CA(SA)
NO. 1 ONE
DESIGNATION

Budget 2024

REFLECTIONS

#SABudget_2024

SAICA
DIFFERENCE MAKERS™

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Submission File

26 February 2024

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Dear Madam and Sirs

PARLIAMENTARY PUBLIC HEARINGS - COMMENTS ON THE 2024 BUDGET REVIEW

The South African Institute of Chartered Accountants (SAICA) herewith presents its comments and submissions on the 2022 Budget Review released by Minister Godongwana on 21 February 2024.

We once again thank the Standing Committee on Finance (SCoF) and the Select Committee on Finance (Select Committee) 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
Executive: Tax

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A. REFLECTIONS

1. The 6th Parliament of a democratic South Africa will soon rise for the last time in preparation for our next elections to be held on the 29 May 2024. Nearly 70 countries worldwide representing 4 billion will similarly vote for their preferred governments this year.

2. It therefore provides us an opportunity to reflect on this year's Budget Review in the context of what has happened before and what will be needed going forward in the 7th Parliament, which like any future Minister of Finance, will face many of the same challenges but also new ones.

3. To reflect, we need to analyse the facts in the context of what our country needs and so come to our truth, which is seldom popular. Like the President quoted in his 2019 SONA, "*the truth is often first ridiculed, then opposed and finally accepted as self-evident*".

4. In this regard we also reflect on an important truth we have raised in Parliament before as recently as 2022, namely that Parliament is elected to represent the people, not a political party or the executive, and to oversee executive action[1]. We also posed the question whether Parliament was in fact meeting this mandate.

5. Budget 2024 was introduced by a Budget Speech by the Minister of Finance, Honourable Godongwana, that seemed to now accept as self-evident the simple truth noted by his predecessor, Honourable Toto Mboweni, "*our problem is we spend more than we earn*." As set out in comments below, the Minister may have promised actual steps to counter this, but these are unfortunately not reflected in the detail of the budget itself.

6. In a recent interview with Adj. Prof Michael Sachs, a former senior Treasury Official, on the robustness of the 2024 Budget, he noted the following:

   "When there is no plan, the Budget becomes the plan".

7. We are in agreement with this sentiment and the critical role the Budget has played not only in securing and appropriating monies, but also in enforcing some sort of economic plan, spending prioritisation and fiscal accountability, whether that is its key purpose or not.

[1] Section 42 (3) of the Constitution of South Africa

8.	Submission: It is this central importance of the Budget that necessitates a Parliament that is in attendance (mind and body) and is acutely aware and informed of the needs of the country's people and the objectives of the state.

Oversight structure of Parliament

9. A major concern has been whether Parliament has the correct structure to execute on this oversight role, especially as relates to fiscal policy and the Budget in particular.

10. The first concern has been the segregation of Parliament and parliamentary responsibility, which in its totality Parliament as a single entity is obliged to oversee the executive, into segmented committees.

11. In relation to the whole fiscal cycle the Standing Committee on Finance, Standing Committee on Appropriations and Standing Committee on Public Accounts play a critical role. In our 2022 submissions to ScoF & SCoA, we raised this concern that there seemed gaps in the accountability mechanism and functioning of Parliament and requested Parliament to review the effectiveness and possible gaps in its committees' work, which has been our experience. We note that some of the same persons sit on multiple committees and that the Chairs of the Committees do meet.

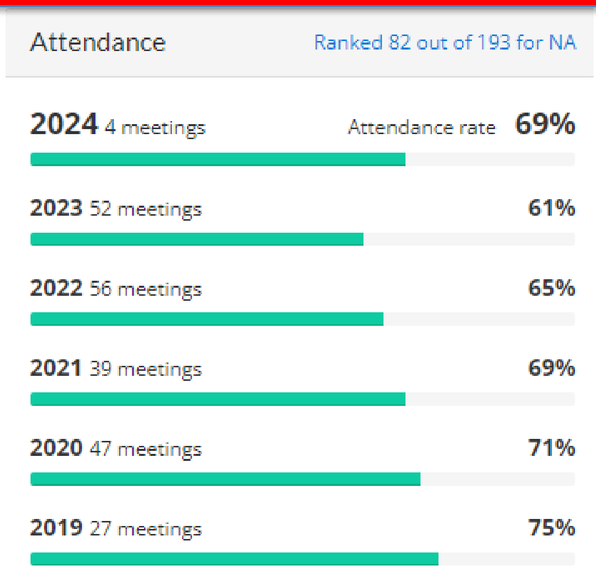
12.	Submission: It seems unclear whether Parliament has done this review.
13.	It would however seem prudent that Parliament investigate the full cycle of accountability and reflect to ensure that its processes are enhanced where required in the 7th Parliament.

Commitment of Parliamentarians

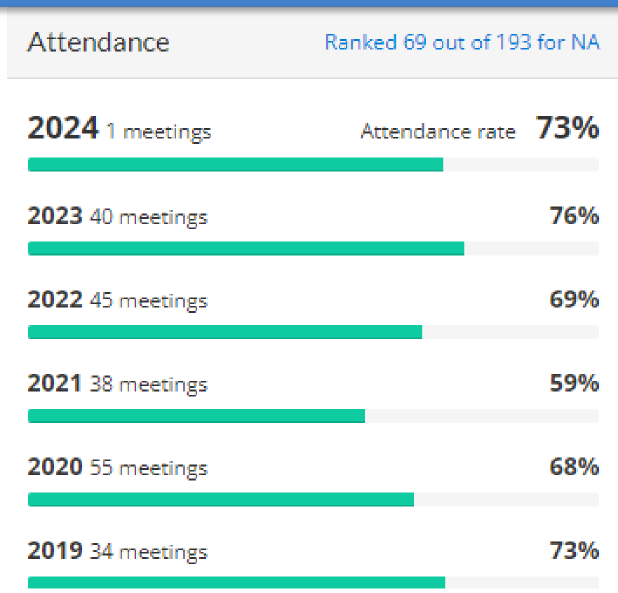
14. A further concern raised was that of the commitment of Parliamentarians in performing their oversight function.

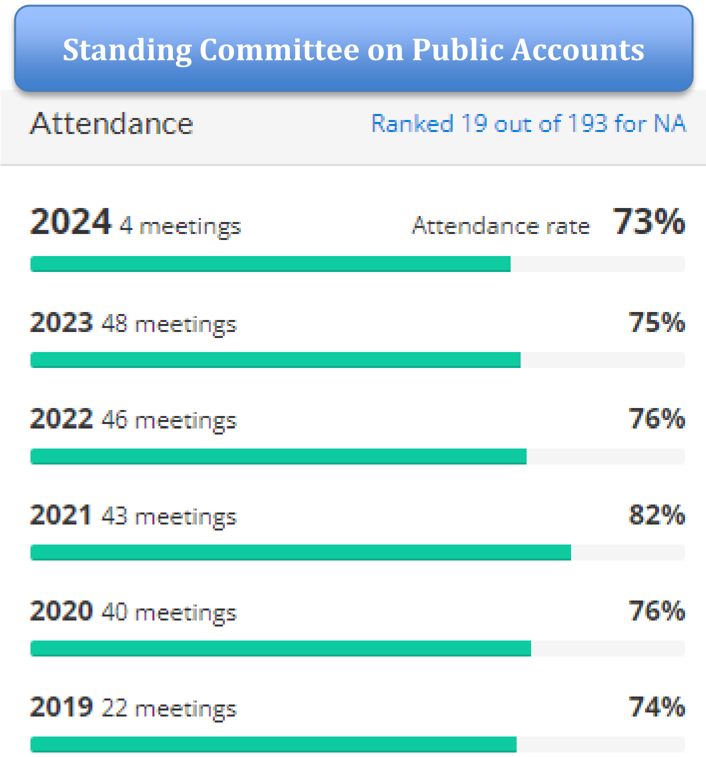
15. Our concern stemmed from the most basic requirement, namely attendance of Parliamentarians at committee meetings, including public hearings:

Standing Committee on Finance

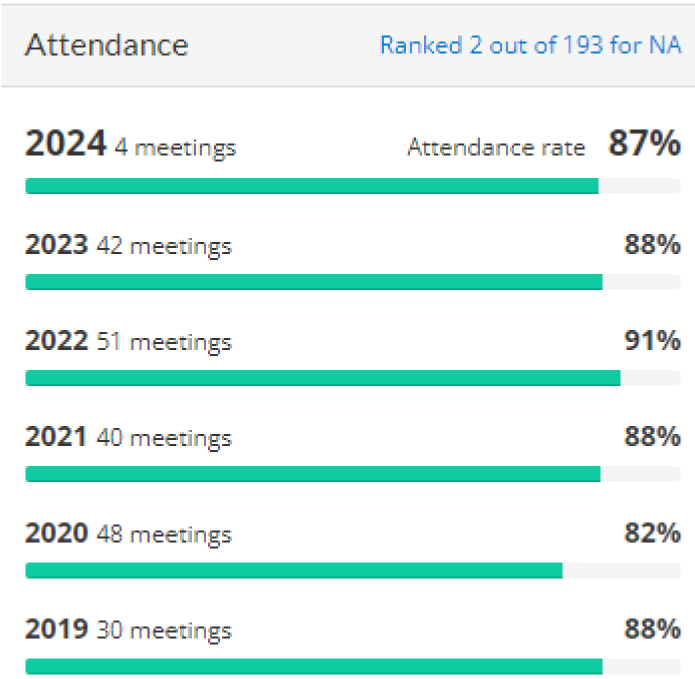


Standing Committee on Appropriations





16. If we compare this to the **Committee on Trade, Industry and Competition,** it is still far from perfect but a considerable improvement and even with a similar volume of meetings:



17. <u>Submission</u>: Though ScoF has contested the accuracy of these attendance rates provided, it has itself not provided any data to dispel the impression that our Parliamentarians need to reflect a lot

more on their effectiveness in oversight of the executive, including over the Minister of Finance and the Budget and fiscal oversight process, especially when it seems they are consistently missing from the structures created for this purpose

Credibility of the Budget process

18. This oversight and reflection on the Budget by our Parliamentarians is critical to ensure that our budget process meets the credibility requirements of the Constitution, in that Parliament should be comfortable that / with (section 214 & 215 of the Constitution):

    18.1 Budgetary processes promote transparency, accountability and the effective financial management of the economy, debt and the public sector;

    18.2 proposals for financing any anticipated deficit for the period to which they apply;

    18.3 an indication of intentions regarding borrowing and other forms of public liability that will increase public debt during the ensuing year;

    18.4 the national interest;

    18.5 the needs and interests of the national government, determined by objective criteria;

    18.6 the need to ensure that the provinces and municipalities are able to provide basic services and perform the functions allocated to them;

    18.7 the fiscal capacity and efficiency of the provinces and municipalities; and

    18.8 the need for flexibility in responding to emergencies or other temporary needs, and other factors based on similar objective criteria.

19. In the last 5 years, we have questioned whether Parliament has ensured through effective oversight that the Budget meets the criteria set out in the Constitution above. In prior years we have in particular raised a lack of fiscal capacity and efficiency in (particularly) municipalities for which no provision is made or total lack of Treasury Control, the lack of the budget to properly account for all known expenses (e.g. expected annual wage increases, legal liability of departments, and water infrastructure) as reflected from data in our 2020 ScoF submission:

Key financial health indicators at departments – sustainability

Indicators	2020-21
Sustainability	
Deficit (expenditure exceeded revenue)	R41,74 billion
Number of departments with deficit	32% (50)
Cash shortfall (bank overdraft less prepaid expenses/advances plus money to be surendered to treasury)	R33,29 billion
Number of departments with cash shortfall	61% (89)
>10% of following year's budget (excluding employee cost and transers) **will fund current year's shortfall**	18% (27)
Bank in overdraft	19% (30)
Estimated settlement value of claims against the state at year-end	R166,07 billion
Number of departments with unsettled claims	94% (138)
Claims settlement value >10% of following year's budget (excluding employee cost and transfers)	37% (55)

20. In 2023, we even raised concern over the seemingly incorrect classification of an appropriation to Eskom (i.e. ESKOM Debt Relief) as a National Government debt redemption i.e. incorrectly treating an appropriation as a mere cash flow item.

Table 7.2 Financing of national government gross borrowing requirement[1]

R million	2022/23	2023/24		2024/25	2025/26	2026/27
	Outcome	Budget	Revised	Medium-term estimates		
Main budget balance	**-309 938**	**-275 351**	**-331 386**	**-320 946**	**-308 151**	**-287 218**
Redemptions	**-90 324**	**-162 232**	**-145 759**	**-172 568**	**-185 598**	**-166 295**
Domestic long-term loans	-74 562	-117 865	-98 614	-132 087	-126 730	-126 730
Foreign loans	-15 762	-44 367	-47 145	-40 481	-58 868	-39 565
Eskom debt-relief arrangement	**–**	**-78 000**	**-76 000**	**-64 154**	**-110 223**	**–**
GFECRA settlement (net)	**–**	**–**	**–**	**100 000**	**25 000**	**25 000**
Total	**-400 262**	**-515 583**	**-553 145**	**-457 669**	**-578 972**	**-428 513**
Financing						
Domestic short-term loans	**-25 577**	**48 000**	**88 000**	**33 000**	**47 000**	**34 000**
Treasury bills (net)	-25 493	48 000	88 000	33 000	47 000	34 000
Corporation for Public Deposits	-84	–	–	–	–	–
Domestic long-term loans	**322 420**	**329 900**	**327 900**	**328 100**	**422 200**	**303 200**
Market loans	321 669	329 900	328 032	328 100	352 200	303 200
Loans issued for switches	87	–	532	–	–	–
Loans issued for repos (net)	664	–	-664	–	–	–
Eskom debt-relief arrangement	–	–	–	–	70 000	–
Foreign loans	**64 466**	**44 360**	**45 166**	**36 700**	**82 163**	**92 195**
Market loans	64 466	44 360	45 166	36 700	82 163	92 195
Change in cash and other balances[2]	**38 954**	**93 323**	**92 079**	**59 869**	**27 609**	**-882**
Cash balances	29 332	86 321	83 649	53 112	21 753	-5 866
Other balances[3]	9 622	7 002	8 430	6 757	5 856	4 984
Total	**400 262**	**515 583**	**553 145**	**457 669**	**578 972**	**428 513**
Percentage of GDP	*6.0%*	*7.4%*	*7.8%*	*6.1%*	*7.3%*	*5.1%*

21. We have also raised concerns that the Contingency Reserve was not only underfunded, removing the required flexibility, but will reduce our ability to respond to emergencies as seen in various droughts and floods in the last few years and even with the COVID pandemic. We further raised concern of National Treasury's use of the Contingency Reserve as a suspense account, whereby known appropriations to SoEs are allocated to this account for "holding" until the SOE meets certain criteria. The Minister in 2024 would again "raid" R5bn from the Contingency Reserve to cover for higher than expected spending.

