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Dear Sirs and Madam

COMMENTS ON THE 2020 MEDIUM TERM BUDGET POLICY STATEMENT (MTBPS)

1. We present our comments and submissions on behalf of the South African Institute of Chartered Accounts' (SAICA) National Tax Committee on the MTBPS released by Minister Mboweni on 28 October 2020.

2. We once again thank the Standing Committee on Finance (SCoF) 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.

ICEBERG SPOTTED AHEAD – WE ARE ON A COLLISION COURSE

3. President Ramaphosa and Minister Tito Mboweni have the iceberg that we are heading for in clear sights and listening to the MTBPS speech one can almost hear the call go out for us to "brace for impact". The iceberg is an economy that is in crisis – an unemployment rate of 42% (using the expanded definition), GDP growth projections down by 7.8%, tax revenue projections R312.8bn less than originally budgeted for, a budget deficit of R709bn for 2020/21, a current debt to GPD level of 81.8% (optimistically reaching 95% in 2025/26) and debt service costs (interest) currently amounting to 21c in every tax Rand collected.

4. Warning signals over the past five years have been sounded by many commentators, yet they seem to have gone largely unheeded. Though COVID has created a further setback, it has also put a spotlight on existing bad practices and failings in both the public and private sector. Although the government has sought to redistribute income to the poor and vulnerable, lack of fiscal consolidation, policy uncertainty and lack of execution together with uncontrolled

misdirected expenditure has resulted in no meaningful economic recovery since 2008 and has kept us back from changing course in order to avoid hitting the iceberg.

5. Although various plans and committees have been developed and established (National Development Plan, Davis Tax Committee, the Economic Recovery Plan and the Presidential Council) to grow the economy, the economic structure of the country still has many fundamental weaknesses, many stemming from historical injustices, which have not yet been reformed.

6. Entrepreneurship has not thrived under the large scale dominance of a few large entities and big business labour practices, and administrative barriers to entry have exacerbated the situation. Labour market regulations, weak state capacity and procurement practices as well as a lack of financial inclusion for many have landed us on the collision course that we are on today.

7. The Economic Recovery Plan is the map that is being followed to steer us away from the iceberg, yet the exact direction of this path were not clearly revealed in the MTBPS despite assurances provided by the President that they would be. Many promises were once again made to reel in expenditure in order to invest in infrastructure, but this has not happened in the past so this brings into question the credibility of any current commitments provided by the government.

8. More concerning is that there seems no real economic structure or prioritisation to the plans around investment in infrastructure which again is more of a wish list as it also was not accompanied by details on how it will realistically be financed.

9. The establishment of commissions of inquiries and the presentation of their reports detailing instances of misconduct do not lead to meaningful repercussions for those implicated. Furthermore, the consistent failure to meet most targets set does not instil confidence in the government to tackle the difficult matters. The lack of credibility and policy uncertainty in turn leads to dwindling foreign investment and local funds rapidly exiting the country – none of which the country can afford. So how do we change course and move to clear open waters again?

THE TIP OF THE ICEBERG – WHAT WE KNOW

10. Before any solutions can be considered, we need to understand the imminent risks to the country's finances so that these risks can be mitigated. The critical risks currently facing the country are:

    10.1 A low and dwindling growth rate;

    10.2 Excessive public sector compensation with too many people with inappropriate skills for the jobs they are in and too few people with the appropriate skills;

    10.3 Too many SOE's and government agencies that serve no valid strategic purpose and too many unsustainable SOE's, resulting in contingent liabilities;

10.4 Municipalities' failing ability to provide real services, being fiscally unsustainable and destroying the environment through sewage and other pollution and scarce potable water wastage; and

10.5 High debt levels at all levels of government and also within society with no credible plan of settling these debts in a responsible manner.

Low growth rate

11. Over the last decade growth has averaged less than 2% annually. Some have argued that the government needs to spend more to stimulate the economy which in turn will result in higher growth rates. However, as Mr Mboweni stated, the government spend is no longer producing the returns it used to. For each R1 spent, the country no longer gets R1.60 in GDP, but now receives less than R1.

12. Government spending might in theory be an economic stimulus, but in its current form it is ineffectual and inefficient. Unfortunately, not much has changed in this regard to ensure a change in the status quo with still too little accountability and enforcement and no individual productivity measures.

