

BUDGET
— 2023

CULTURE BEATS STRATEGY

The impact of culture on strategy in the development of a sustainable economy.

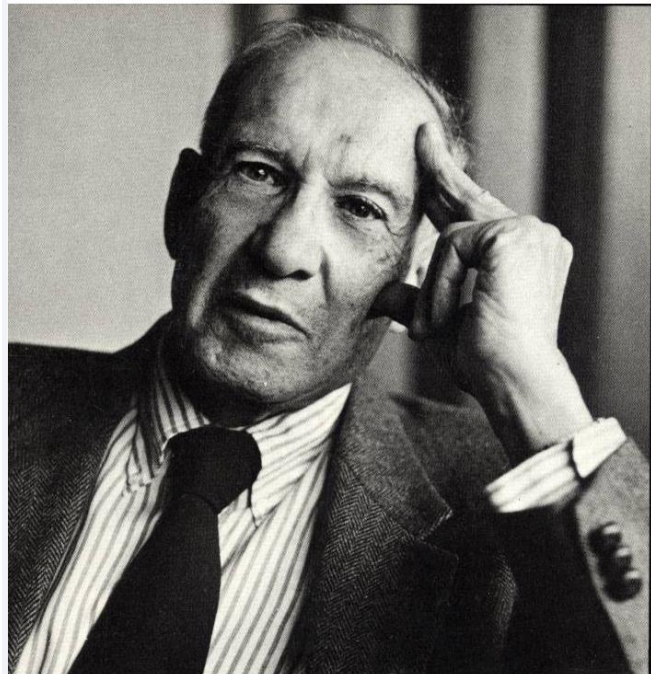
PUBLIC HEARING:
JOINT STANDING AND
SELECT COMMITTEES
ON FINANCE
1 March 2023

A CULTURE PROBLEM?

BUDGET
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“Culture eats strategy for breakfast”

- Peter Drucker



“Throughout my career, I have spent a lot of time in the strategy room.

*But no matter what we decided there, until we got the **organizational culture** right, we were unsuccessful in executing our goals”.*

- ❑ South Africa has a **Culture Problem**.
- ❑ Now the single biggest impediment to economic and fiscal policy implementation.
- ❑ Change in **overall** culture and behaviour must be driven by the Presidency and is not National Treasury’s responsibility. **Treasury** is responsible for **Culture of Fiscal Discipline**

A CULTURE PROBLEM?

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“**Culture of non-payment**, not only by municipalities but by all organs of state...”



“...undermines and cripples our institutions and makes it impossible for them to deliver services”.

*“The AGSA’s main focus was to ensure that an unqualified audit opinion, or a clean audit opinion, did translate to the service delivery and lived experiences of the South African citizens. That was what the AGSA wanted to see with the **culture shift in the public sector.**”*



A CULTURE PROBLEM?

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Is Parliament performing its duty?

- ❑ Constitution requires Parliament to scrutinize, oversee and hold the executive arm of government accountable on behalf of the people.
- ❑ Must exercise “**professional scepticism**” towards the executive arm of government.

Culture of Accountability is vital.



A CULTURE OF ACCOUNTABILITY

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South Africa now has more potholes than households

Hanno Labuschagne 21 October 2022



Tshwane water restrictions now a reality as consumption up and supply down



Total destruction — Photos of the horrific state of South Africa's train system

Staff Writer 6 January 2022



EXPORTING

Ports: Durban's pain is Maputo's gain

If it's any port in a logistics storm, the Mozambican option becomes popular with SA exporters as Durban decays

Human Rights Commission steps in to tackle Limpopo sewage problem

Commission to monitor Mogalakwena municipality

12 May 2022 | By Bernard Chiguvare
News | Limpopo



Where is Parliament?