22. <u>Submission</u>: In reflecting on these concerns, we note that the 6th Parliament either ignored or rejected all these public concerns with no further interrogation of National Treasury on these matters, nor any adjustments made by Parliament (which it has had the power to do since 2009). In fact this Parliament did not even enforce its own request to National Treasury since 1996 when the JSCoF not only supported the Katz Committee recommendation of a 25% tax/GDP ratio, but instructed Treasury to do more work regarding this threshold. To date, Treasury have only denied that a specific rate is good or bad but has provided no empirical study or research to support its views.

B. ECONOMIC OUTLOOK

Estimation of GDP Growth

23. In the words of the Minister:

South Africa's 2023 GDP growth estimate has been revised down to 0.6 per cent due to widespread power cuts, operational and maintenance failures in freight rail and at ports, and high living costs.

GDP growth has averaged only 0.8 per cent since 2012, a rate of economic growth that is insufficient to address high levels of unemployment and poverty. Long-term growth is highly dependent on improving capacity in energy, freight rail and ports, and on continuing to reduce structural barriers to economic activity.

24. This opening statement on economic policy leads us to reflect on a few matters. The first is the observation by the Minister that GDP has been revised down again.

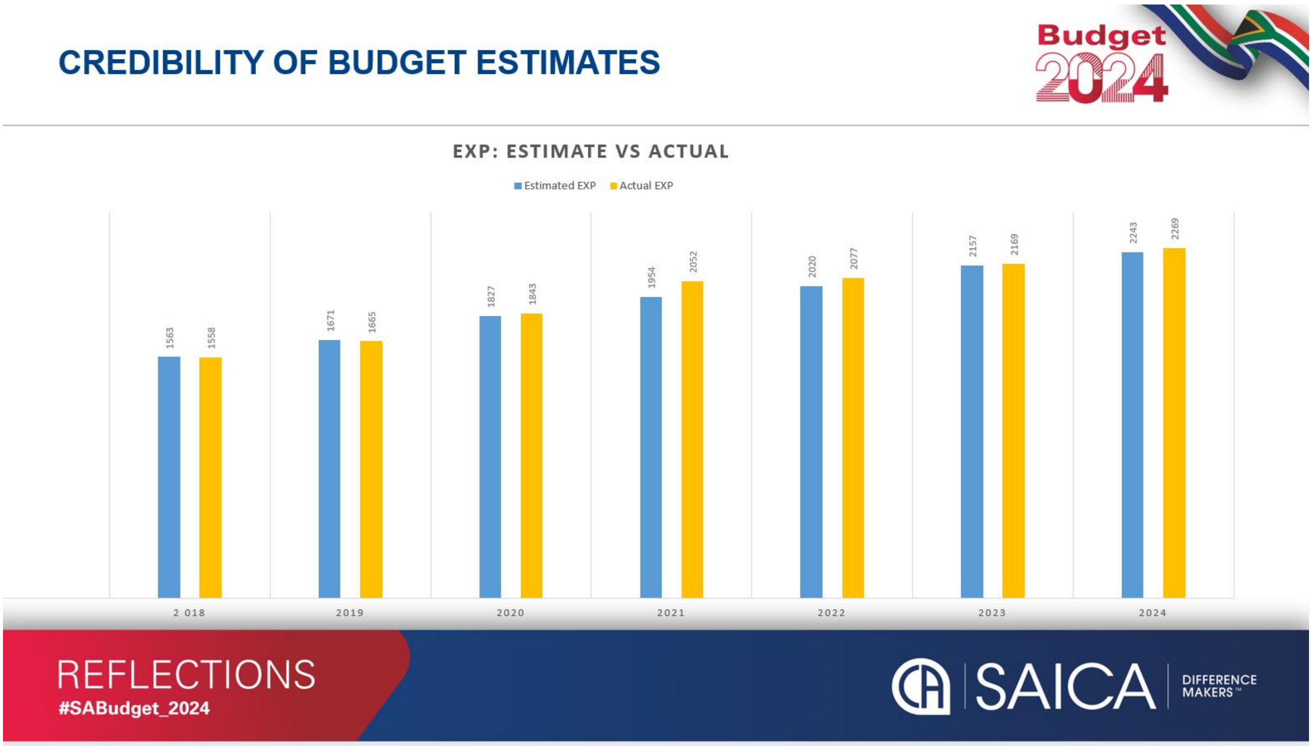
25. The first is regarding the optimism with which GDP growth is estimated year on year even when the fundamentals for such optimism is missing. In 2019 we noted this to ScoF and raised concern with this practice by National Treasury.

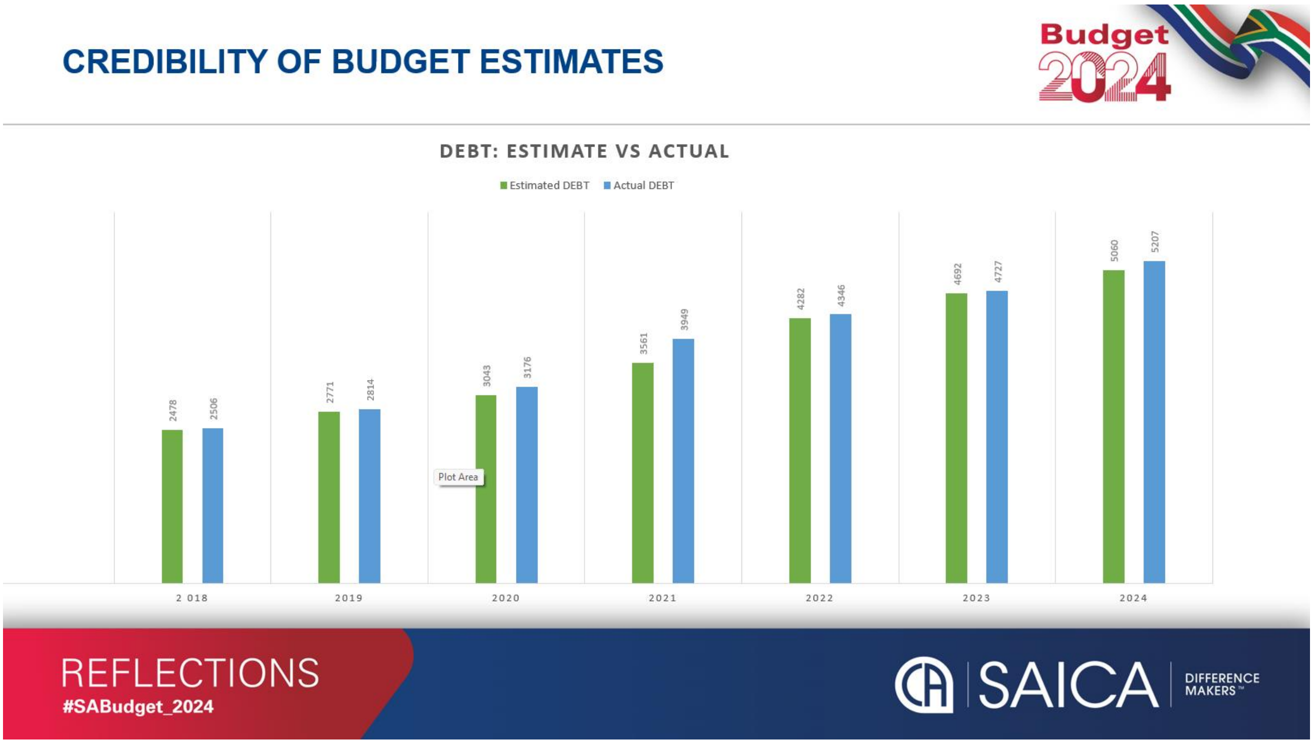
ACTUAL		**2014**	**2015**	**2016**	**2017**	**2018 Q3**		
		1,8	1,3	0,6	1,3	1,1		
Budget Year	**Calendar Year**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
2019						**0,7**	1,5	1,7
2018					**1**	1,5	1,8	2,1
2017				**0,5**	1,3	2	2,2	
2016			**0,5**	0,9	1,7	2,4		
2015		**1,4**	2	2,4	3			
2014		2,7	3,2	3,5				
2013		3,5	3,8					
2012		4,2						
OVERESTIMATION %		133%	192%	483%	131%	118%		

26. The projection of the future including GDP growth is both an art and a science and nobody will get it perfect.

27. The fundamental flaw in being overly optimistic in the SA Budget context, is that it is used as justification to over-appropriate expenditure and understate debt in the Budget, creating even more financial sustainability challenges for SA Inc. This is a direct result of the fact that the Budget is so over-extended and does not operate on a margin basis for core expenditure, like New Zealand for example.

28. The below statistics demonstrate the point that notwithstanding an “expenditure ceiling” applying and a promise of “consolidating debt”, these “targets are never met, which has been the status quo for more than a decade.





29. The Minister has based his budget projections on the global economy growing faster (3,1% (2024) - 3,2% (2025)) than projected last year, and global inflation coming down quicker (from 2,6% to

2%). This conclusion means the Minister believes that revenue will be higher than we thought in the Mid-Term Budget Policy Statement (MTBPS) and that debt costs will be lower.

30. This however contradicts the United Nations (UN) January 2024 predictions that the global economy growth estimates will in fact decline from 2,7%-2,4%. The U.N.'s report warned that the prospects of prolonged tighter credit conditions and higher borrowing costs present "strong headwinds" for a world economy saddled with debt, especially in poorer developing countries needing investment to resuscitate growth. Global recession was mainly avoided in 2023 due to the United States' (US) economic growth. Most of the positive projections will also be based on the US Federal Reserve cutting interest rates, a matter on which positivity and timing has been declining in the last 6 months. US Inflation is still above the 2% target at 3,4%, with services inflation rising even while goods inflation is declining slowly.

31. The Minister has also projected a decline in food and fuel inflation (4,9% in 2024 and 4,6% in 2025). This seems in stark contradiction to the inflation rise announced last week, which was higher than expected at 5,3% and the fuel price increase of R1,46 for diesel next month (this after an increase last month).

32. Submission: The Minister's assumptions therefore seem not only very optimistic but do not correlate to data, both available and projected. Parliament needs to reflect on whether it needs to intervene to ensure these projections are sound and in the national interest to ensure a sustainable budget.

Pillars of the economy floundering

33. Furthermore, there is no near-term solution for the port chaos, where ships take 28 days to dock in Durban, which is now ranked 341 out of 348 harbours in the world, and for which additional surcharges are now applied by shipping companies. The same can be said for road and rail freight costs, which means logistics inflation will not be cooling, and neither will energy costs given Eskom's 12,74% increase request for 2025. This is confirmed by the Budget, as it expects a larger current account deficit due to a decreased exports which were constrained by ports, rail and energy.

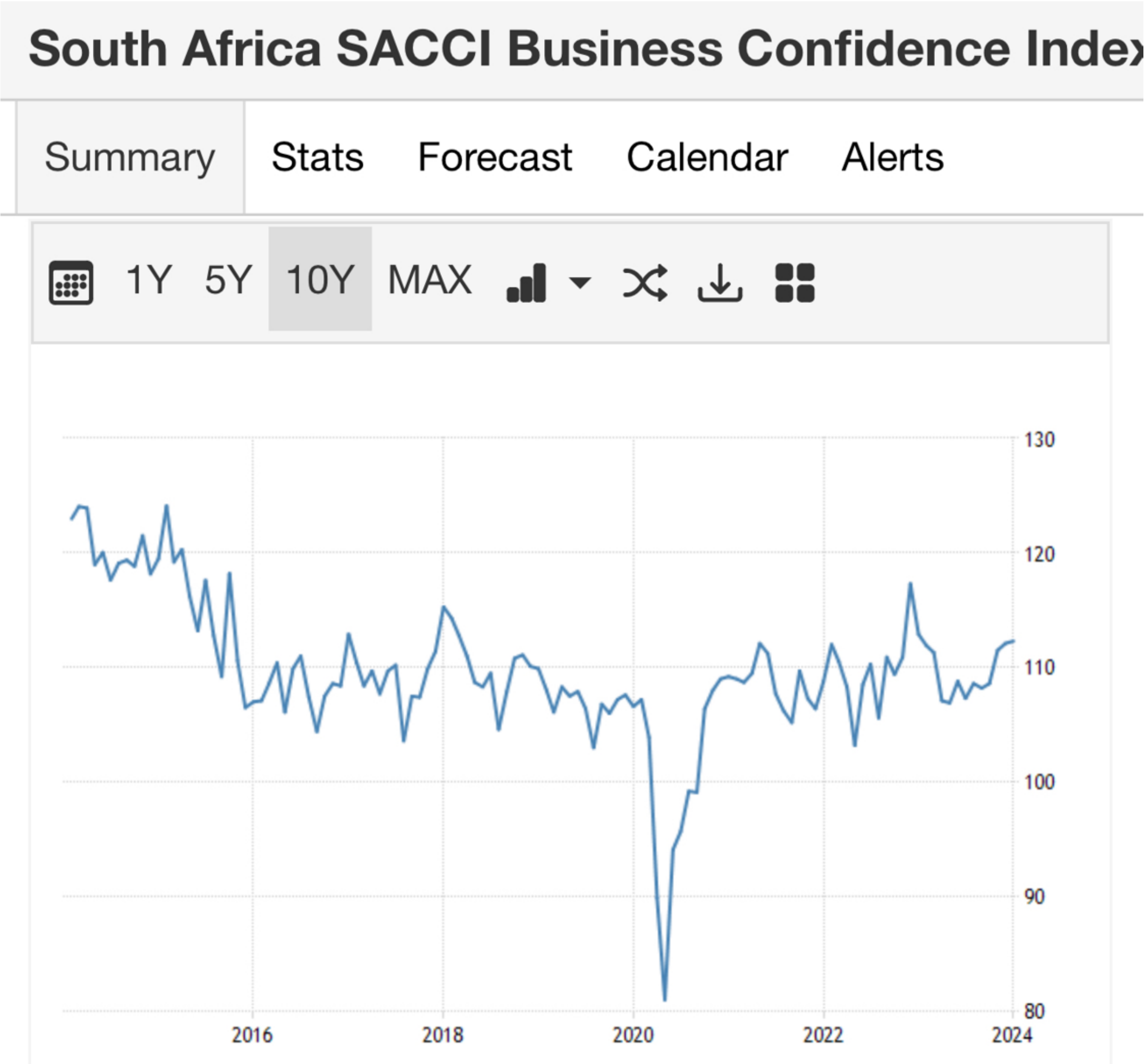
34. We also cannot see Transnet, which has made R5,7bn loss in 2022/23 and in the medium term having to redeem R42,2bn in debt, yet only now has access to R47bn as additional debt guarantees (ie more debt and interest), being no assistance to fixing ports and rails to create the GDP the Minister alludes to.

35. In Oct 2023, the Transnet Board requested a R47 bn **equity injection** and R61bn in **debt relief** (i.e. it is seeking greater solvency and liquidity) as part of its turnaround plan. Transnet's Board alternate turnaround plan for "structural transactions" to raise revenue would at least take 36 months, the whole period of the medium term forecast. Transnet has a debt pile of R135bn with R13 bn in annual interest. The R47bn guarantee will just compound its solvency and liquidity problems. We saw a similar approach with Eskom and the outcome will be exactly the same, as the fundamentals are exactly the same as those of Eskom.