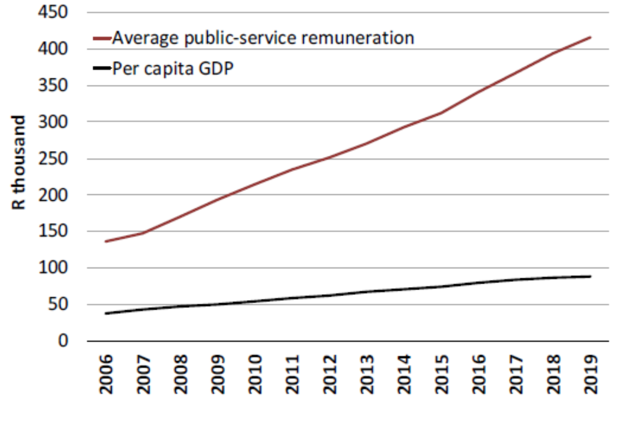
13. Added to this concern is the fact that government expenditure already far outweighs the income received leading to an ever growing budget deficit. With only very modest tax revenue increases possible over the next four years, this gap will continue to increase unless the expenditure can be brought under control.

14. Despite numerous statements by the Minister of Finance assuring us that the fiscal consolidation path that we are on will get the government expenditure and debt under control i.e. our ability to repay debt will grow faster than our debt, this has clearly not been the case. One of the largest culprits for the increase in government expenditure is the public sector employee compensation.

Public sector employee compensation

15. Public sector compensation has averaged about 35% of total consolidated spending over the last 25 years. However, this statistic is misleading as increasing expenditure in other areas at the same rate merely masks the real problem. As we have previously mentioned, the rate is actually above 40% if taken as a percentage of total revenue and will far outstrip that in the current year (reaching 50.1%). Furthermore, the growth in wages has had no apparent growth in efficiency. Since 2006/7, the average public-service remuneration has increased at a faster pace than per capita GDP and is now 4.7 times larger.

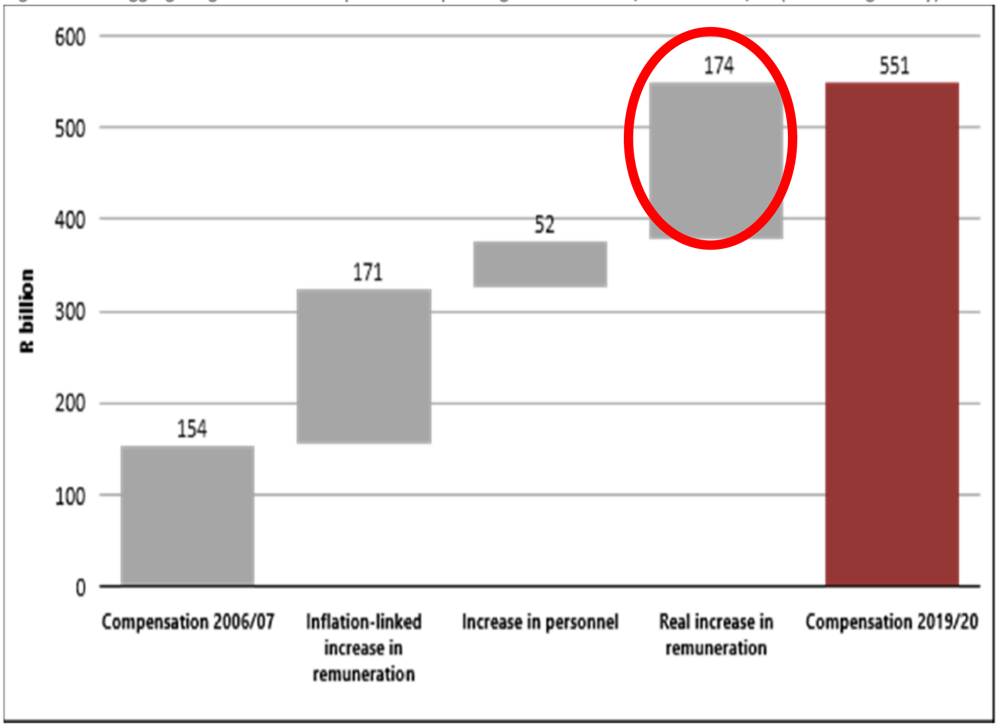
Figure B.2 Public-service remuneration and per capita GDP



16. Increased employee numbers have not been the main reason for the large increase in these compensation costs. Whilst we acknowledge trade unions' concerns that there are shortages in key areas such as nurses and teachers, this however means the problem is larger in that government has employed tens of thousands of people it does not really need and will have to audit positions and align them to key strategic focus areas.