- Ministers' 2019 Performance Contracts: no feedback
- Local government councillors are not held accountable for service delivery.
- Citizens** have resorted to:
 - ✓ Litigating against municipalities for failure to deliver services.
 - ✓ Directing traffic during loadshedding
 - ✓ Fixing potholes
 - ✓ Drilling boreholes for communities for water



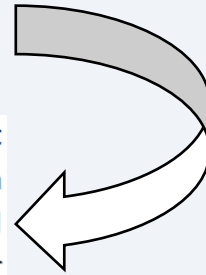
Questions that Parliament must ask itself:

- Has SCoF found the Budget to be so accurate, reasonable and aligned to policy of government, the needs of the people & the country, that it did not have to make a **single amendment** since 2009 when it received the power to do so?
- Does Parliament use **all its oversight powers timeously** to ensure that the Budget and Government Policies are implemented?

4 KEY RISKS EXCLUDED FROM THE BUDGET

- ❑ The looming national water disaster that has been ignored for more than a decade
- ❑ Government's continual inability to implement its own policies
- ❑ The debt realization of other SOEs, excluding Eskom.
- ❑ The total implosion of much of local government

The National Treasury's 2022 *State of Local Government Finances* report found that 169 municipalities were in financial distress at the end of 2021/22. The report noted a continued pattern of deterioration: only 66 of the 257 municipalities had been in financial distress at the end of 2010/11. Revenue management was the most prevalent factor contributing to this financial distress.



ECONOMIC OVERVIEW – CULTURE OF DISCIPLINE

Table 3.5 Main budget expenditure ceiling

R million	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
2019 MTBPS	1 307 235	1 404 675	1 493 029	1 591 287	1 673 601		
2020 Budget Review	1 307 119	1 409 244	1 457 703	1 538 590	1 605 098		
2020 MTBPS	1 307 112	1 418 408	1 502 867	1 479 709	1 516 052	1 529 585	
2021 Budget Review		1 418 399	1 504 656	1 514 934	1 521 721	1 530 664	
2021 MTBPS		1 418 456	1 487 399	1 570 890	1 552 268	1 558 725	1 627 154
2022 Budget			1 487 399	1 575 002	1 630 905	1 613 671	1 686 932

Source: National Treasury

Table 3.5 Main budget expenditure ceiling

R million	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
2020 MTBPS	1 418 408	1 502 867	1 479 709	1 516 052	1 529 585		
2021 Budget	1 418 399	1 504 656	1 514 934	1 521 721	1 530 664		
2021 MTBPS	1 418 456	1 487 388	1 570 890	1 552 268	1 558 725	1 627 154	
2022 Budget		1 487 399	1 575 002	1 630 905	1 613 671	1 686 932	
2022 MTBPS		1 487 385	1 566 490	1 667 118	1 665 349	1 744 762	1 832 678
2023 Budget		1 487 419	1 566 498	1 653 459	1 671 030	1 750 276	1 842 572

Source: National Treasury

- ❑ Constant breaches of expenditure ceiling targets that government has set for itself.





Questions that Parliament must ask itself:

- Are consistent breaches of expenditure ceilings acceptable?
- Is the budget credible considering these consistent breaches i.e. is the **tabled budget** materially understated?
- If not, what is Parliament going to do about it given its oversight role and powers to amend?

DEBT – A CULTURE OF PROCRASTINATION

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Not a single debt ceiling or turnaround target met in 15 years.



- Debt must be repaid. Future generations will be deprived of setting the financial needs of the country in future.
- On-going cycle with no end in sight.
- Not much detail on how an indebted SANRAL, Municipalities, PRASA and Ports Authority will play their part in enabling economic growth.
- Culture of fiscal discipline** necessary.

A CULTURE OF PROCRASTINATION

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Questions that Parliament must ask itself:

- Is Parliament satisfied that the Minister has in fact addressed the debt challenge at all SOEs to rebuild these arteries of our economy?
- Given all the excluded risks and unfunded exposures, is Parliament satisfied and convinced that the estimates of medium-term debt are realistic?

NATIONAL WATER DISASTER – ESKOM PART 2?

