion and the head count of government employees is up 0.7% from a year earlier.

8. Furthermore, should the Constitutional Court overrule the Labour Appeals Court's decision that declared the salary increases for public servants for 2020/2021 unlawful and invalid, this could result in **further unbudgeted costs being incurred** which would either need to be funded by increased revenue/debt, or it could force the government to take active steps to reduce the size of the public service.

9. Submission: It is essential that the Executive must, when negotiating wage agreements, ensure the amount is within the budget framework and National Treasury should be enforcing regulations where wage spending is outside budgets and without approval.

10. Government must establish what the underlying problems are with the wage bill. Are there too many employees, is the wage mix incorrect, is there just insufficient productivity (and why) or is it all of these and to what extent?

11. Urgent reforms need to be instituted to ensure that the are adequate numbers of staff to deliver the required level of public services. 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 often failed this country.

Debt levels continue to rise

12. Although debt redemptions will be elevated (almost tripling over the next three years: R65 billion in 2022 to R155 billion in 2023), how these payments will be made has not been elaborated upon, other than stating that this will be done by "**reducing non-interest expenditure"**, something government has been poor at achieving as well.

13. Submission: Debt reduction will only occur if budget surpluses are realised. Government's commitment to fiscal sustainability through reducing expenditure in order to achieve this is essential.

Lack of accountability

14. Little has come from introduction of Performance Agreements for Ministers and their availability to the public for scrutiny as we have seen from the adverse Auditor General Reports year on year, any benefits from it do not seem to have filtered down to provincial or local government level. Appropriate consequence management in instances of non-performance has generally not been implemented and there has been no outcome of the R50 million expenditure incurred in 2020 on a study on revised performance management systems.

15. How many of the performance targets set have in fact been met given the AG PFMA[1] and MFMA[2] reports?

16. More importantly, where has parliament been in actively monitoring and holding to account Ministers and DG's for failures to meet performance contracts including enforcing accountability?

17. Organised Labour in the public sector 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.

18. Submission: The Presidency should be annually reporting on Ministers' progress in implementing performance contracts and consequence management taken against

[1] PFMA 2019-2020 (agsa.co.za)
[2] MFMA 2019-20 Report V11 01.indd (agsa.co.za)

non-performing Ministers. Similarly, mayors and councillors should be held to account. The same should apply to the executive leadership and even more so with leadership at State-owned Entities (SoEs) who receive private sector-benchmarked salaries without having to carry the same risks.

19. 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.

20. National Treasury has consistently failed to meet its constitutional mandate, given the dire state of fiscal control compliance and reporting in the public sector and should rigorously apply the compliance compulsions mechanisms provided to it by the Constitution and legislation.

21. Lastly, Parliament and its committees (e.g. SCOF, SCOA, SCOPA) should also acknowledge and fulfil their role in oversight and consequence management.

B. UNBUDGETED EXPENDITURE: CONSIDERATIONS NOT INCLUDED IN THE BUDGET

SARS’ funding requirements

22. SARS will have to battle with a **R9 billion** deficit over the next three years. It also still has to implement, in April 2022, a changed accounting policy (i.e. GRAP) adopted by government already in 2012 and underfunding could be the result of the fall in SARS’ compliance levels from 65.05% in 2019/20 to 62.61% in 2020/21. It also contributes to the numerous human and system inefficiencies that taxpayers experience everyday in trying to fulfil their tax compliance obligations.

23. Submission: Noting the importance of SARS to the success of the budget outcomes, priority should be given to providing it with the funds that it requires to function optimally.

24. National Treasury also needs to urgently address the implementation of GRAP in the public sector, especially at SARS.

Contingent liabilities – SoEs

25. By 2023/24, contingent liabilities are expected to **exceed R1 trillion**. We have previously raised concern that these debts, given the underlying vulnerabilities, are improperly classified as contingent but are in fact real.

26. The Minister has stated in the 2021 MTBPS that no further bailouts will be provided yet many SoEs have insufficient funds to cover operational expenses. With no mention of any reforms or actions to ensure that these concerns are addressed, it is highly likely that these risks will not realise. No provision for this has not been made in the MTBPS. For example, the **Road Accident Fund’s accumulated liabilities** are estimated at over **R450 billion**, the **SANRAL** toll-fee debacle has also not been

finalised and it will thus remain a significant burden on the public finances should a verdict not be reached on this (current guarantee facility is **R37.9 billion**). The Post Office has already stated that it will require a further **R8 billion** in order to survive.

27. Submission: With no action plan in place to assist or sell the ailing SoEs, the expenditure side of the budget is currently understated and will compel further debt borrowing when they realise.

GEPF long-term funding objectives

28. Based on the 2018 valuation report, should government be required to contribute an additional 2,5% to the fund to meet its long-term funding objectives, this would equate to **approximately R8 billion** and should the required contributions be 5%, this would equate to approximately **R16 billion**. Both these numbers exceed the proposed tax increases of R5 billion in 2021/22 and R10 billion in 2022/23.

29. Submission: We understand from the GEPF's Annual Report 2020/2021 that the valuation of the Fund, effective 31 March 2021, is currently in progress, the results of which are expected to be available to the public in January 2022. We eagerly await this report and trust the necessary adjustments will be made in the 2022 Budget Speech.

Water and sewage infrastructure

30. In our 2018 Budget Review submission we raised concern that water and sanitation backlogs may already exceed **R2 trillion** at all 3 spheres of government with National government alone stating then it required more than **R600 billion** and local government infrastructure was already imploding.

31. We cannot see how an allocation of R193 million will fix the problem of the dilapidated water and municipal sewerage works infrastructure as they are dysfunctional and we are not convinced that that the establishment of a National Water Resources Infrastructure Agency that will be responsible for improving the management of bulk water resources will help resolve the concerns that are present.

32. Submission: The repair and replacement of water and sewage infrastructure is critical and should receive priority in the budget as water is even more important than electricity.

Local Municipalities

33. Municipalities' aggregate **cash shortfall** is currently a **staggering R50.7 billion**. In terms of the MTBPS, these entities will only receive an additional R17,8 billion over the medium term. This could see many municipalities facing collapse, yet this has not been provided for in the expenditure side of the Budget.

34. More than 52% of municipalities have also budgeted for deficits notwithstanding their current debt levels and cash shortfalls.

C. THE ILLUSIVE NECESSICITIES – ACCOUNTABILITY AND IMPLEMENTATION

35. The lack of accountability for mismanagement of public funds is the single biggest problem in government. Implementation is a critical component of a successful plan and the feasibility of implementation should be considered at the outset of any initiative.

36. Submission: Parliament needs to respond to the ineffective and inefficient spending by government in a far more constructive and sustainable manner. It needs to use its oversight powers to ensure that local municipalities do not fail and that all other government departments fulfil their respective obligations.

Yours sincerely

Pieter Faber
Executive: Tax

Dr Sharon Smulders
Project Director: Tax Advocacy

South African Institute of Chartered Accountants