17. The main reason is the actual salary increases – that is, 77% of the increase in compensation costs relates to wage increases (even after taking inflation into account).

Figure B.3 Disaggregating increased compensation spending between 2006/07 and 2019/20 (main budget only)



Source: National Treasury

18. Half of all long-term public servants have received real increases of more than 44% over the last 10 years; 25% have received increases above 71%; and a small fraction have seen real increases of over 1000%. The rate at which these wages are growing has also clearly outpaced the private sector compensation growth and has resulted in these wages being much higher than what private sector employees are earning.

19. As this is clearly unsustainable, the government gave a commitment to reduce wages by approximately R160bn over the medium term. More than 80% of the total compensation reductions will occur in the *learning and culture, health and peace and security* functions. Why these critical functions, especially in the current environment, will be the sectors in which compensation will be reduced is unclear and needs further explanations from the government.

20. Despite the overall planned reduction in compensation, the MTBPS proposes growth in the public-service wage bill of 1.8% in the current year and average annual growth of 0.8% over the 2021 MTEF period – see Table 4.2 below.

Table 4.2 Consolidated expenditure by economic classification[1]

R billion	2019/20 Outcome	2020/21 Revised[2]	2021/22	2022/23	2023/24	Average annual growth 2020/21 – 2023/24
			Medium-term estimates			
Current payments	**1 087.7**	**1 138.3**	**1 196.2**	**1 256.1**	**1 302.0**	**4.6%**
Compensation of employees	626.1	639.3	639.1	646.5	655.0	0.8%
Goods and services	246.9	262.9	275.3	281.5	283.3	2.5%
Interest and rent on land	214.8	236.1	281.8	328.0	363.8	15.5%
of which: debt-service costs	*204.8*	*225.9*	*271.8*	*317.6*	*353.1*	*16.1%*
Transfers and subsidies	**616.4**	**644.7**	**648.6**	**683.2**	**696.9**	**2.6%**
Provinces and municipalities	136.6	149.3	151.5	159.9	162.9	3.0%
Departmental agencies and accounts	27.7	26.3	24.7	25.4	25.7	-0.7%
Higher education institutions	46.6	47.4	48.0	49.0	49.8	1.6%
Foreign governments and international organisations	2.5	2.9	2.7	2.9	2.9	0.1%
Public corporations and private enterprises	35.1	34.8	37.3	40.2	43.9	8.0%
Non-profit institutions	38.1	40.7	41.8	43.7	44.3	2.9%
Households	329.8	343.4	342.5	362.0	367.4	2.3%
Payments for capital assets	**78.6**	**88.9**	**100.8**	**109.2**	**111.5**	**7.8%**
Buildings and other capital assets	60.3	70.3	79.6	86.6	88.5	7.9%
Machinery and equipment	18.3	18.5	21.2	22.6	23.0	7.5%
Payments for financial assets	**66.0**	**86.5**	**42.9**	**26.2**	**23.7**	**–**
Total	**1 848.7**	**1 958.4**	**1 988.5**	**2 074.6**	**2 134.2**	**2.9%**
Contingency reserve	–	–	5.0	5.0	5.0	–
Consolidated expenditure	**1 848.7**	**1 958.4**	**1 993.5**	**2 079.6**	**2 139.2**	**3.0%**
Consolidated expenditure including June 2020 budget adjustments	**1 848.7**	**2 037.8**	**1 993.5**	**2 079.6**	**2 139.2**	**1.6%**

1. Consisting of national and provincial departments, social security funds and public entities
2. 2020/21 excludes June 2020 budget adjustments
Source: National Treasury

21. Submission: It is important to realise that cutting the *rate of expenditure* growth is not the same as *cutting actual expenditure*. Actual expenditure needs to be cut in order to realise any tangible reductions in the budget deficit.

22. Although work appears to have commenced on the comprehensive public-sector remuneration strategy for the medium to long term, tangible details, for example regarding the implementation date, have not been provided. A detailed action plan is required for this strategy and this should be prepared as a matter of urgency.