Tshwane water restrictions now a reality as consumption up and supply down



Human Rights Commission steps in to tackle Limpopo sewage problem

Commission to monitor Mogalakwena municipality

12 May 2022 | By Bernard Chiguvare

News | Limpopo



Major 30 hour water outage to hit Ekurhuleni and Tshwane this week – these areas will be affected

Staff Writer 22 February 2023



National Water and Sanitation Master Plan, 2018:

- ❑ **South Africa is facing a water crisis** caused by insufficient water infrastructure maintenance and investment, recurrent droughts driven by climatic variation, inequities in access to water and sanitation, deteriorating water quality, and a lack of skilled water engineers.
- ❑ This crisis is already having significant impacts on economic growth and on the well-being of everyone in South Africa.

NATIONAL WATER DISASTER

The facts

1. **Triple challenge: Water // Sewage // Solid waste**
2. 56% of waste-water treatment works dysfunctional
3. South Africa's average daily domestic water usage is a lot more than world average.
4. Municipalities lose 35% of water through burst pipes and leaks
5. Only 59% of South Africans pay for their water
6. Municipalities therefore forgoes about R9.9 billion per year through water provided to citizens "for free".
7. Government will have no choice but to charge for at least some of this water going forward.



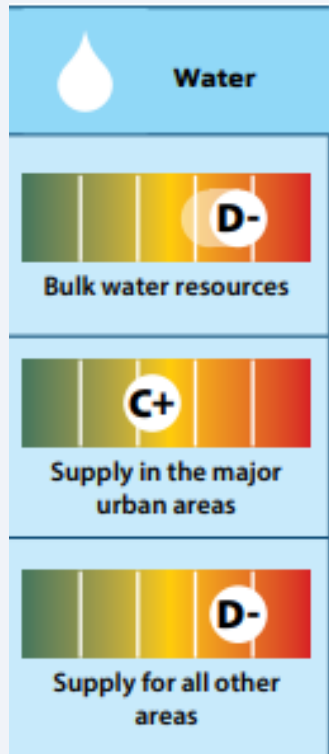
Our future?

The new reality:

- Water will become more expensive
- Everyone (except those without access to piped water) **MUST** use less water for the same activities
- Everyone - except the indigent - **MUST** pay for water and sanitation services

NATIONAL WATER DISASTER

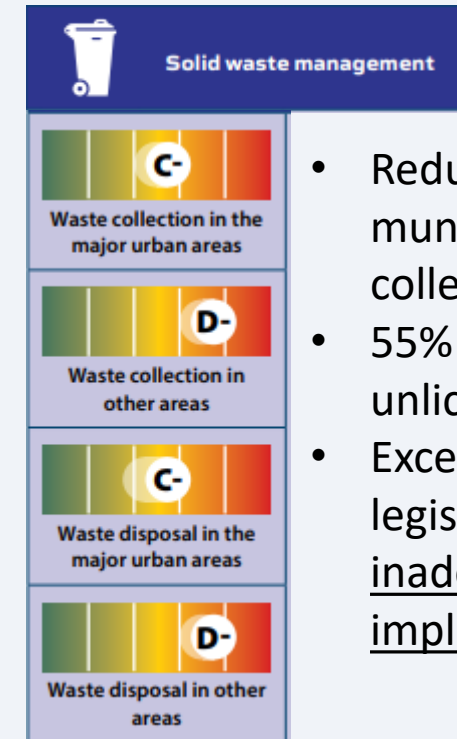
What do the engineers say?*



- Dam safety reports not published since 2016
- 34% of 1186 water supply systems critical
- Only 40% microbiologically safe
- 41% of treated water lost



- Dept of Water: 2022 Green Drop first in 10 years
- Only 22 Green Drops out of 995 systems
- Slack enforcement of effluent discharge
- Critical state increased to 39% of Municipalities



- Reduction in municipal waste collection
- 55% of landfills unlicensed
- Excellent legislation, inadequate implementation