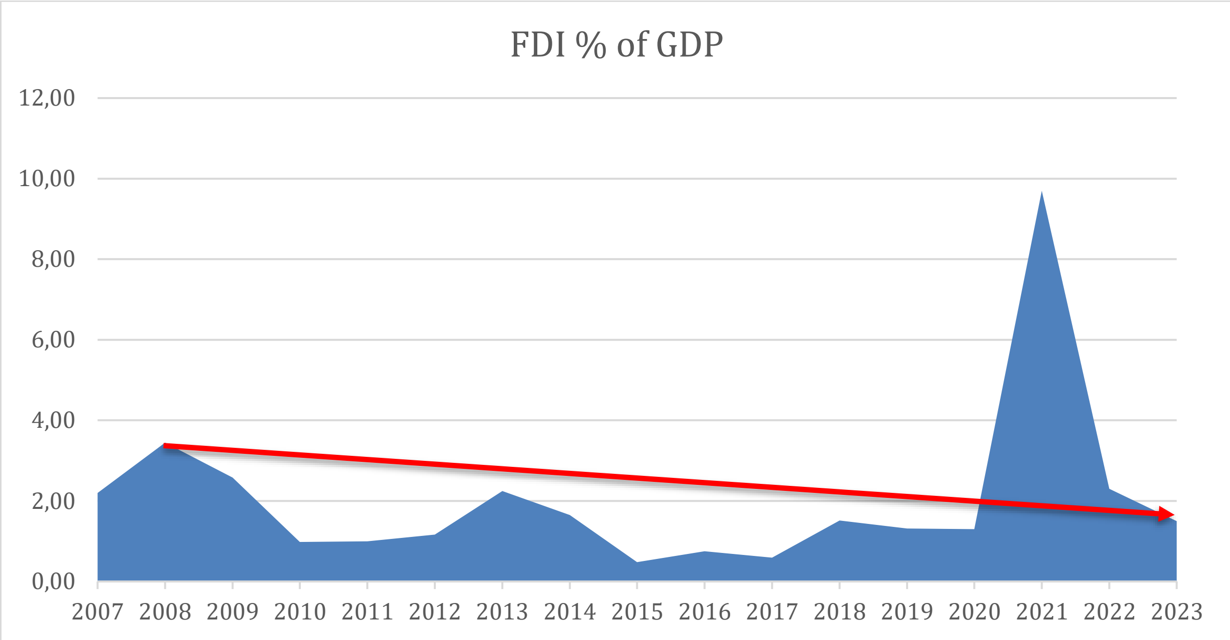
36. Submission: Parliament needs to reflect on this déjà vu scenario where, through inaction, it will essentially saddle the 7th Parliament with the same problems the 4th and 5th Parliament did to it.

37. The lack of consumer spending room is reflected in the Budget's own estimate that household consumption will decline more than what was estimated in the MTBPS 2023. The Minister furthermore projects growth in capital formation to further contract, as will investment growth due to low business confidence and challenging business conditions.

38. Business confidence remains at a more than a decade low, stagnating at COVID levels.



39. It is not only SA Consumers and Business that have lost confidence in the economy and government's policies to resuscitate it. Foreign investors have similarly lost faith as noted in our submissions since 2019 with declines and stagnation since government adopted the current economic policies.



40. The spike in 2021/2022 was due to the GDP base declining and a single transaction where Heineken purchased Distell for R40,2bn.

41. None of these will improve in the short term without a significant change in favourable business conditions in SA and also improving the stability of the devaluing ZAR.

42. Submission: Reflecting on the above, there seems to be too many contradictions in the global outlook to share the Minister's positive outlook, which was used as the basis to further raise expenditure, especially on salaries (i.e. a sunken cost).

Food price inflation – diesel generators and loadshedding

43. The Minister in particular notes the decline in food inflation as a positive sign for overall inflation declining further to within the SARB target band.

44. Food price inflation over the past 2 years has been of great concern and the risk to food inflation rising again is real. In last week SA largest food producer not only confirmed that consumers were buying less, but that food staples were in for significant and sharp price increases of up to 20%[2].

45. In his 2023 Budget Speech, the Minister noted the impact of loadshedding on the price of food, as well as a proposed solution thereto:

"In light of the current electricity crisis, a similar refund on the RAF levy for diesel used in the manufacturing process (such as for generators) will be extended to the manufacturers of foodstuffs.

[2] Tiger Brands pursues efficiency after sales volumes shrink (engineeringnews.co.za)

This will take effect from 1 April 2023, with refund payments taking place once the system is developed and will be in place for two years until 31 March 2025. This relief is implemented to limit the impact of power cuts on food prices."

[own emphasis]

46. One of South Africa's leading food manufacturers, RCL Foods, reported a 19% increase in diesel usage between the 2022 and 2023 financial years. This increased cost was passed on to consumers.

47. Tiger Brands, another leading food manufacturer, noted in its 2023 Annual Report that its 'load shedding costs' amounted to R126 million; significantly affecting its bakery business (i.e. the price of bread).

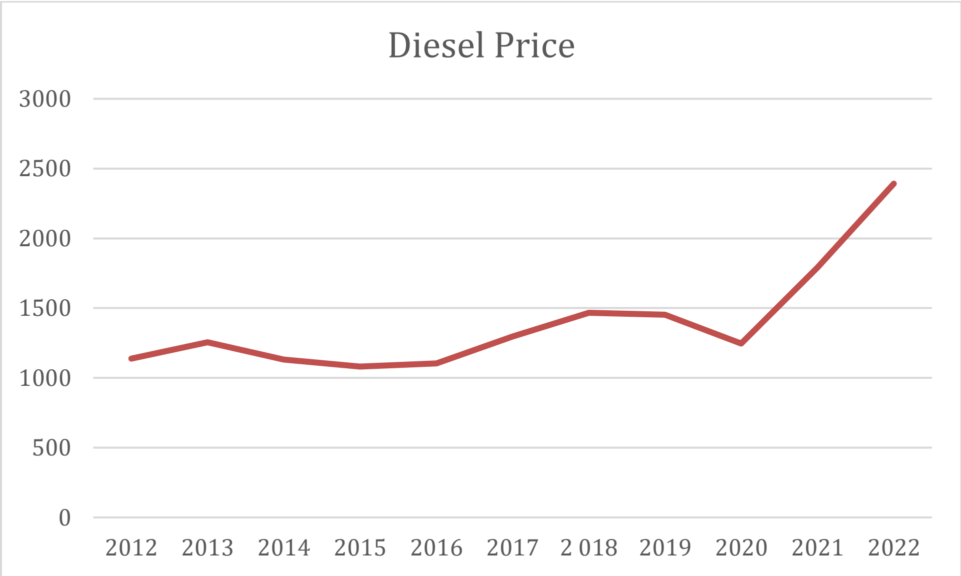
48. Another food manufacturer, Libstar, has reported that it has already spent more on diesel in its first 6 months of 2023, than it did during its entire 2022 financial year[3]. This will inevitably mean significantly increased food prices in 2024.

49. For context, these are some of the food brands of these three companies:

    - Tastic Rice, Ace Maize Meal, Selati Sugar, Sunbake Bread, Albany Bread, Morvite, Black Cat and Yum-Yum peanut butter, Rainbow Chicken, Nola Mayonnaise, Koo, Jungle Oats, Oros, All-Gold.

50. These manufacturers have had to invest millions of rands on diesel generators.

51. Recent increases in the price of diesel have not helped; not only affecting food transportation costs, but now also the cost of running these generators.



[3] 2023 Interim Financial Results. R45 million in the 6 months of its 2023 financial year vs R39 million in its entire 2022 financial year.

52. The diesel rebate for manufacturers of foodstuffs was thus welcomed by SAICA and provides some much-needed relief for consumers.

53. However, food retailers have also been severely affected by diesel costs incurred in operating their generators.

54. The below table[4] provides a glimpse into the diesel costs incurred by our leading retailers during the 2023 financial year.

Retailer	2023 Financial Year
The Shoprite Group	R1.3 billion
Spar Group	R1 billion
Pick n Pay	R522 million
Woolworth Foods	R300 million[5]

55. These retailers cannot bear the full cost and pass these costs on to consumers.

56. The diesel rebate introduced by National Treasury in April 2023 applies only to manufacturers <u>of foodstuffs</u>; not food manufacturers in general. It does not also apply to retailers.

57. <u>Submission</u>: Is Parliament satisfied that this Budget does enough to assist in securing our country's food security?

58. As long as loadshedding persists, these costs will continue to be incurred and will be passed on to consumers.

59. Rising food prices disproportionately affect poor households. Given the significant diesel costs incurred by food retailers, we propose that National Treasury consider extending the diesel rebate to these retailers.

C. FISCAL POLICY

60. In relation to Fiscal Policy, the Minister states that :

This year, for the first time since 2008/09, government will achieve a primary budget surplus – meaning revenue exceeds non-interest spending.

61. He furthermore states that:

Government is staying the course on the fiscal strategy outlined in the 2023 Medium Term Budget Policy Statement (MTBPS) and will achieve a primary budget surplus in 2023/24, with debt stabilising by 2025/26.
 Debt-service costs will peak as a share of revenue in 2025/26 and decline thereafter.

Spending additions of R251.3 billion, mainly for the carry-through costs of the 2023/24 wage increase and wage bill pressures in labour-intensive departments, including basic education, health and police.

[4] Data publicly available from each company's 2023 annual report, accessible on the internet.
[5] Woolworths has stated in its 2023 Annual Report that *"…we have quantified the direct impact on our food waste and diesel costs across our store network and supply chain at between R20m to R30m per month…"*

62. The first concern with this statement is that the “surplus” was achieved without including:

62.1 2023 Eskom Debt Relief (254bn)

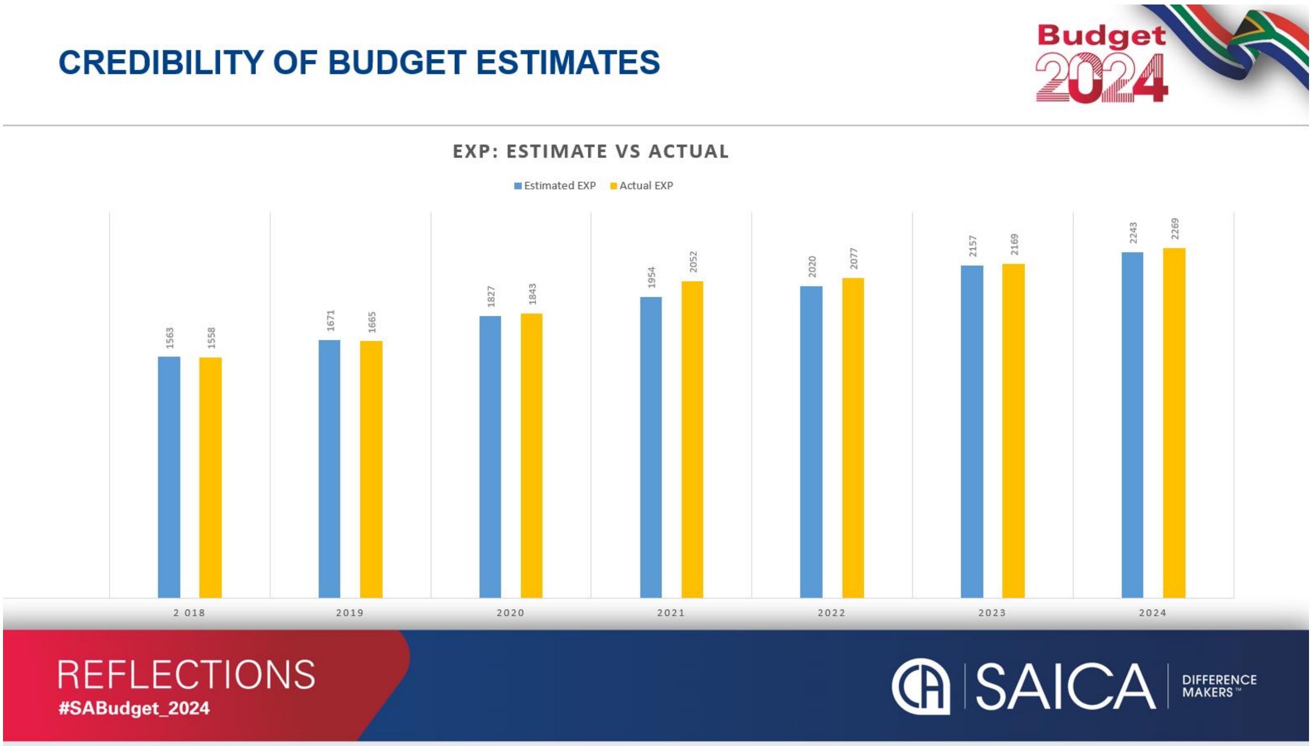
62.2 2023 Municipal Debt Relief (56,7bn)

62.3 Legal liability costs (R118bn)

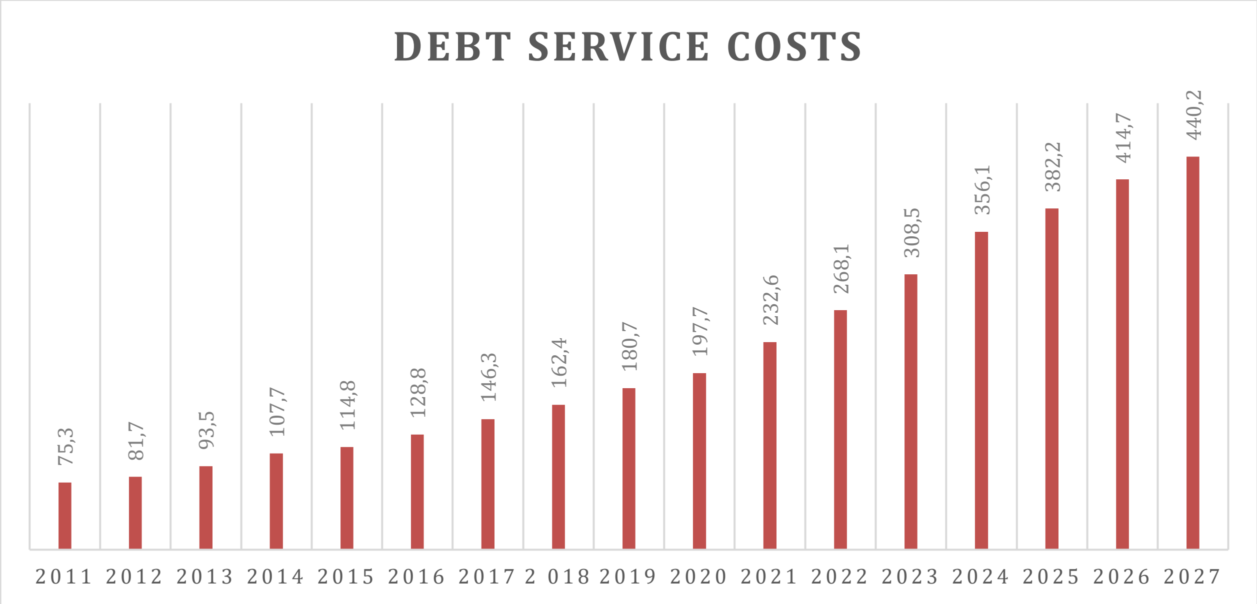
62.4 Imploding water infrastructure

62.5 Imploding municipalities service delivery

63. This is also reflected by the consistent historical missed estimates on expenditure:



64. Secondly, primary surplus means little when the largest expense item is in fact interest at R308,5bn or 20% of expenditure for the 2024/2025 fiscal year.