23. Government states that it will achieve the reduction in government compensation by not implementing the third year of the 2018 wage agreement and will be proposing a wage freeze for the next three years to support fiscal consolidation. The decision to not honour the third year of the wage agreement is being contested by the trade unions and the matter is currently being deliberated on by the courts. Notwithstanding the proposed reductions in compensation, the majority of municipalities increased wages by 6.3% from July 2020 in line with their existing multi-year wage agreement. It is evident that the commitment to reductions is not having the desired effect.

24. Per analysis using the quarterly December 2019 statistics as a trend, municipalities spent 39% of normal revenue (i.e. excluding grants and subsidies) on salaries and if one includes expenditure on contractors, 50% of such revenue.

25. The more than R44 billion owed to Eskom and R14 billion to water boards also seem out of line given that municipalities made a profit of 30% and 40% respectively on the sale of these commodities.

26. Regarding the proposal in the MTBPS to implement a wage freeze, trade unions have already been out in full voice, only 24 hours after the MTBPS, and used phrases like: “we will fight fire with fire!” and “we will bring the country to a standstill” – so to say they are a little unhappy with this proposal is stating it lightly.

27. It is therefore of grave concern that the bulk of the expenditure reductions announced by the Minister to balance the budget, hinges on the reduction in compensation. If government does not win the court case and is unable to push through on the three-year freeze, it is therefore unlikely to achieve its cost cutting targets and the turnaround plan for the country’s finances will fail.

28. That seems a huge gamble with the finances of the country.

29. Submission: Government cannot back track from its commitment to reduce wages as the repercussions for doing so are a failed budget which will see more debt being sought but more importantly would send a negative message to lenders and the investment community about our ability to control our finances.

30. The public sector wage bill needs drastic reduction and tough decisions and actions are required. South Africa saw 218 service delivery protests in 2019[1], which represents almost one for each working day in the year. Paying exorbitant salaries is never acceptable, but paying these salaries for poor service delivery is inexcusable. Furthermore, paying so much money for inappropriately skilled staff compounds the problem and also complicates the solution which cannot merely be salary freezes or reduction by natural attrition.

31. Compensation is particularly problematic when it is accompanied by a lack of productivity – that is, there must be a definite need for a function to be performed by an employee and this function must add value added to the economy, greater than the cost of the compensation. Trade unions, together with government, need to collaborate in implementing an effective and **transparent productivity enhancement plan** to ensure accountability is enforced at all levels. If Government is unsuccessful in its negotiations with the trade unions to reduce the wage bill, an additional R38bn in 2020/2021 would need to be recovered from elsewhere. The debt burden of the country would not be stabilised as predicted and this would increase the likelihood of further downgrades.

32. The government, by retaining unproductive employees in the public sector, is effectively choosing to hamper job creation in the private sector, as the money spent on the unproductive

[1] https://citizen.co.za/news/south-africa/protests/2236363/fewer-service-delivery-protests-in-2019-than-previous-year-reveals-data/

employees in the public sector is not being channelled to businesses that have the potential to use this money productively to grow the economy. The whole question of cuts in the wage bill is therefore not merely about retaining public sector jobs.

33. Budget cuts for compensation and benefits, starting at the top, are necessary. Research findings informing this statement are set out in SAICA's submission (dated 2 March 2020) to Parliament on the 2020 Budget Review.

State Owned Entities (SOE's)

34. Government continues to hold over 700 SOE's though it remains unclear how all of them are strategically aligned to a bigger policy framework.

35. Several of these entities are insolvent and have insufficient funds to cover operational expenses and have turned to government for financial support.

Table 8.1 Combined balance sheets of state-owned companies[1]

R billion/per cent growth	2014/15	2015/16	2016/17[2]	2017/182	2018/19
Total assets	1,037.5	1,178.6	1,224.3	1,263.2	1,269.0
	13.9%	*13.6%*	*3.9%*	*3.2%*	*0.5%*
Total liabilities	739.2	818.2	870.3	901.1	927.0
	16.2%	*10.7%*	*6.4%*	*3.5%*	*2.9%*
Net asset value	298.3	360.4	354.0	362.1	342.0
	8.6%	*20.8%*	*-1.8%*	*2.3%*	*-5.6%*
Return on equity (average)	*-2.5%*	*0.6%*	*0.7%*	*-0.8%*	*-8.2%*