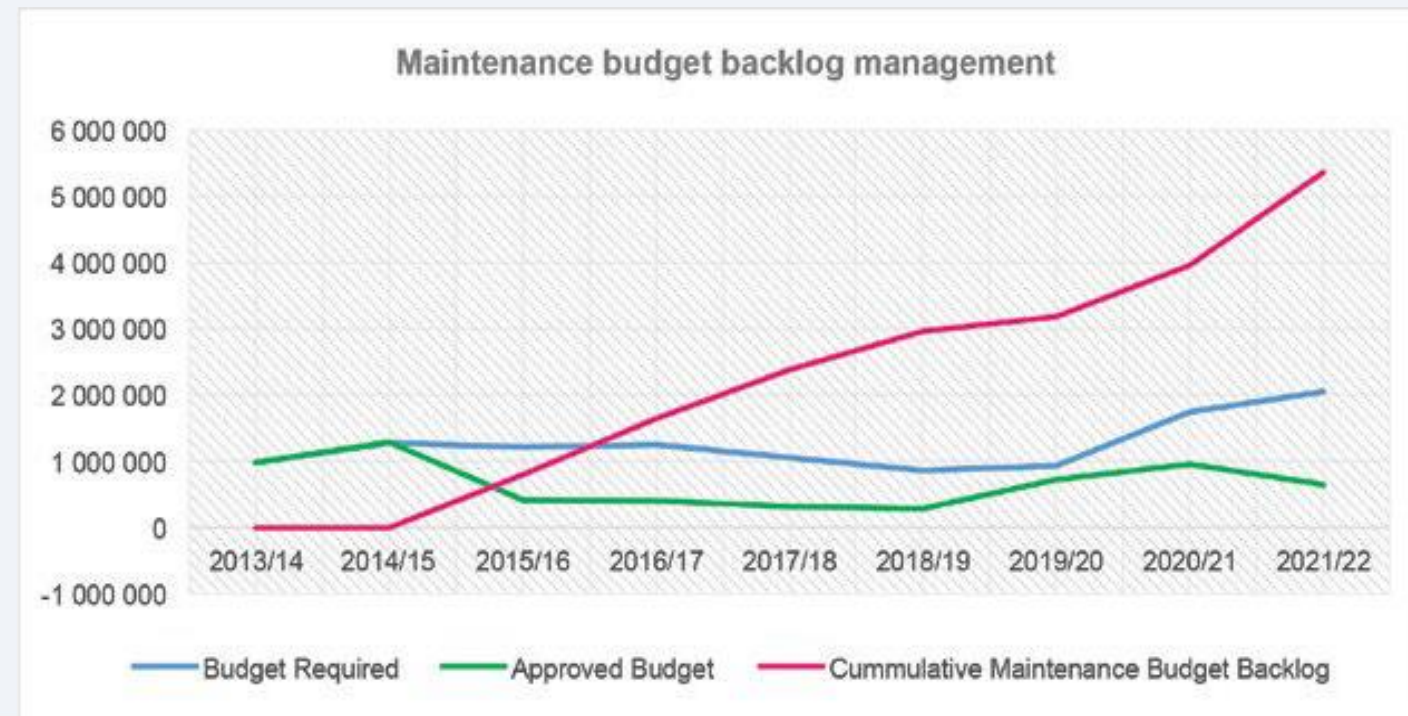
* SOURCE: SA Institute of Civil Engineering

[SAICE-2022-Infrastructure-Report-Card.pdf](#)

NATIONAL WATER DISASTER – ESKOM PART 2?

Water/Sanitation Infrastructure – What Government says

- ❑ R36 billion backlog in maintenance and refurbishment of national water resources infrastructure.
- ❑ Not completing critical water and sanitation infrastructure projects on time.
- ❑ Of all the critical infrastructure projects underway in the water and sanitation, energy, and transport sectors, only R3.9 billion completed.
- ❑ R134.2 billion are still only in the procurement phase
- ❑ R232.3 billion are still in construction.



Why are we behind schedule?