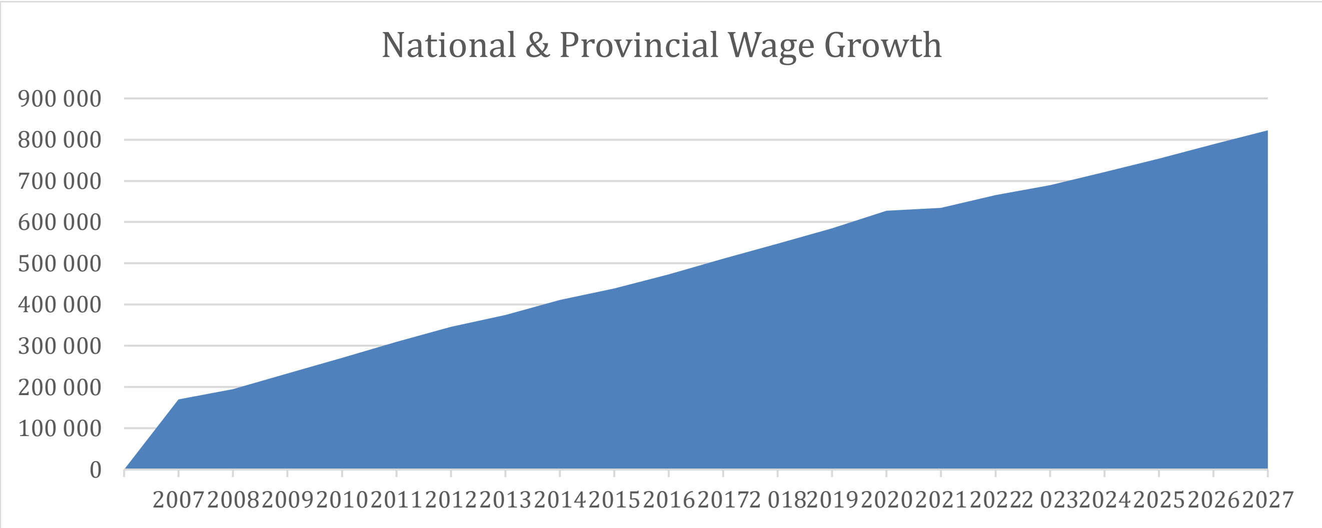
65. We are also moving service delivery and specific projects/infrastructure funding such as conditional grants[6] (departmental base line movements), to pay for the unaffordable 7,5% wage increase with no commitment from Unions that a corresponding increase in public sector productivity is agreed. The latter, which was only again signed September 2023 in relation to fiscal year 2023/2024, means government seems to have learnt little from the previous labour dispute with Unions, the criticism by the courts on this retrospective process and the fact that it gets Treasury budget approval after the fact as opposed to before a particular budget year is approved.

[6] *Conditional grants are used to support compliance with national norms and standards, to compensate provinces for providing services that may extend beyond provincial boundaries, and to ensure that national priorities are adequately provided for in provincial and local government budgets:*

Table 3.4 Revisions to non-interest expenditure for 2023/24

R million	2023/24
Non-interest expenditure (2023 Budget)	**1 694 120**
Upward expenditure adjustments	**30 221**
2023 MTBPS	
Allocation for the 2023/24 wage increase	23 558
Provincial departments [1]	*17 558*
National departments [2]	*6 000*
Other allocations in the AENE [3]	5 864
Second adjustments appropriation: shifts to votes	470
National Revenue Fund payments adjustments in 2024 Budget	329
Downward expenditure adjustments	**-36 260**
Downward revisions to baselines [4]	-21 726
Projected underspending	-5 600
Drawdown on contingency reserve	-5 000
Net other downward adjustments [5]	-3 464
Second adjustments appropriation: shifts from votes	-470
Revised non-interest expenditure (2024 Budget)	**1 688 081**
Change in non-interest expenditure from 2023 Budget	-6 039

66. The Minister also notes concern what the impact of the medium term estimates will be for the next round of increases given the current agreement is only for 2023/2024 (7,5%) and 2024/2025 (6,5%) i.e. a single year in the estimates. Given that both the agreed increases already again exceed inflation this is a real risk with the wage bill continuing to crowd out other expenditure for service delivery, in addition to low productivity.



67. Submission: The Fiscal policy presented by the Minister again is based on projections that government has continually failed to meet and has shown very little tenacity to meet and seems wholly unreasonable given the excluded items and historical trends.

68. ScoF should reflect whether these fundamental failures result in the Budget still meeting its Constitutional minimum requirements.

D. ESTIMATES OF REVENUE

Sustainability of revenue

69. The Minister notes:

Revenue collection in 2023/24 has weakened significantly relative to projections in the 2023 Budget, and tax revenue for 2024/25 is expected to amount to R1.86 trillion.

Over the next three years tax revenue is expected to grow by R401.7 billion, reaching R2.13 trillion and a tax-to-GDP ratio of 25.3 per cent in 2026/27.

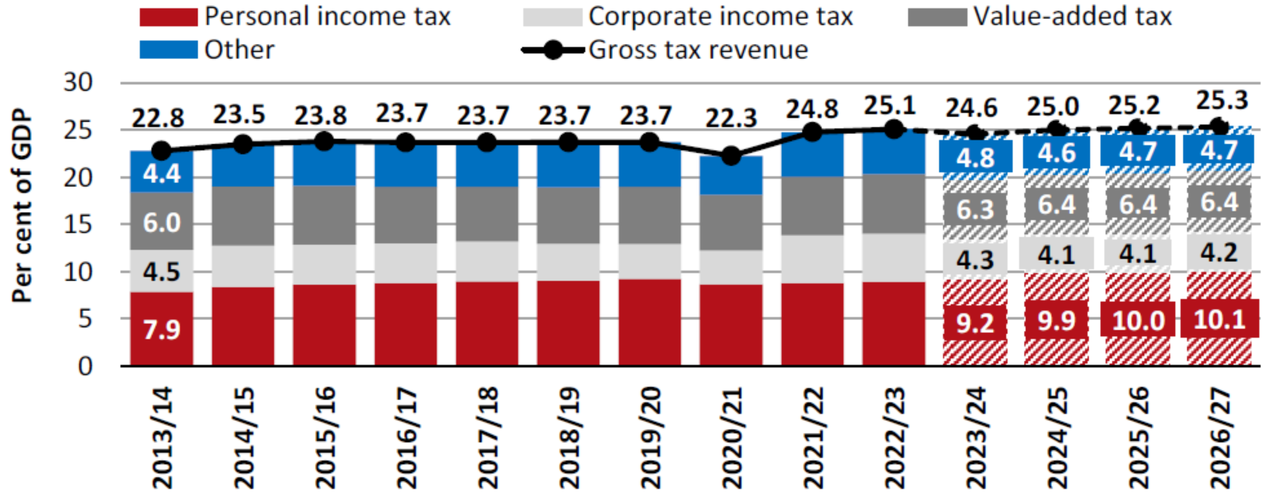
Over the past year, however, many of the risks identified in the 2023 Budget Review have materialised.

70. The Minister is correct that the projections in the last 2 years were only met because of unforeseen upsides, not because of expected upsides to revenue.

71. SA is a high-tax country yet taxpayers receive very little value for the taxes they pay. Hence, they have to incur additional cost for medical services, security services, fire services and schooling.

72. The Minister reflects this also in the Tax-to-GDP ratio which continues its upward curve.

Figure 4.1 Tax-to-GDP ratio



Source: National Treasury and SARS

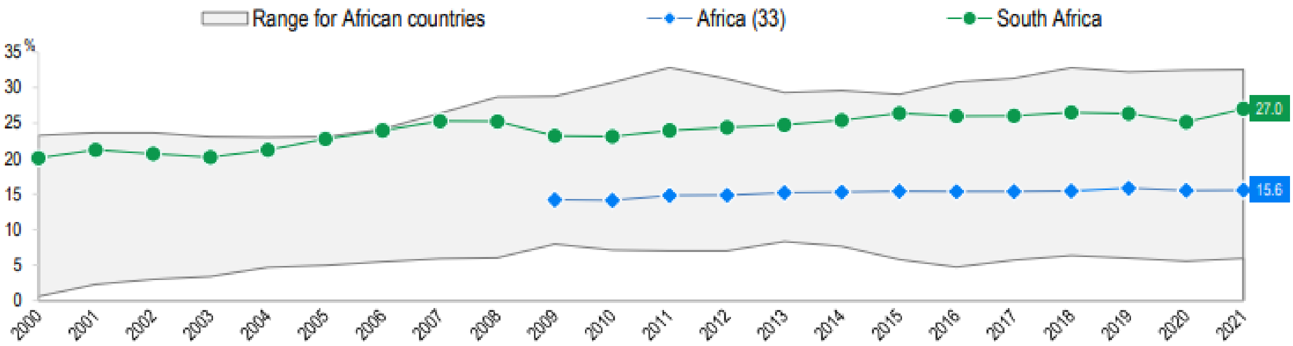
73. It should be noted that other organisations calculate the ratio differently in that they include tax items Treasury exclude. Below are the statistics of the OECD where, in 2021, we had breached 27% and therefore now, most probably, exceed 30% by 2027.

Revenue Statistics in Africa 2023 — South Africa

Tax revenues: tax-to-GDP ratio

Tax-to-GDP ratio over time

The tax-to-GDP ratio in South Africa increased by 1.9 percentage points from 25.2% in 2020 to 27.0% in 2021. In comparison, the average* for the 33 African countries within the Revenue Statistics in Africa 2023 publication has remained unchanged over the same period, and was 15.6% in 2021. Since 2010, the average for the 33 African countries has increased by 1.5 percentage points, from 14.1% in 2010 to 15.6% in 2021. Over the same period, the tax-to-GDP ratio in South Africa has increased by 3.9 percentage points, from 23.1% to 27.0%. The highest tax-to-GDP ratio reported for South Africa since 2000 was 27.0% in 2021, with the lowest being 20.1% in 2000.



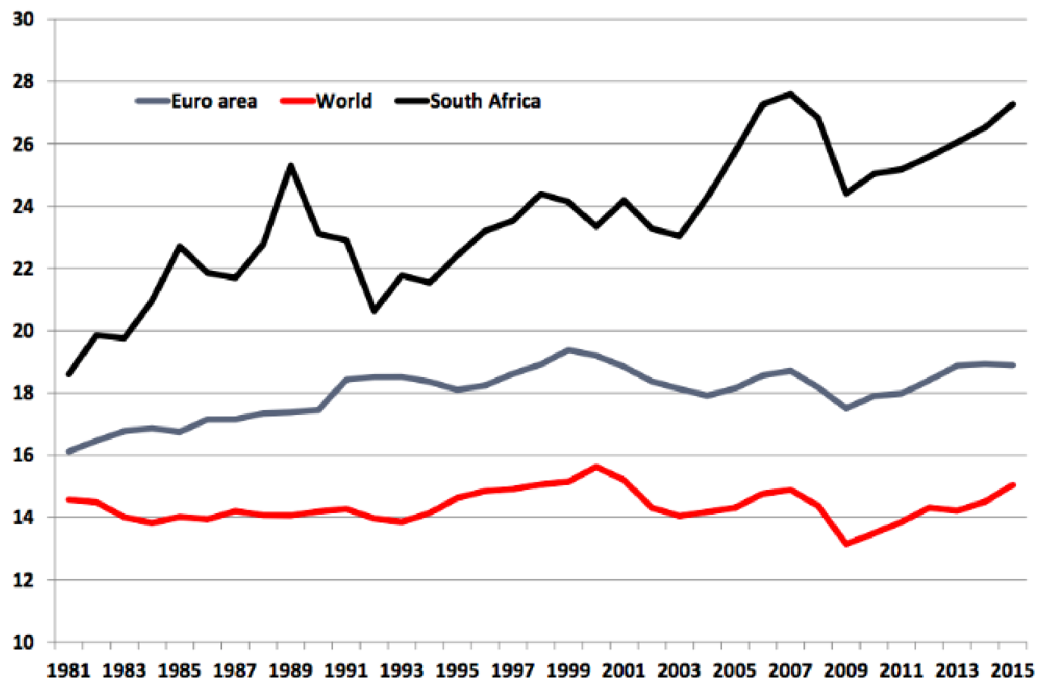
* The Africa (33) average is not available before 2009 due to missing data in some countries. In 2009, it is calculated based on estimated tax-to-GDP ratios for Chad, Gabon and Nigeria in that year, as data were not available prior to 2010 in these countries. Annual changes are rounded to one decimal place. Due to rounding, sums and differences of reported figures might differ from the actual values.