1. State-owned companies listed in schedule 2 of the PFMA, excluding development finance institutions

2. Numbers may differ from earlier publications due to restatement or error

Source: National Treasury

36. Continuous bail outs are having to be provided to many of these entities as is evident from the Table 8.2 below.

Table 8.2 Summary of recapitalisations and bailouts of state-owned companies

R billion	Eskom	South African Airways	Denel	South African Express	South African Broadcasting Corporation
2008/09	10.0	–	–	0.4	–
2009/10	30.0	1.5	–	–	–
2010/11	20.0	–	–	–	–
2011/12	–	–	–	–	–
2012/13	0.7	–	0.4	–	–
2013/14	–	–	–	–	–
2014/15	–	–	–	–	–
2015/16	23.0	–	–	–	–
2016/17	–	–	–	–	–
2017/18	–	10.0	–	–	–
2018/19	–	5.0	–	1.2	–
2019/20	49.0	5.5	1.8	0.3	3.2
2008/09-2019/20 (history)	**132.7**	**22.0**	**2.2**	**1.9**	**3.2**
2020/21	56.0	10.3	0.6	0.2	–
2021/22	33.0	4.3	–	–	–
2022/23	23.0	1.8	–	–	–
2020/21-2022/23 (MTEF)	**112.0**	**16.4**	**0.6**	**0.2**	**–**
Total	**244.7**	**38.4**	**2.8**	**2.1**	**3.2**

Source: National Treasury

37. A further R10.5bn will be provided to fund the ailing and grounded SAA, despite Minister Mboweni previously stating that this would not be the case. Not only has this decision created an uproar amongst many commentators for failing to provide for those in true need, but it also highlights a concern regarding the credibility of the government and the political struggle that the ruling party is facing internally. This does not instil confidence and investors and rating agencies will no doubt take these actions into consideration in their future decision-making.

38. The real risk posed by these entities is potentially far larger when one considers the fact that there are substantial **guarantees** provided by government in respect of these entities' debts. The National Treasury estimates that the collective debt of the 10 largest borrowers is likely to exceed **R810 billion** in 2019/20. In addition, the effective cost of debt for these entities, a broader measure that includes both interest and non-interest costs, rose from 8.7% in 2009/10 to 9.8% in 2017/18.

Table 8.3 Borrowing requirement of selected state-owned companies[1]

R billion	2017/18 Budget	2017/18 Outcome	2018/19 Budget	2018/19 Outcome	2019/20 Revised	2020/21	2021/22	2022/23[2]
						Medium-term estimates		
Domestic loans (gross)	**70.1**	**54.4**	**61.8**	**46.1**	**46.6**	**51.2**	**32.3**	**27.1**
Short-term	17.9	29.4	20.1	13.9	13.2	14.2	10.6	7.0
Long-term	52.2	25.0	41.7	32.2	33.4	37.0	21.7	20.1
Foreign loans (gross)	**65.0**	**48.8**	**52.0**	**39.7**	**37.7**	**37.4**	**38.6**	**39.9**
Long-term	65.0	48.8	52.0	39.7	37.7	37.4	38.6	39.9
Total	**135.1**	**103.2**	**113.8**	**85.8**	**84.3**	**88.6**	**70.9**	**67.0**
Percentage of total:								
Domestic loans	*51.9%*	*52.7%*	*54.3%*	*53.7%*	*55.3%*	*57.8%*	*45.6%*	*40.4%*
Foreign loans	*48.1%*	*47.3%*	*45.7%*	*46.3%*	*44.7%*	*42.2%*	*54.4%*	*59.6%*

1. Airports Company South Africa, Eskom, SANRAL, SAA, Transnet and Trans-Caledon Tunnel Authority

2. ACSA and TCTA not included, as no forecast was provided

Source: National Treasury

39. Total debt redemptions are estimated to average R87.1 billion annually over the next three years and as it has become increasingly difficult for SOEs to access capital market funding, the risk of government having to assist in this regard is fast becoming a reality.

40. Government's **guarantee portfolio** has increased from R680 billion in March 2019 to **R693.7 billion** in March 2020, of which the largest facility has been granted to Eskom (R350 billion). Electricity prices for the consumers have increased by 177%, so a person that paid R500 in 2010 for electricity, would now have to pay R1 385 for the same electricity consumption. Despite these increase in tariffs, it seems that the end to load shedding is not yet in sight as the restructuring of Eskom is only estimated to be completed in 2022.