- ❑ **Poor administration continues to undermine actual spending and the completion of projects:**
- ❑ *“With regards to the Vaal River Pollution Remediation Project...*
- ❑ *the Department of Water Affairs and Sanitation, together with the National Treasury, should*
- ❑ *ensure that project planning for the Regional Bulk Infrastructure Grant projects is properly done timeously to avoid funds being rolled over to the next financial year or returned to the fiscus”.*



LATER



NOW

Culture of Procrastination

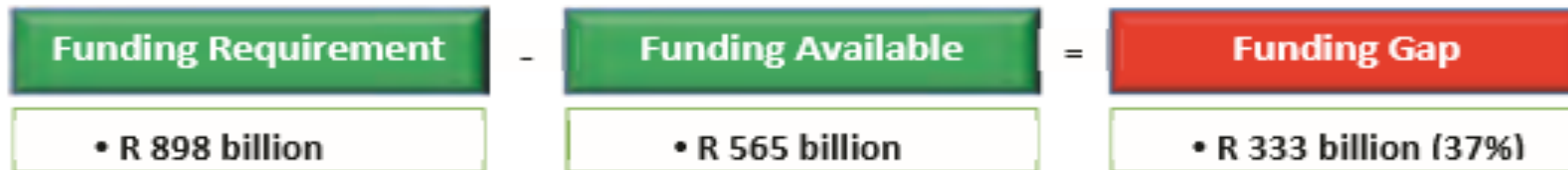
NATIONAL WATER DISASTER

Budget 2023 allocation: Is it enough?

Table 5.11 Economic development expenditure

R million	2022/23	2023/24	2024/25	2025/26	Percentage of total MTEF allocation	Average annual MTEF growth
	Revised estimate	Medium-term estimates				
Economic regulation and infrastructure	112 445	124 863	143 768	159 158	55.3%	12.3%
of which:						
Water resource and bulk infrastructure	27 544	34 092	38 368	48 801	15.7%	21.0%

Funding Gap over the next decade



- Eskom Part 2?
- Johannesburg alone requires **R80bn** for just water infrastructure
- Our estimated funding needed for triple challenge: at least R2 trillion**



A CULTURE OF PROCRASTINATION

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South Africa CAN avoid a projected **17%** water deficit by 2030 by taking bold action today!

Questions that Parliament must ask itself:

1. The potable water deficit is **here today**, why has Parliament, as with loadshedding, been so silent/inactive on this matter if we are **1 drought away from disaster**?
2. Does Parliament **believe** the **triple water disaster** will be **worse and more destabilizing** than loadshedding?
3. Does Parliament know what the **real funding requirement/gap** is for renewal, maintenance and expansion of all **3 systems** at **all 3 spheres of government**?
4. Is Parliament comfortable that both financially and through **enhanced financial oversight**, the Minister is meeting his Constitutional mandate to avert the looming disaster?

GREYLISTING – WHAT NOW?

BUDGET
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The past

- Why was Parliament not aware of the 2019 FATF review process and progress made given the previous findings in 2009 FATF MER?

Are we ready?

- Can South Africa respond through implementation in 6-18 months?
- If so, are we ready to implement recently amended legislation by 1 April 2023?
- What are our new obligations?

GREYLISTING – READY FOR ACTION?

BUDGET
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The 2022 Omnibus law response

- As per the concerns of Parliament, process was rushed through the legislature
- Imposed new and extensive obligations on 4 regulators/public bodies and specific sections public
- Required new systems and data gathering processes for both regulators and the public
- Did not address the FATF **practical concerns** on (Part of the 8 outstanding matters):
 - Bad monitoring practices under current law
 - Lack of investigations and police action under current law
 - Lack of prosecutions under current law

GREYLISTING – IMPLEMENTATION STATUS

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Department of Social Development & Non-profit organisations

Non-profit Organisations Act

NPOs will now be required to register with the Registrar if they:

- make donations to individuals or organisations outside South Africa or
- provide humanitarian, charitable, educational or cultural services outside South Africa.

NPOs that are not organs of state may apply to be registered.