Tax-to-GDP ratio, 2021

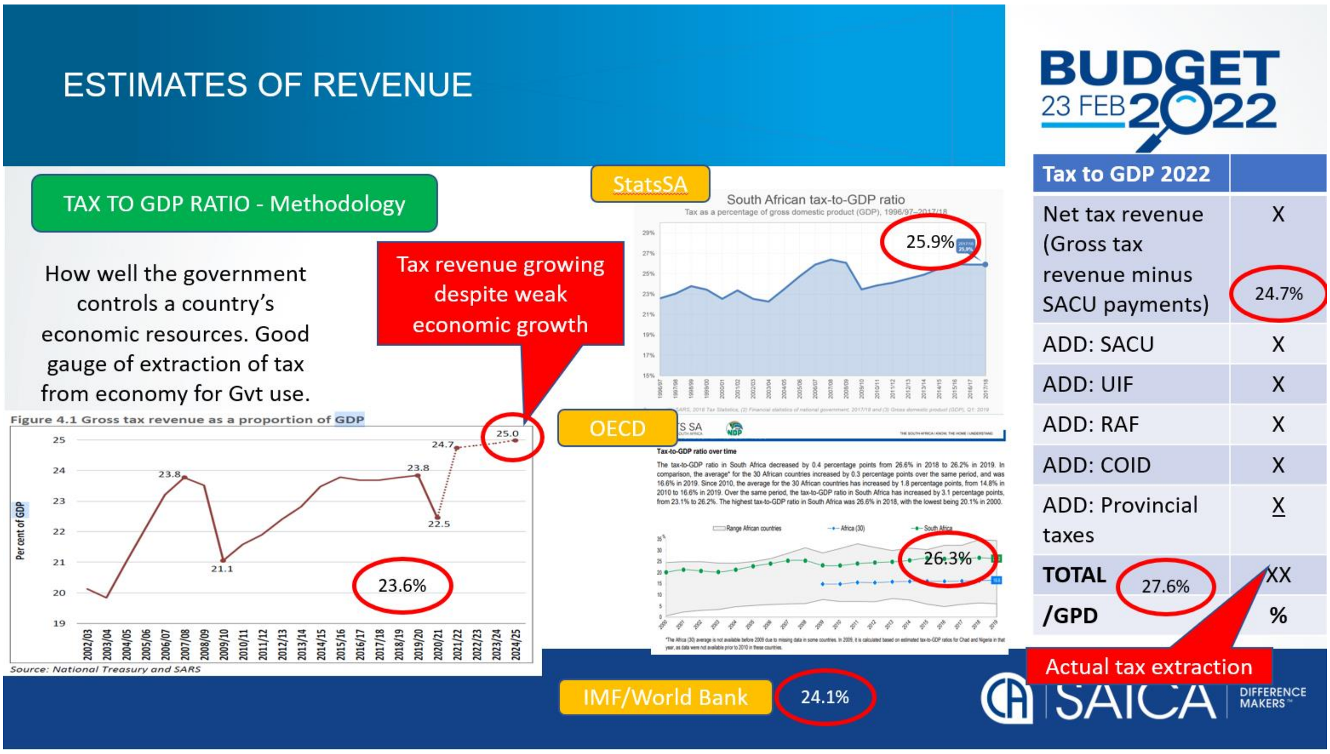
South Africa's tax-to-GDP ratio in 2021 (27.0%) was higher than the average of the 33 African countries in 2023 (15.6%) by 11.4 percentage points.

74. We are not only significantly higher than the Africa average, but had already in 2015 exceeded the world average by some margin, as stated in our 2019 ScoF Budget submission. Populist policies of seeking more and more taxes as if factually we are not a high-tax country, will ultimately lead to significant risk in revenue collection, something the Minister has conceded on.

Total tax to GDP over time

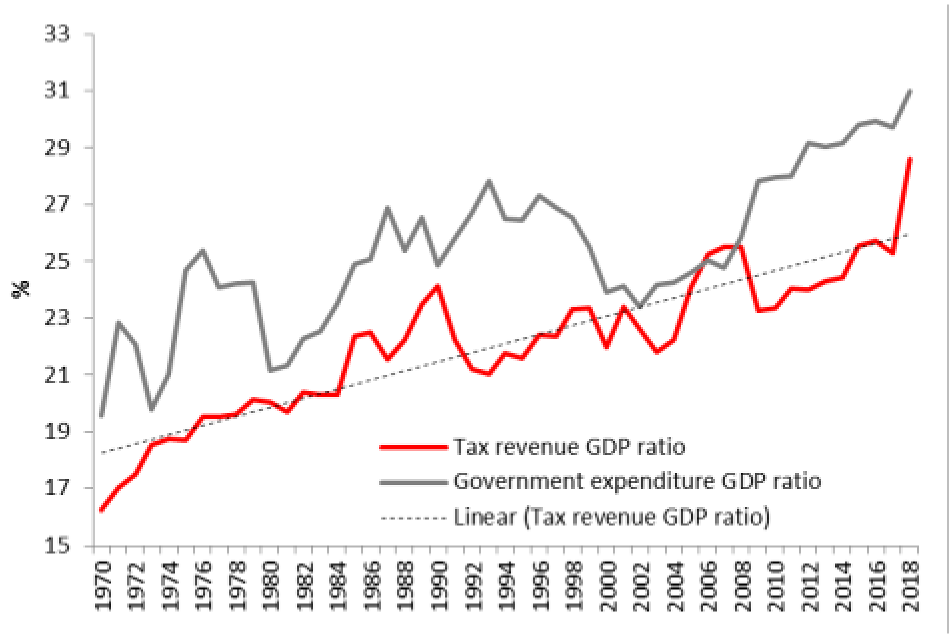


75. In our 2022 Budget presentation we again demonstrated this disparity and that Treasury estimation of Tax to GDP ratio is in fact understated.



76. This is also reflected in the SARB data:

Figure 2: Total tax revenue as percentage of GDP and government expenditure as a percentage of GDP in SA from 1970 till most recent (financial year)

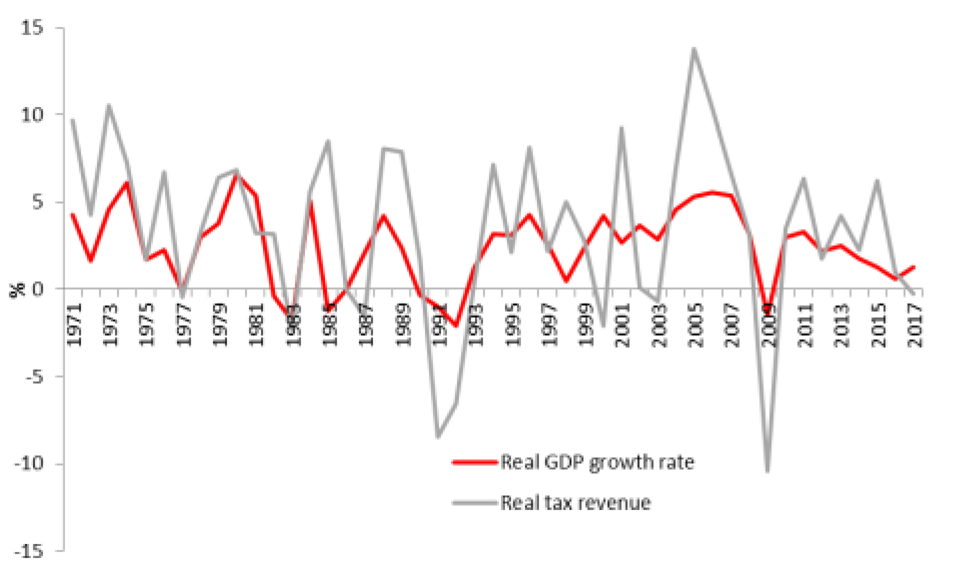


Source: Own graph based on SARB data

77. Though Treasury rejects a correlation between economic growth and tax-to-GDP, as raised by the Katz Committee, he OUTA reports a clear correlation[7], i.e. if the economy grows, tax revenue grows. In the last 10 years though, real GDP has been declining while real tax collections increase, which may indicate that the extraction by government from the economy is becoming unhealthy to the economy.

[7] 181031Taxation_ceiling_for_South_Africa.pdf (pmg.org.za)

Figure 3: Relationship between real economic growth and real tax revenue (1971 to 2017)



Source: Own graph based on SARB data

78. The sharp decline in various taxes should also be noted and that this may not be a once-off given the growing expectation in more delays in both inflation and interest rates reducing and also further cost shocks in logistics costs and energy, both in SA and abroad. However it’s the increase in the year-on-year deviation declines that have become more noticeable.

Table 4.1 Budget estimates and revenue outcomes[1]

R million	2022/23			2023/24			Percentage change[3]
	Budget[2]	Outcome	Deviation	Budget[2]	Revised	Deviation	
Taxes on income and profits	**989 877**	**988 505**	**-1 371**	[illegible]	[illegible]	**-23 289**	**1.0%**
Personal income tax	601 649	600 367	-1 283	640 300	649 783	9 483	8.2%
Corporate income tax	344 944	344 660	-285	[illegible]	[illegible]	-34 751	-12.6%
Dividends tax	38 515	38 119	-396	39 819	39 705	-114	4.2%
Other taxes on income and profits[4]	4 768	5 360	592	4 975	7 069	2 094	31.9%
Skills development levy	**21 238**	**20 892**	**-346**	**23 027**	**22 713**	**-314**	**8.7%**
Taxes on property	**22 656**	**21 238**	**-1 418**	[illegible]	[illegible]	**-4 377**	**-8.3%**
Domestic taxes on goods and services	**581 871**	**579 990**	**-1 881**	**642 765**	**616 951**	**-25 814**	**6.4%**
Value-added tax	426 283	422 416	-3 867	[illegible]	[illegible]	-26 136	5.4%
Specific excise duties	55 228	55 155	-73	[illegible]	[illegible]	-5 014	-2.2%
Health promotion levy	2 320	2 195	-125	[illegible]	[illegible]	-222	2.7%
Ad valorem excise duties	4 461	5 520	1 059	4 699	7 782	3 083	41.0%
Fuel levy	79 131	80 473	1 342	90 408	93 372	2 964	16.0%
Other domestic taxes on goods and services[5]	14 448	14 231	-217	[illegible]	[illegible]	-489	0.2%
Taxes on international trade and transactions	**76 535**	**76 068**	**-468**	[illegible]	[illegible]	**-2 309**	**-2.4%**
Customs duties	74 176	73 945	-230	[illegible]	[illegible]	-1 729	-2.0%
Health promotion levy on imports	114	110	-3	114	107	-6	-2.7%
Diamond export levy	151	151	0	150	155	4	2.2%
Export tax	819	844	25	[illegible]	[illegible]	-414	-52.5%
Miscellaneous customs and excise receipts	1 276	1 017	-259	1 288	1 124	-165	10.5%
Gross tax revenue	**1 692 177**	**1 686 697**	**-5 479**	[illegible]	[illegible]	**-56 104**	**2.6%**
Non-tax revenue[6]	55 078	56 205	1 127	51 583	61 294	9 711	9.1%
of which:							
Mineral and petroleum royalties	*25 483*	*25 338*	*-145*	*22 469*	*15 718*	*-6 751*	*-38.0%*
Less: SACU[7] payments	-43 683	-43 683	–	-79 811	-79 811	–	82.7%
Main budget revenue	**1 703 571**	**1 699 219**	**-4 353**	**1 759 229**	**1 712 836**	**-46 393**	**0.8%**
Provinces, social security funds and selected public entities	189 176	197 189	8 012	199 678	208 587	8 908	5.8%
Consolidated budget	**1 892 747**	**1 896 407**	**3 660**	**1 958 907**	**1 921 423**	**-37 485**	**1.3%**

79. Taxes were "increased" through keeping the tax brackets the same.

80. This will impact everyone equally and further dampen economic recovery, as already under pressure disposable income reduces. The collective impact on individual taxpayers is estimated to be R58bn over the medium term or adding another 0,24% to the tax-to-GDP rate.

81. So what is the impact on the man on the street that receives a below-inflation increase of 5% for the next 3 years:

Current pay	CURRENT TAX	2025	2026	2027
R100 000	R765	R1 665	R2 610	R3 602
R500 000	R100 272	R108 022	R116 160	R124 704
R1 000 000	R292 284	R312 784	R334 309	R356 910

82. For the employee earning R83 333 per month in 2024, **their monthly take-home pay** will be R236 less in 3 years' time, R2 036 for the medium-earner @ R41 666 per month, and R5 386 per month for the high earner @ R83 333.

83. The estimated revenue is set out below:

Table 4.2 Budget revenue[1]

R million	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Outcome			Revised	Medium-term estimates		
Taxes on income and profits[2]	**718 180**	**912 870**	**988 505**	**997 924**	**1 084 989**	**1 157 045**	**1 248 687**
of which:							
Personal income tax	*487 011*	*553 951*	*600 367*	*649 783*	*738 749*	*787 476*	*850 473*
Corporate income tax	*202 123*	*320 447*	*344 660*	*301 367*	*302 702*	*323 482*	*349 611*
Skills development levy	12 250	19 336	20 892	22 713	24 500	26 441	28 582
Taxes on property	15 947	22 033	21 238	19 486	20 600	21 876	23 282
Domestic taxes on goods and services	455 867	549 806	579 990	616 951	654 290	702 478	743 865
of which:							
VAT	*331 197*	*390 895*	*422 416*	*445 340*	*476 749*	*510 130*	*539 785*
Taxes on international trade and transactions	47 455	59 719	76 068	74 279	78 655	83 370	88 607
Gross tax revenue	**1 249 711**	**1 563 754**	**1 686 697**	**1 731 353**	**1 863 035**	**1 991 210**	**2 133 023**

84. Year on year % increase growth equals:

	2024	2025	2026	2027
Employees' tax	R649 783	R738 749	R787 476	R850 473
Year on year growth		14%	7%	8%
VAT	R616 951	R654 290	R702 478	R743 865

Year on year growth		6%	7%	6%
Corporate Tax	R301 367	R302 702	R323 482	R349 611
Year on year growth		0,4%	7%	8%

85. The large increase in Employees' Tax for 2025 may be partly due to the above inflationary increases in the public sector though overall, these seem very optimistic given the pressures taxpayers will face in the next year, including double and triple inflation increases for municipal services and energy costs.

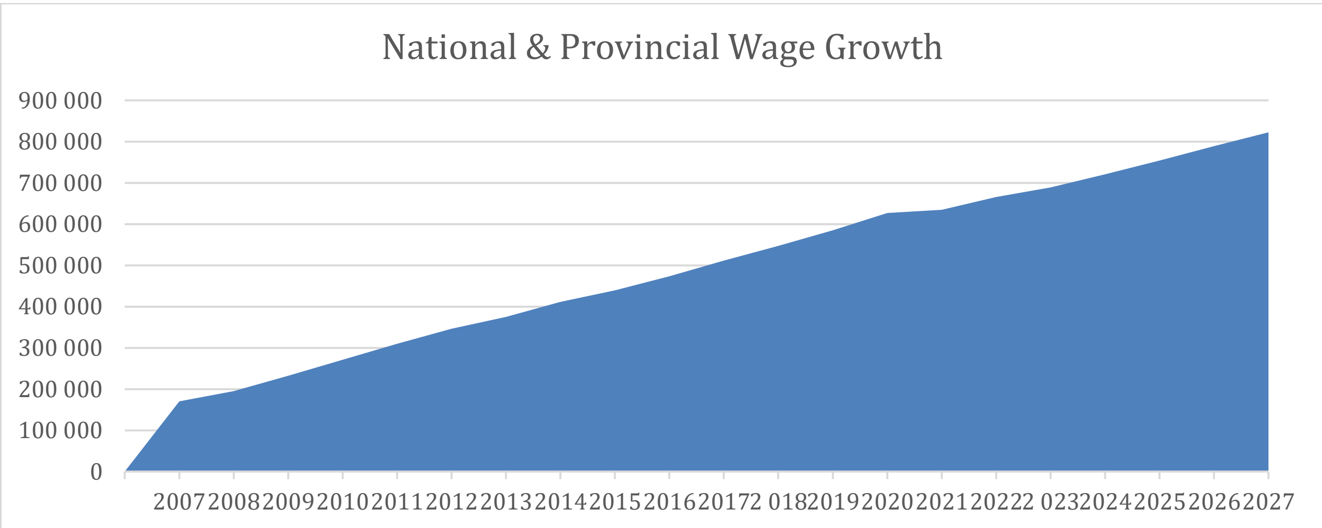
86. Submission: It again raises the question whether Parliament has failed to properly reflect on the impact of high taxes on the economy and its failure to enforce its 1996 JSCOF request that Treasury do more research on the Katz Committee finding.