41. As at the end of March 2020, R583.8 billion of the R680 billion government guarantees had been used. Over the next three fiscal years, guaranteed debt redemptions are expected to average R35.6 billion, up from R27.5 billion reported last year.

42. **Contingent liabilities** in total are expected to exceed **R1 trillion** by 2022/23 and include the government guarantees to SOEs and obligations to the Road Accident Fund (RAF) and other

social security funds. The RAF is government's largest contingent liability and its accumulated deficit is projected to grow to **R593 billion** by 2022/23.

Table 8.6 Financial position of social security funds							
	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
R billion		Outcome		Estimate		Medium-term estimates	
Road Accident Fund							
Total assets	9.2	9.8	11.2	11.5	11.7	11.8	11.9
Total liabilities	189.2	216.1	273.3	341.1	413.1	500.4	604.9
Net asset value	-180.0	-206.3	-262.1	-329.6	-401.4	-488.6	-593.0

Source: National Treasury

43. The Road Accident Benefit Scheme, which government developed to reduce this liability, was rejected by Parliament in August 2020 and the liability will continue to grow. No further comments have been made in this regard, and alarm bells should start ringing because the deficit of R593 billion would wipe out almost half of all the revenue collected by the government.

44. These guarantees and contingent liabilities represent material risks for the government as their risk of realising is "material". These guarantees need to be better analysed and managed to ensure their risk of materialising can be reduced to "low".

45. Submission: Investigations into corruption at these entities should be expedited and conviction should include repayment of the money taken.

46. Management capability studies should be performed and KPIs should be set. These need to be continuously monitored and performance management should take place if necessary.

47. Offers from civil society to assist with regaining financial management control of these entities should be accepted.

48. Should the continued operational failures of these entities not be rectified within the short term, the only viable option would be for government to cut its losses now. Spending money with no foreseeable financial or strategic return cannot be condoned and funds should rather be spent on projects where the prospects of a return are achievable.

Municipalities

49. Since 2010 the price of water in South Africa has increased by 213%. A person would have had to halve their water consumption from that used in 2010 in order to keep up with the cost of water, assuming the same proportion of their salary was spent on water. This, along with the large increases in electricity, could be one reason why at the end of June 2020, uncollected revenues in local government had grown by 16.3% cent from June 2019 to R171.9 billion. According to the Auditor-General's 2018/19 report on local government finances, about 47% of municipalities incurred a deficit and total deficits grew from R669 million in 2017/18 to **R2.3 billion** in 2018/19.

50. In his latest local government general report, the Auditor General paints an undesirable picture of billions of rand in funds allocated to municipalities being managed "*in ways that are contrary to the prescripts and recognised accounting disciplines*". He strongly cautions that these administrative and governance lapses "*make for very weak accountability and the consequent exposure to abuse of the public purse*".

51. This financial weakness has led to a decline in repairs and maintenance spending, which in turn has caused high water and electricity losses. Above-inflationary wage increases at local government level will add additional pressure. The ability of municipalities to provide basic services such as water, sanitation, electricity reticulation, roads and community services is therefore of great concern.

52. Although it is stated that the National Treasury and the Department of Cooperative Governance and Traditional Affairs (COGTA) have developed a rigorous monitoring regime to strengthen local government finances, when this will be implemented is unclear. What is clear though, is that an effective monitoring regime should have been implemented long ago and those found guilty of mismanagement should have been brought to book.

53. Only 8% of municipalities received clean audit reports and only 9% received no findings on non-compliance with legislation, with 76 municipalities regressing in audit outcomes. As entities with significant powers of intervention, it remains unclear what COGTA and National Treasury's plans are to save municipalities from themselves as very few effective interventions have been done to date. This is evidenced by the continued regression and failure of municipalities over the last two decades.

54. It is therefore sincerely hoped that an effective monitoring regime will be implemented with immediate effect to curb any further losses from arising and to prevent further unrest in the country which will arise when basic services cannot be delivered.

55. <u>Submission</u>: Future budget allocations to each municipality should be based on past performance and audit outcomes.

56. COGTA should assist ESKOM and Water Boards to enforce payment of water and electricity by municipalities, which is sold at a high premium to ratepayers.

57. Investigations into corruption at these entities should be expedited and those found guilty should, among other things, be tasked with repaying the money taken.