DSD must establish an administrative and regulatory framework

All registered NPOs must in writing provide the **prescribed information**
The director (DSD) must keep a register in the prescribed form of the **prescribed information**

- 
- Office-bearers
 - Control structure
 - Governance
 - Management
 - Administration &
 - Operations

Draft regulations released 21 February

← Comments due 23 March 2023

- Details of person disqualified to be an office-bearer
- Office bearer – name, id, address, position
- Detail of legal form - registration number, tax number etc
- Administration – business address, trading name, countries, description of activities, **audited AFS (if available and name of auditing firm)**
- Administrative sanctions to encourage compliance

- Serious administrative difficulties in enforcing compliance within the NPO sector.
- Draft regulations themselves are still undergoing public consultation, ending on 23 March 2023.
- NPO's are not ready for this given the sector dependency on others

GREYLISTING – IMPLEMENTATION STATUS

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Trustees and Master's Office

The following records and information must be submitted to the Master's office by 1 April 2023:

TRUSTEE must keep information on BO

- Name
- Date of birth
- Nationality
- Official ID, indicating type and country of issues
- Residential address
- Address for service notice
- Other mean of contact
- Grounds on which person is BO
- Date on which person became BO
- Date on which person ceased to be BO
- Certified copy of ID of EACH BO

PROCLAMATION NOTICE 109 OF 2022

by the

President of the Republic of South Africa

COMMENCEMENT OF GENERAL LAWS (ANTI-MONEY LAUNDERING AND COMBATING TERRORISM FINANCING) AMENDMENT ACT, 2022

- Very large amount of information and records within the next one month
- Will every trustee of a trust have to keep this?
- Does the Master's Office have the necessary computer systems in place to receive and store these records within the next one month?



- Suitably skilled staff to carry out the new obligations imposed by the recent legislative amendments?

GREYLISTING – IMPLEMENTATION STATUS



Companies and Intellectual Property Commission (CIPC)

- ❑ An annual return must be submitted to the CIPC by every company.
- ❑ The following are the additional requirements on companies:

Amendment

- Submit copy of securities register
- Submit copy of register of disclosure of beneficial interest as prescribed in S56(7)(aA) (AFFECTED COMPANY)
- Commission must make AR available to persons as prescribed

56(7)(aA) An AFFECTED COMPANY must establish and maintain a register of persons who hold beneficial interest equal to or in excess of 5% of the total number of securities issues by the company, which register must be updated as per the information received via a notice.

S50(3A) Companies that are not an “affected company” MUST record in its securities register

- prescribed information regarding the natural persons who are the beneficial owners of the company,
- in the prescribed form, and
- must ensure that this information is updated within the prescribed period after any changes in beneficial ownership have occurred

S56(12)

- ❖ Must file a record with the Commission
- ❖ In the prescribed form
- ❖ Containing the prescribed information
- ❖ Update by filing notice with the CIPC
- ❖ Within the prescribed period after changes happened

- ❑ Clarifying the concept of a “beneficial owner” is key. Definition is different for different legislation incl tax.
- ❑ Who is the ultimate owner/beneficiary of a company or trust and can that readily be determined?

GREYLISTING – IMPLEMENTATION STATUS

BUDGET
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FINANCIAL INTELLIGENCE CENTRE

- ❑ Changed who is an “Accountable Institution” (AI).
- ❑ Which services will make you a TCSP? FIC still determining.

FIC – TCSP Draft Public Compliance Communication 6A

Guidance on Trust and Company Service Providers Guidance in terms of Schedule 1 of the FIC Act for public comment.

Comments due 20 January 2023

Definitions:

Business is that of a commercial activity or institution, as opposed to a charitable under government institution. Therefore, persons who are appointed as providing TCSP function on an occasional basis, or who perform this function in a personal capacity, as opposed to doing commercial basis as a regular feature of their business for clients are not required to be a TCSP

Creation includes the registration or administrative processes with relevant government for the client to commence with trading using the type of institution.

Operation of the company entails the assisting with the daily operations of the client, an

Management would entail managing the company, for example, being on the board of and making management decisions regarding the company.

What must you do if you are an accountable institution?

- Customer due diligence
- Record keeping
- Compliance officer
- Risk management and compliance programme
- Reporting
- Training of employees
- Registration with the FIC

SAICA DIFFERENCE MAKERS

Transitional provisions



Changes effective from 19 December 2022.