87. Furthermore, is Parliament satisfied that the revenue estimates have properly been considered and weighted given the significant risks for tax revenue in the medium term and its reliance on a growing economy which itself is probably not going to happen in this medium period?

88. Has Parliament really considered what the impact will be on households as relates the tax increases?

A. ESTIMATES OF EXPENDITURE

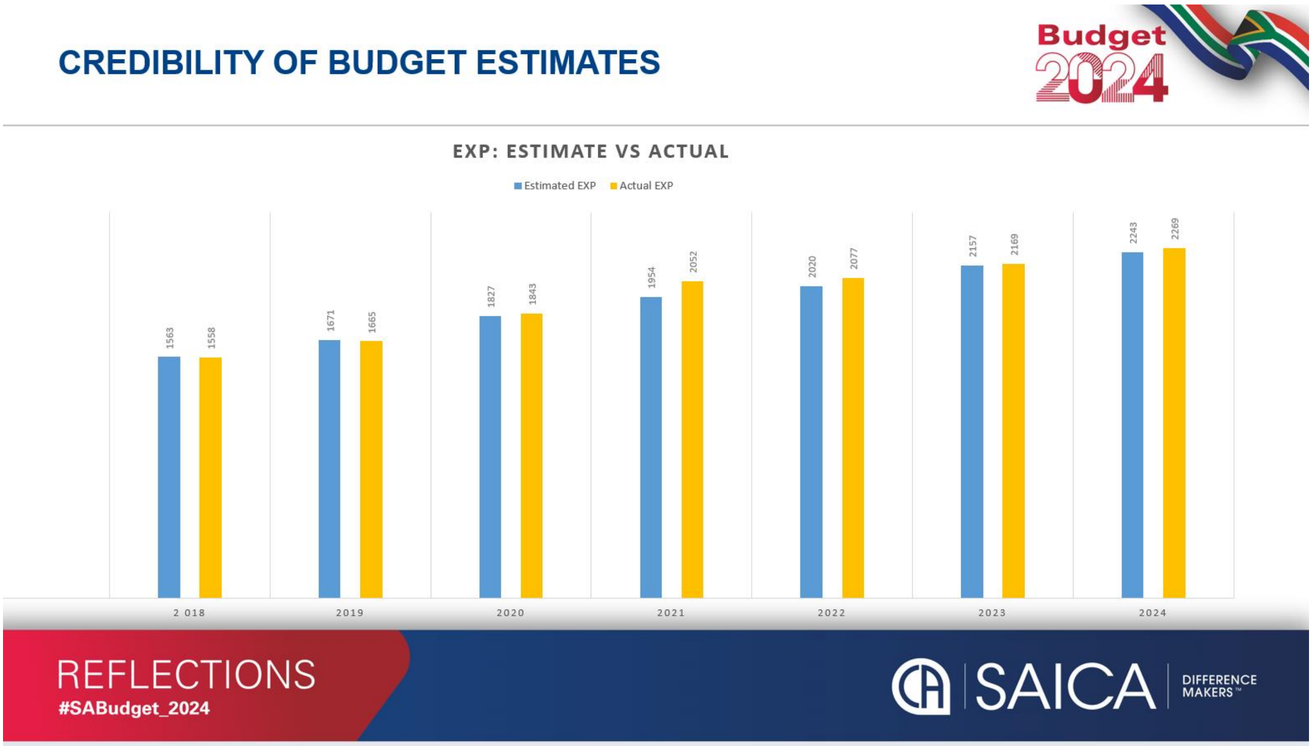
89. Wage growth remain the largest expense item in the budget.



90. The Minister also notes his concern regarding the impact of public sector wage growth for 2026 and 2027.

91. Should similar agreements be reached as for 2023 (7,5%) & 2024 (6,5%) which is still below the decade average of 9%, the budget expenditure will be significantly underestimate again.

92. The lack of keeping control to keep to expenditure ceilings is clearly visible from the last decade and even the last few years where you expected tighter fiscal control.



B. ESTIMATES OF DEBT

93. The Minister estimates debt-to-GDP to stabilise and decline quicker than was expected in the MTBPS2023. However, this is based on the “most positive estimates” which are highly unlikely.

94. The Minister has not only excluded various items from the budget but has not really performed an analysis of public debt as we had recommended to ScoF. In the 2018 MTBPS this question of a total public sector debt overview was asked and Treasury responded as follows:

The table below provides an estimate of public sector debt:

Public sector debt, 2016/17	(R million)
National government	2 232 843,00
Local government	84 852,00
Non-financial public corporations	556 544,00
Financial public corporations	99 844,00
Total	2 974 083,00
Nominal GDP	4 412 749,00
Per centage of GDP	67%

Source: September 2018 Quarterly Bulletin/Consolidated annual financial statements

95. National debt was then still under 50% of GDP.

96. Municipalities owe creditors more than R86bn (2022)[8] with more than 60% of municipalities in financial distress as municipalities are owed R305 bn by debtors.

97. The state of SoEs' finances was ignored in the Budget 2024 yet all the large SoEs are making losses and heavily indebted. Government guarantees are up to R503bn with R277bn in other guarantees for a total of R780 bn.

98. Submission: Given the concerning state of most of the entities to which guarantees are provided and the fact that guarantees merely compound loss-making entities finances by decreasing their solvency with further increasing their debt costs for monies borrowed, the risks on the guarantees seem more akin to state debt, as was seen with ESKOM.

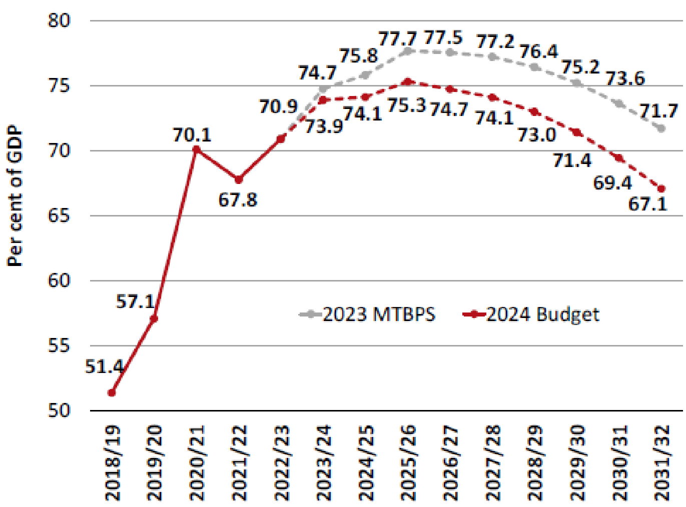
99. ScoF should reflect if it has acted in accordance with its constitutional obligation by not requesting Treasury to provide more assurance on the quality and risk of its contingent liabilities and guarantees becoming debt. The same concern exists for municipalities, which national government cannot abdicate its responsibilities towards, nor ScoF ignore.

100. Given the year-on-year upward adjustment to debt forecasts in the last 10 years, where there also seemed no fundamentals supporting the positive estimate, the below does not seem realistic.

101. This is in particular, given that most of the revised additional spending is going to wage costs, not economic-building activities, which is a low-value return item, given the low public sector productivity rate. Also, many of the savings are from unspent monies including conditional grants for targeted programs.

[8] Treasury releases local government revenue and expenditure report | South African Government (www.gov.za)

Figure 1.2 Gross debt-to-GDP outlook



102. In real terms, debt will increase from R5,2 trillion to R6,24 trillion. Given the R84 billion unbudgeted addition just for 2023, how much confidence can we place in these estimates?

Table 1.6 Projected state debt and debt-service costs

R billion/percentage of GDP	2023/24	2024/25	2025/26	2026/27
Gross loan debt	5 207.3	5 522.2	5 959.2	6 293.2
	73.9%	*74.1%*	*75.3%*	*74.7%*
Debt-service costs	356.1	382.2	414.7	440.2
	5.1%	*5.1%*	*5.2%*	*5.2%*

Source: National Treasury

103. None of the estimates above include further funding to SoEs, other than last year's Eskom appropriations (which were incorrectly treated as debt) and a further R47 billion guarantee to Transnet (which has R43 billion in debt maturing in the next 3 months).

104. It also does not seem to cater for the Municipal Debt Relief which essentially wanted ESKOM to write-off municipal debt subject to conditions, but that debt loss has to be funded at ESKOM again.

105. In 2019, we started with R182 billion and will end this term with double that at R356 billion.

106. It is also important to see the cash flow management plan.

Table 7.2 Financing of national government gross borrowing requirement[1]

R million	2022/23 Outcome	2023/24 Budget	2023/24 Revised	2024/25	2025/26	2026/27
				Medium-term estimates		
Main budget balance	**-309 938**	**-275 351**	**-331 386**	**-320 946**	**-308 151**	**-287 218**
Redemptions	**-90 324**	**-162 232**	**-145 759**	**-172 568**	**-185 598**	**-166 295**
Domestic long-term loans	-74 562	-117 865	-98 614	-132 087	-126 730	-126 730
Foreign loans	-15 762	-44 367	-47 145	-40 481	-58 868	-39 565
Eskom debt-relief arrangement	–	**-78 000**	**-76 000**	**-64 154**	**-110 223**	–
GFECRA settlement (net)[4]	–	–	–	**100 000**	**25 000**	**25 000**
Total	**-400 262**	**-515 583**	**-553 145**	**-457 669**	**-578 972**	**-428 513**
Financing						
Domestic short-term loans	**-25 577**	**48 000**	**88 000**	**33 000**	**47 000**	**34 000**
Treasury bills (net)	-25 493	48 000	88 000	33 000	47 000	34 000
Corporation for Public Deposits	-84	–	–	–	–	–
Domestic long-term loans	**322 420**	**329 900**	**327 900**	**328 100**	**422 200**	**303 200**
Market loans	321 669	329 900	328 032	328 100	352 200	303 200
Loans issued for switches	87	–	532	–	–	–
Loans issued for repos (net)	664	–	-664	–	–	–
Eskom debt-relief arrangement	–	–	–	–	70 000	–
Foreign loans	**64 466**	**44 360**	**45 166**	**36 700**	**82 163**	**92 195**
Market loans	64 466	44 360	45 166	36 700	82 163	92 195
Change in cash and other balances[2]	**38 954**	**93 323**	**92 079**	**59 869**	**27 609**	**-882**
Cash balances	29 332	86 321	83 649	53 112	21 753	-5 866
Other balances[3]	9 622	7 002	8 430	6 757	5 856	4 984
Total	**400 262**	**515 583**	**553 145**	**457 669**	**578 972**	**428 513**
Percentage of GDP	*6.0%*	*7.4%*	*7.8%*	*6.1%*	*7.3%*	*5.1%*

107. In essence, it would seem that government is planning to go into overdraft with a R1 billion negative cash balance by 2026/27.

108. The large increase in foreign loans from R36 billion to 92 billion in 2 years (20124/2025 to 2026/2027) is also highly concerning, and given the drawdown in the Gold and Foreign Exchange Contingency Reserve Account, debt costs on these foreign loans will increase.

109. This contradicts the Minister's views on reducing debt costs.

110. It also shows the concerns last year that Treasury did the ESKOM debt relief as a direct cash transfer rather than an appropriation by Parliament, something that was raised as a legal concern.

111. In 2019, things were even worse with a R47 billion negative cash balance. This brings into question how Treasury are in fact managing the cash flows, and reminds us why in September 2023 a sudden cash flow crisis resulted in cost containment letters to departments and provincial treasuries.

C. SPECIFIC MATTERS

SARS

112. We welcome the additional funding to SARS of R500m per year for the entire medium term and also the R1 bn per year conditional allocation for 2024 and 2025.

113. We remain of the view that an effective, efficient and fair SARS is an asset to the country and a benefit to all taxpayers.

114. At the time of his appointment in May 2019, the current SARS Commissioner ("CSARS"), Honourable Kieswetter, correctly identified that one of his many challenges in "healing" the SARS staff trust gap created by his predecessor.

115. Reflecting upon SARS' progress since 2019, we applaud National Treasury for the additional funding allocated to SARS over the past five years in order to enable it to fulfil its mandate. SARS was able to address the staffing shortages experienced during the tenure of the previous Commissioner, hiring additional skilled staff and retaining existing skills.

116. However, there are certain concerns we have raised in the past five years which remain on-going and do not seem to have been addressed:

Delayed adoption of GRAP by SARS

117. 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. 13 years later, this has still not been done, including at SARS.

118. The delay has contributed to various dubious practices by SARS, which were confirmed by The Nugent Inquiry as SARS pre-collection practices, i.e. SARS retaining monies legally due and crediting it as collections or deferring it to its debt book. This practice to a large extent seems to have led to 3 years of SARS narrowly "achieving" its collection targets for 2014-2016.

119. The continued non-adoption of GRAP by SARS remains highly concerning. GRAP is a critical part of improving accountability and enhanced financial reporting.

120. Though the Commissioner notes SARS having a debt book of R300 bn, we also know that disputes with SARS have exponentially grown and that much of the debt book may therefore be contested debt. This is another reason why accrual accounting rather than cash accounting should be used by SARS as SARS would then have to raise an appropriate provision against the debt book.

121. Submission: Is Parliament on reflection satisfied that SARS has, after more than a decade after the ASB adopted GRAP accrual accounting for the state, still not been able to implement it?

SARS Accountability

122. Another major concern has been the lack of acknowledgement of the hard handed treatment taxpayers and tax practitioners face from SARS officials. Where SARS officials' conduct and

attitudes result in the compliant and non-compliant receiving the same hard handed approach, this reduces the trust society has in SARS.

123. SAICA has raised these concerns and its impact on voluntary compliance since 2015.

124. 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.

125. There is often blatant ignoring of the law by some SARS officials. Numerous reports by the Tax Ombud confirm SARS' systemic disregard for the timelines, as required by Tax Administration Act. This is no more reflected in the SARS Service Charter which for disputes only targets compliance with the law as relates reasons 90% of the time, decisions on objections only 70% of the time and ADR finalisations only 50% of statutorily prescribed time[9].

126. The Commissioner himself noted this issue in 2019, meeting with stakeholders and promising that the SARS culture of treating compliant and non-compliant taxpayers with the same hard handedness would be addressed. Sadly it has not.

127. The same concerns were raised to ScoF on delays in refunds especially around year-end for which empirical data was supplied in 2017 and 2018. It was only in 2018 where the Minister of Finance acknowledged that SARS' untoward practices in this regard.

128. Submission: On reflection, is Parliament satisfied that the culture of compliance and the stakeholder strategy at SARS will in fact achieve the strategic outcomes SARS seek as relates to voluntary compliance?