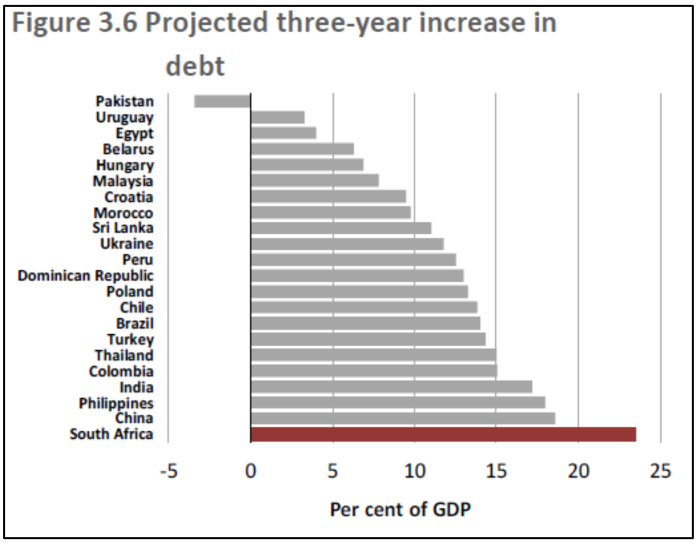
58. Management capability studies should be performed and KPIs should be set. These need to be continuously monitored and performance management should take place as necessary.

59. Offers from civil society to assist with regaining financial management control of these entities should be accepted.

Debt

60. With tax revenue planned to only increase by R40bn over the next four years, according to the Supplementary Budget earlier this year, the expenses still exceed the revenue and this gap is increasingly funded by debt. These spiralling debt levels, measured against a low

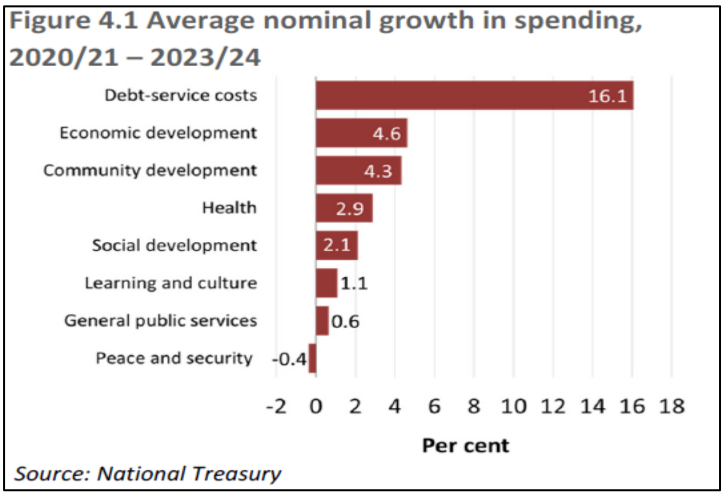
growth or contracting economy, are also becoming more expensive. South Africa has the highest projected increase in debt over the next three years compared to any of its peers, indicating just how dire our situation has become (see Figure 3.6 below).



Source: National Treasury MTBPS

61. Any realising guarantee or contingent liability will only see our debt levels rise even further. Should the wage negotiations with the unions fail, and this appears likely from the track record of similar negotiations, there is limited room for other expenses to be cut. We do, however, refer government to SAICA's submission (dated 2 March 2020) to Parliament on the 2020 Budget Review, where certain expenses were analysed by Department to determine where Government is spending, what it is spending on and whether it is getting value for its spend. We examined eight of the separately disclosed expenses in the national Budget (compensation being one of them), and provided a high-level insight on these expenses. This would be a useful starting point for government to commence its analysis of the expenditure.

62. As the country's debt levels rise, so to do the debt service costs (interest expense). Figure 4.1 clearly highlights the extent of the growth of this expense in relation to other government expenses – it had the largest growth, crowding out other public service spend.



63. Submission: A “Plan A” was provided in the MTBPS (focus on reducing government employee compensation), but it is hoped that the government has a “Plan B” because failing to secure the compensation reduction deal will put severe pressure on the fiscus to cut in other areas. Exactly what areas need to be cut is not evident at this stage, but these cuts would, if not done correctly, lead to rising social pressure for additional spending and could even lead to social unrest if not managed correctly.

64. The zero-based budgeting process should be used to help identify additional areas where expenditure can be cut. This process should be performed, even if the wage deal is successful, as all fat needs to be trimmed to ensure that there are sufficient funds available for proper service delivery.