FIC media release

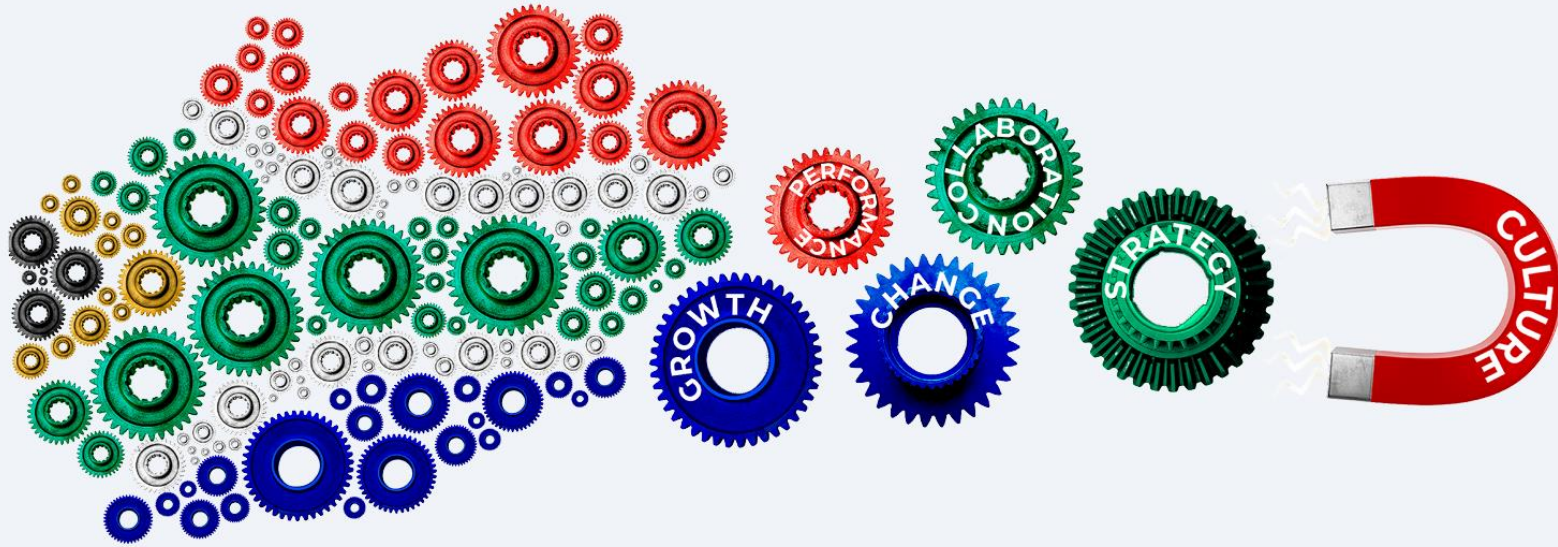
- First 18 months from the date of commencement of the amendments, the FIC and supervisory bodies will focus on entrenching the FIC Act risk and compliance provisions and implementation among the new sectors.
- Supervisory bodies conducting inspections and, where warranted, issue remedial administrative sanctions, based on a risk-based approach, to correct identified areas of non-compliance.
- TCSPs the FIC and supervisory bodies do not envisage issuing financial penalties for non-compliance with the FIC Act during the transitional 18-month period

1. Does FIC have the clarifying answers?
2. Is it reasonable to expect public to guess if they are AI?
3. Was it fair to expect implementation so quickly?



Questions that Parliament must ask itself:

1. Is Parliament really satisfied that both government and the public is ready for this, as they seem not?
2. Is 19 December 2022 & 1 April 2023 now (after greylisting) suitable dates to enable:
 - trustees, NPOs, company administrations, as well as the CIPC, Master's Office and Department of Social Development, accountable institutions
 - to collect and store, send and receive data, given the systems and staff needed to fulfil these new obligations?
3. Is it prudent to continue a culture of setting targets we will not be able to reach?



CULTURE BEATS STRATEGY

The impact of culture on strategy in the development of a sustainable economy.

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**THANK
YOU**