129. We recommend that full statistics of all processes in the dispute "stock" be reported in the SARS annual report to properly measure SARS performance.

SARS operational efficiency and systems

130. In 2018 SAICA gave evidence at the Nugent Commission, where the efficiency of SARS operations came under scrutiny. One concern was the experience of tax practitioners with the SARS call centre.

131. On average, it takes 33 minutes for calls to be answered on the SARS tax practitioner phone, with 14% of calls dropped before being answered by SARS call centre agents.

132. Overall, SARS service levels appear to have significantly declined since 2019.

133. Another concern was SARS' modernisation project and the manner in which it has been implemented. The challenges experienced by taxpayers and tax practitioners with SARS systems (e-filing, etc.) now form a significant portion of the agenda items at the meetings between SARS and stakeholders such as SAICA and other recognised controlling bodies.

134. Submission: Though SARS' funding position and HR resources have been improved, the manner in which it design and implements system in its modernisation program is creating large financial

[9] SARS-Service-Charter-2023.pdf

losses and inefficiencies for taxpayers and practitioners and requires a reconsideration and more collaborative approach.

Tax compliance levels and broadening the tax base

135. When the SARS Commissioner was appointed in May 2019, he set out the below must-wins:

- Broadening the Tax Base;
- Improving Voluntary Compliance & Fiscal Citizenship;

Expansion of the tax base:

	PIT	PIT	CIT	VAT	CUSTOMS
2019	21,1m individuals registered	552 000 employers registered	3,2m registered	802 000 registered	319 000 importers
2023	25,9m individuals registered	643 000 employers registered	3,9m registered	953 000 registered	347 000 importers
% Annual growth	4,5%	3,3%	4,4%	3,8%	1,8%
Nominal inflation average per year	4,96%	4,96%	4,96%	4,96%	4,96%
Average GDP growth per annum	0,46	0,46	0,46	0,46	0,46

136. Based on the above table, it is not clear whether the tax base has really broadened or whether this was just natural growth.

137. With regards to improvements in voluntary compliance, SARS in 2014 developed a Voluntary Compliance Index but has only reported on it publicly since 2021.

138. It is evident from the below that compliance levels have, in the last few years, been marginally declining which may also be a reflection of the public tax morale and satisfaction with SARS' service levels. Improving service levels to taxpayers and tax practitioners was not one of the direct goals and remains one of the largest concerns with SARS.

The index as computed per tax product is presented below:

VCI per Tax Product	2021/22	2022/23
PIT (Individuals)	56.93%	52.54%
PIT (Trusts)	51.23%	50.39%
CIT	48.28%	47.30%
VAT	67.02%	65.95%
PAYE	74.42%	74.16%
Overall VCI	**62.89%**	**61.61%**

The index is also computed per compliance pillar, including the main tax products (PIT, CIT, VAT and PAYE).

VCI per Compliance Pillar	2021/22	2022/23
Registration (Registration on time)	96.54%	87.70%
Filing (Filing on time)	49.08%	46.03%
Reporting (Accurate declaration)	55.00%	55.26%
Payments (Payment on time)	76.53%	77.08%
Overall VCI	**62.89%**	**61.61%**

139. We understand that the number has increased for 2023/2024 and is unfortunate that SARS does not consistently report this statistics in its annual report.

140. We also understand that SARS has internally taken an education over enforcement approach which is welcomed given the complexity of SA tax legislation and processes and this expanded approach is seen by the increase in volume of training seminars and video hosted by SARS.

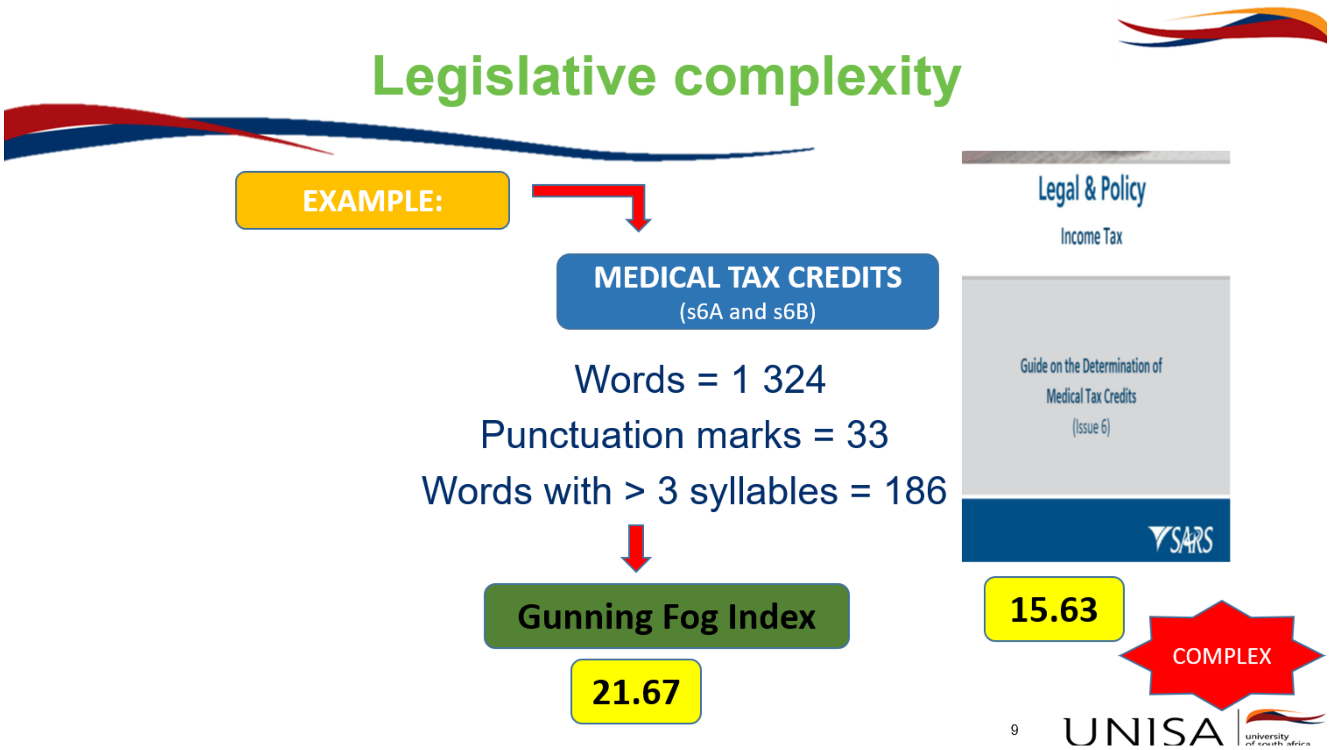
141. The complexity of our legislation was analysed by 2 studies in 2018 by the University of New South Wales in Australia and UNISA, both concluding that SA tax legislation is overly complex.

	Australia	South Africa
No of taxes	At least 125	7 main types plus provincial/local taxes/levies
Length of income tax acts	7,000 pages	600 pages
Readability of income tax acts (Flesch index)	Well short of 65 (required for plain English reading)	Very hard to read, e.g., s8C has a Flesch score of 18.3
Use of paid tax advisers (% of individual taxpayers)	72.4% in 2014–15	?
Tax compliance costs Australia: 2011–12; South Africa: 2016–17 (individuals) and 2011 (small businesses)	Individual non-business: A$ 470 (lowest taxable income range) to A$ 4,000 (highest taxable income range), SMEs: A$ 3,392 to A$ 54,605 Large: A$3 mil per firm	Employed individuals R 3,314 (2,596 to 5,864) Self-employed individuals R 24,416 (24,358 to 24,351) Retired individuals R 11,973 (8,810 to 14,860) Small businesses: R 63,328

UNSW AUSTRALIA

Gunning Fog Index

Fog Index	Reading level by grade (United States)	South African grade equivalent	Reading level by publication in the United States
20+	Post-graduate plus	Doctoral degree	U.S. government information
17 - 20	Post-graduate	Honours or Master's degrees or post-graduate diplomas	Academic journal papers
16	College senior	4th year college or university student	Standard medical consent forms are written at the 16th-grade level.
15, 14, 13	College junior, sophomore, freshman	3rd year, 2nd year, 1st year college or university student	No popular consumer publication is this difficult.
		Danger line	
12, 11	High school senior, junior	Matric, Grade 11 (high school)	Harper's, Time, Atlantic Monthly, Newsweek, The Wall Street Journal
10	High school sophomore	Grade 10 (high school)	National Geographic
9	High school freshman	Grade 9 (high school)	Reader's Digest
8	8th grade	Grade 8 (high school)	Ladies' Home Journal
7	7th grade	Grade 7 (primary school)	TV Guide, The Bible, Mark Twain
6	6th grade	Grade 6 (primary school)	People, Parade



142. Submission: Broadening of the tax base may on reflection require more analysis and data being shared by SARS with Parliament to understand whether it is in fact achieving its goal.

143. Furthermore, the reduction in tax process and legislative complexity together with expanded SARS education may be a much more effective approach.

FATF

144. South Africa joined the FATF in 2003 and was subjected to a country review from April 2019 to the issuance of findings in the Mutual Evaluation Report on 1 October 2021. It had made 40 findings for improvement

145. On the 20 May 2022, SAICA noted to SCoA that it seemed that no consideration had been given to the FATF findings and ensuring that the SAPS and NPA would be sufficiently financed to make the relevant progress and interventions. This was especially concerning giving that SA faced a 30 October 2022 due date to implement the various interventions to avoid a possible grey listing in February 2023.

146. It was concerning that the Parliamentarians seemed unaware of the issue and had in fact not been tracking the Executive with the relevant oversight to ensure that the matter was dealt with.

147. On 15 June 2022 NT briefed ScoF on the proposed FIC amendments relating to FATF, though ScoF viewed the rush as inappropriate as there had not even been public hearings[10].

[10] National Treasury and FIC on Amendments to Schedule 1, 2 & 3 of the Financial Intelligence Centre Act | PMG

148. In November 2022 ScoF noted that the FATF matter had been with cabinet since 2017 and yet no socio-economic impact assessment had been done and tabled in Parliament with the General Laws Amendment bill[11].

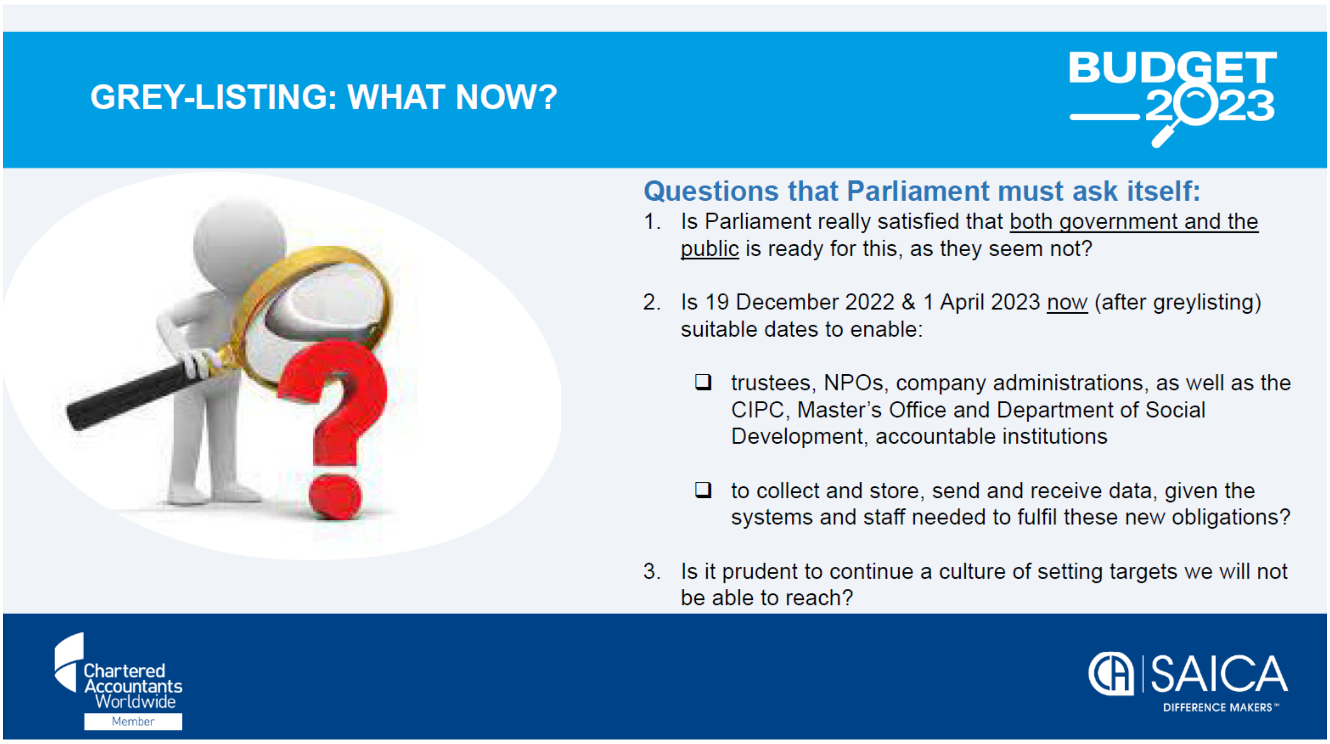
149. Various significant pieces of legislation were rushed through parliament and our concerns expressed in the 2022 MTBPS about the rushed implementation creating even more problems for regulators and those regulated, worsening rather than improving the situation, were ignored.

150. On 24 February 2023 SA was grey listed by the FATF.

151. In our 2023 Budget submission we again expressed concern that the regulators and regulates were not ready and that all the legislation would compound the problem without solving the core issues which were not legislation but:

- Bad monitoring practices under current law
- Lack of investigations and police action under current law
- Lack of prosecutions under current law

152. We posed various question to Parliament in this regard.



153. Of great concern is that Parliament had not been properly exercising oversight of the Executive on this matter and again proceeded against recommendation from stakeholders to approve a plaster over the proverbial 'festering wound'.

[11] General Laws (Anti-Money Laundering and Combatting Terrorism Financing) Amendment Bill: finalisation (postponed) | PMG

154. In November 2023 it was announced by the FATF that SA had addressed 35 of the 40 recommendations, however the last 5 recommendations had 23 action items, all in the areas we had already raised in February 2023.

155. On 23 February 2024 the FATF still had strategic deficiencies and that only 5 of the 23 action items had been met. These, as we had stated in our original submission, all rest in law enforcement and prosecutorial functions (the latter, which is underfunded, compares to functions like VIP Police unit that protects politicians and dignitaries and which has a 4 times larger budget than the NPA)[12].

On 15 February 2024 the FIC also noted the rampant non-compliance amongst attorneys (48% non-compliant) and estate agents (58% non-compliant with submitting risk and compliance reports. No statistics were even provided for the expanded [13] expanded designated non-financial Businesses and Professions which the FIC probably does not know what the volumes are.