THE SUMBERGED PART OF THE ICEBERG – WHAT WE DON’T KNOW

65. Unlike in previous years, not only was the government tasked with rebuilding our economy and rehabilitating our public finances, but lurking under the water was the devastation COVID-19 was about to bring. The economy was in a fragile state before COVID-19 hit, so we do appreciate the immense task that the government had to undertake during this difficult time to balance the health of the population with the needs of the economy. National Treasury and SARS acted swiftly and provided many relief measures to those in need and for that they should be congratulated.

66. However, looming ominously under the water is not only the contingent liabilities discussed above, but also the possible under-funding of the GEPF as the values of equities and interest investments declined by nearly 40% during lockdown. In this regard, the GEPF funding policy states that the trustees should strive to maintain the long-term funding level at or above 100%. The long-term funding level of the fund at the valuation date as per the March 2018 Actuarial Valuation Report was 75.5% with a minimum funding level of 108.3%.

67. The minimum funding level is defined as a funding level determined excluding any contingency reserves. The funding policy requires the trustees to take steps to ensure that the minimum funding level is always above 90% and to strive to maintain a long-term funding level at or above 100%. Thus as at 2018, the minimum funding level was met, however, with the decline in the economy in South Africa, even the minimum funding level would be under pressure and could slip below the required funding level of at least 90%.

68. In addition to the above, although the GEPF, as at the valuation date in 2018, met the minimum funding level, it did not meet its long-term funding objectives (75,5% versus the required 100%). Given that the government was already underfunding the required contributions by 2,9% in 2018, this situation is likely to be significantly worse after COVID-19.

69. Based on the 2018 valuation report, should government be required to contribute an additional 2,5% to the fund, 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 2021/2022 and R10bn 2022/2023.

70. Submission: An updated actuarial valuation of the fund is necessary as government's contributions towards the fund would likely need to increase further to ensure that it meets its long-term funding objectives. It would appear that this has not been taken into account in the budget.

71. The lack of policy certainty may also have negative repercussions on the economy. For instance, the proposed changes to Regulation 28 to allow retirement funds to invest in government infrastructure projects, if handled incorrectly – that is, if prescription is enforced – might also result in premature withdrawal from funds.

72. Of even greater concern is our ability to deliver potable water. Pressure continues to grow on water yet rainfall has become more unpredictable as South Africa is already a water scare country.

73. In this regard it remains concerning that 37% of potable water is lost to dilapidated infrastructure and 80% of municipal sewerage works are dysfunctional, resulting in our river systems becoming part of the sewer system. Yet the Department of Environmental Affairs does not appear to have done much to address this destruction of our rivers systems and COGTA has not acted against municipalities breaking the law.

74. Submission: Like in the case of electricity, government has been warned for many years of an impending water crisis, yet it seems such warnings have been ignored. This has resulted in a very high price that is still today being paid by South African society.

CONCLUSION

75. Government has stated that it will attempt to put the brakes on government spending to narrow the budget deficit, which is critical. This commitment needs to translate into action.

76. Expenditure should be prioritized based on demonstrable needs. Crime, education and health care need urgent attention. Reduction in crime is critical since one cannot implement policy and legislation changes to which only a few adhere. The recent work of the NPA is promising and money spent on ensuring that those that are guilty of corruption are brought to book is welcomed. Despite an indication that basic and tertiary education expenditure are expected to only increase by 0.8% and 1.7% respectively and that there will be a reduction in peace and security expenditure of 0,4% over the next 3 years, the budget also paradoxically seems to indicate that two of the largest reductions in compensation will be in the health and education sectors. No explanation has been offered as to how one could possibly reconcile these apparent contradictions.

77. Despite many positive changes taking place (the Auditor General being given more powers, zero-based budgeting being introduced, openness of government to work with private and social partners etc.), the slow pace at which these interventions are being introduced casts doubt on whether we will maintain our current credit ratings. For instance, zero-based budgeting will be piloted at two departments next year and will only be fully integrated into the budget system by the 2023. Until then, what is being done to ensure that only necessary programmes are being funded?

78. Although the vision appears to be present, the execution appears to be lacking. Mr Mboweni stated that "*The 2020 MTBPS sets out our course forward*." Forward is good, but being sure of the direction and the pace at which the ship needs to move is critical. We are moving too slowly and without clear direction and the strong tides may further force the ship off course.

Yours sincerely

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