156. Submission: Is Parliament, on reflection, satisfied with the level of tracking and oversight it exercised over the Executive as relates to important international commitments and how it will hold the Executive to account to avoid this in future?

157. Furthermore, is it satisfied that its actions in rushing the implantation of the interventions against stakeholders' recommendations was the correct action and how will it with hindsight now provide oversight and guidance to regulators struggling with implementation and enforcement and regulates struggling with implementation and compliance?

UNEMPLOYMENT

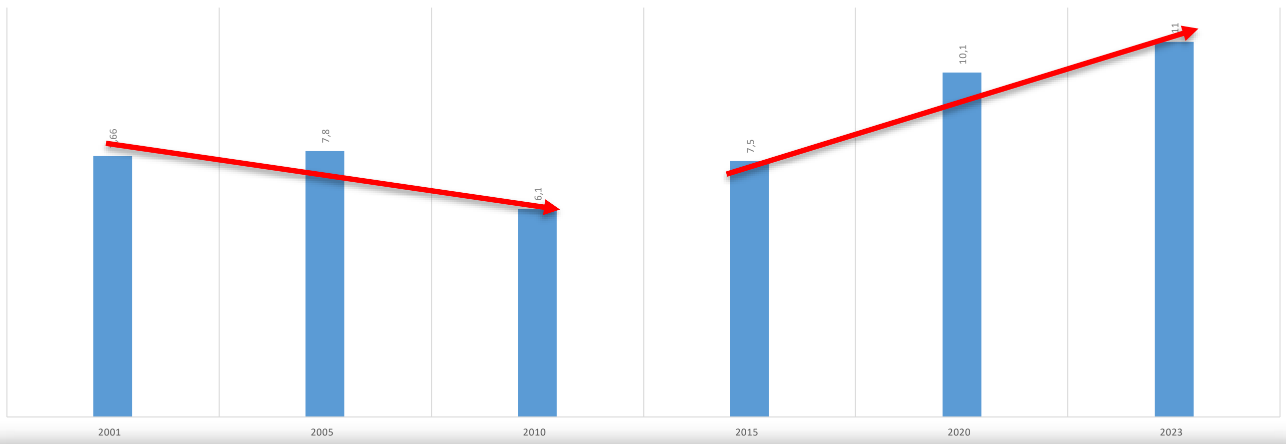
158. Unemployment remains one of the largest challenges facing our economy and our people.

159. There were 18,8 million grant beneficiaries in 2023 (1996: 2,4 million 2007: 13 million) and 11 million unemployed persons (41,3% unemployment rate). There is therefore 29,8 million people or 48% of the entire population fully dependent on the state for their basic living needs, the highest in the world.

[12] SA has only addressed 5 of 23 actions to exit the financial grey list, says watchdog | Business (news24.com)
[13] Lawyers, estate agents could keep SA on grey list - Moneyweb

UNEMPLOYMENT

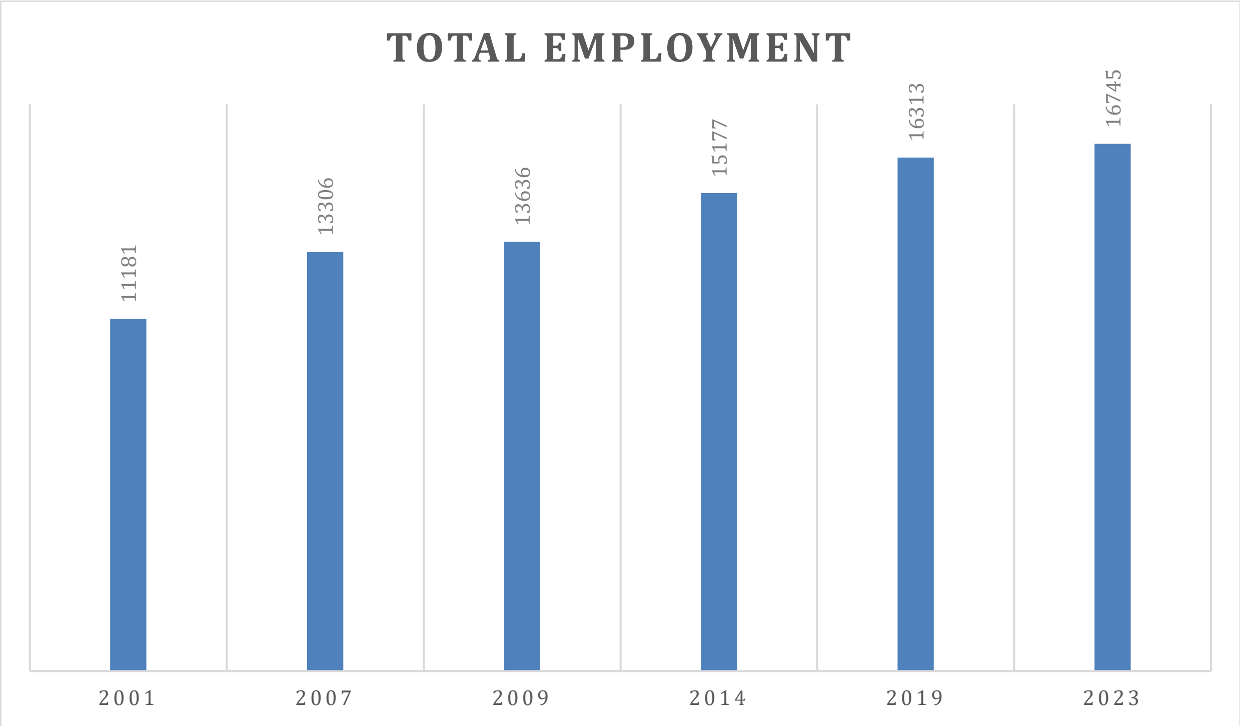
UNEMPLOYED: IN MILLIONS



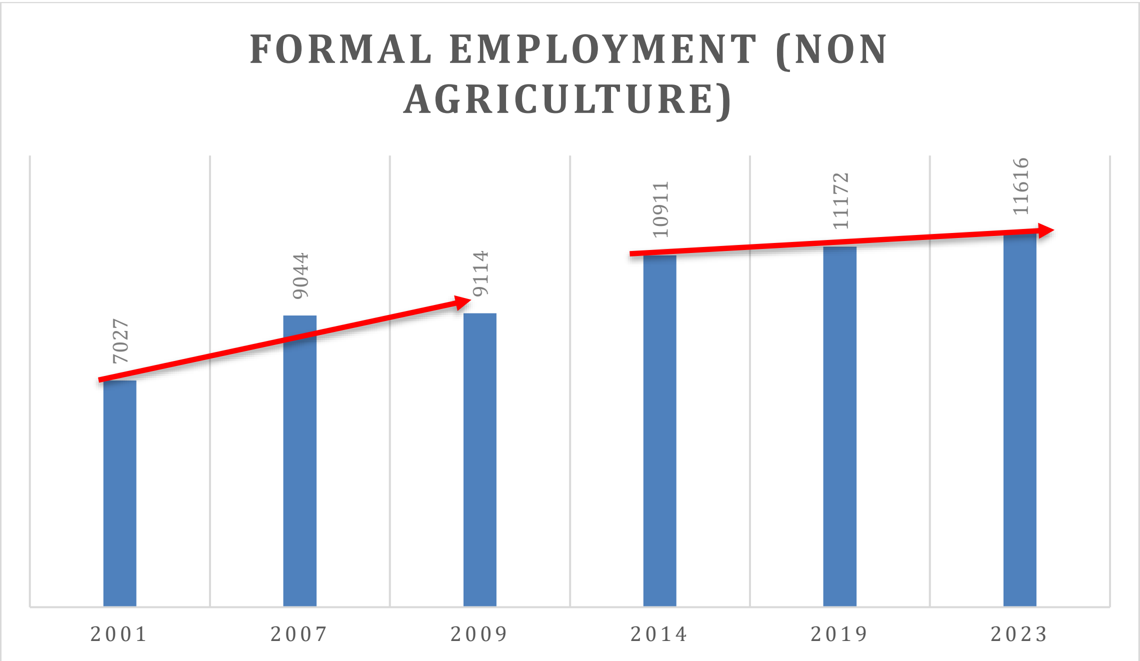
160. Government has extended the social relief grant at a cost of R35bn a year for 3 years to relieve some of the unemployed basic living challenges, though the Minister acknowledges economic growth remains the key and only viable solution.

161. In this regard it seems persuasive that the decline and the increase in unemployment mirrors the change in government's economic policies before and after 2009.

162. What is of equal concern is the fact that in the last decade, only 1,5 million jobs have been created while the population has grown with 8 million people from 54 – 62 million. Less than half a million jobs were created in the last 5 years over both the informal and formal economy.



163. The failure of the current economic policies to create formal jobs is even more glaring.



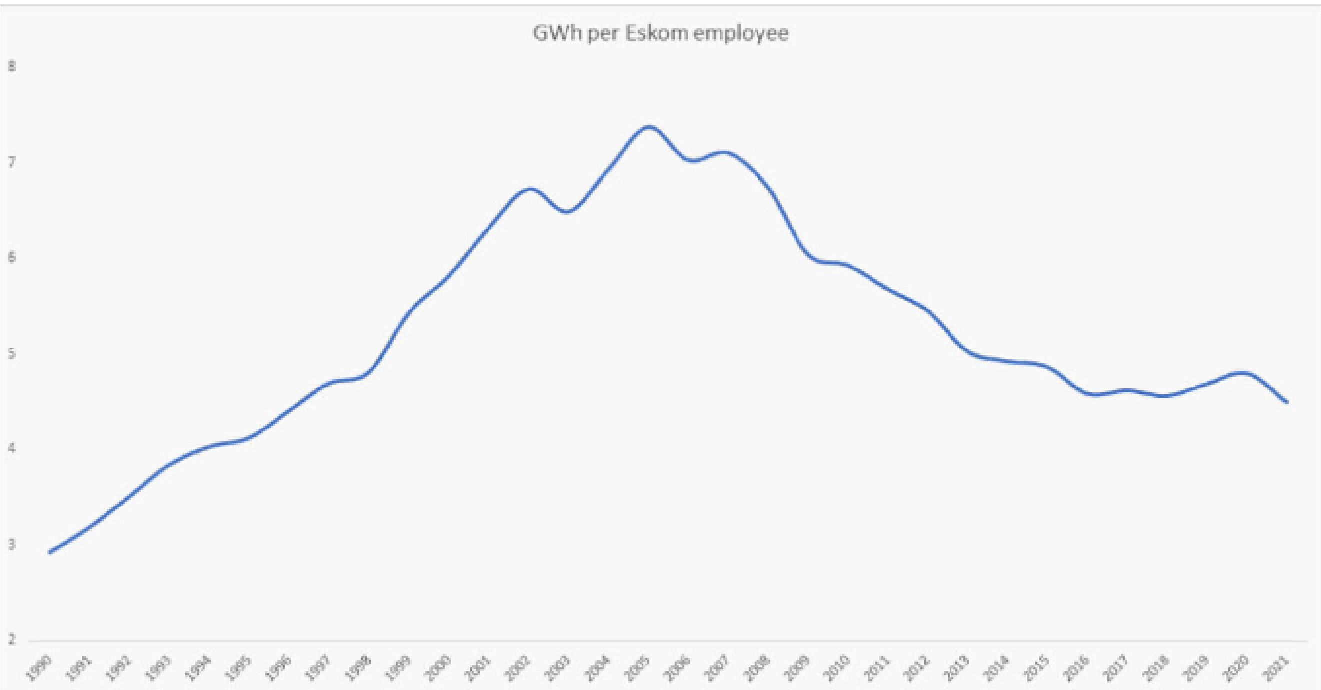
164. Over the 2006-2020 period, public sector numbers grew 180 000 from 1,15 million to 1,33 million (excluding SoE, Organs of state and Municipalities) or 12% of all jobs created, though public sector.

165. Including other spheres of government and excluding SoE employment has increased by 328 000 which is nearly 22% of all jobs created even if this part of the public sector only represents 18,8% of the total employment. When SoEs are included this number would increase[14].

The figures include national, provincial and local government departments, universities, technikons and extra budgetary institutions.

166. This demonstrates that public sector employment has been outpacing private sector employment, which would not be a bad thing given the unemployment rate if increasing public sector wages and declining productivity reflected that of the private sector at all levels[15].

167. For example at ESKOM the electricity produced per employee head count has declined.



[14] FACTSHEET: South Africa’s civil service in numbers - Africa Check
[15] Intellidex-Public-Sector-Wage-Bill-Nov-2020.pdf

168. Similarly the profit per employee has declined as the cost per employee increases but profits decline[16], notwithstanding Eskom electricity prices increasing by 450% since 2008[17] with 2 large increase of 18,65% and 12,7% for 2024 and 2025 respectively also looming.

169. Public sector productivity may be difficult to measure but it is a key measure in ensuring the professionalisation of the public sector.

170. When creating formal jobs, it needs to be GDP growing jobs and in the words of the President:

"Twenty seven years into democracy, it can be said of the public service that while several pockets of excellence exist, we have serious challenges in many government departments with regard to skills, competence and professionalization."

Only a capable, efficient, ethical & development-orientated state can deliver on the commitment to improve the lives of the people of this country."

President Cyril Ramaphosa(1 Mar 2021)

171. <u>Submission</u>: Is Parliament meeting its constitutional obligation by not reflecting on the appropriateness of economic policy and economic growth funding as set out in the budget given what the inadequate outcomes of the last decade of Budget and policies have been?

GOLD AND FOREX CONTINGENCY RESERVE ACCOUNT

172. This account reflects the local currency valuations of the gold and forex reserves.

173. For example if we have US$10 in 2007 at R10 rand/USD then we would have R100 in reserve. If we have the same US$10 in 2023 at R20, then we would have R100 in reserve and R100 profit.

[16] Rise and fall of Eskom's workforce – Daily Investor
[17] Crazy Eskom price hikes in South Africa – how tariffs have changed since load shedding started – BusinessTech

However we still only have US$10 as the ZAR value is unrealised profits from the devaluation in the ZAR over time.

174. To realise the "profits", you would have to sell some of our US$10 that will reduce it below that amount.

175. The GFCRA is not a cash profit account and the current proposal not only bets against the ZAR strengthening but also creates increased financial risks and currency volatility risks.

176. It is important to understand that the protection that this reserve provides is its US$ denominated value not its ZAR denominated value.

177. It is proposed that legislation be introduced to regulate how the ZAR denominated profits are divided between government and SARB though it is understood that R100bn of the proposed R150bn realisation will occur before such legislation is passed.

178. Though the Minister has stated that the drawdown limits further debt exposure, it creates other risks for the economy. Furthermore, given that the R150bn barely covers the R146bn in wage increases, it means we are funding operating expenses not CAPEX investment which should not have been done from debt or the GFCRA.

179. Submission: Is Parliament satisfied that enough information has been provided by the Minister to ensure that the currency risks have been mitigated and that of the SARB reserve funding, especially as the draw down will occur before the proposed analysis is conducted?

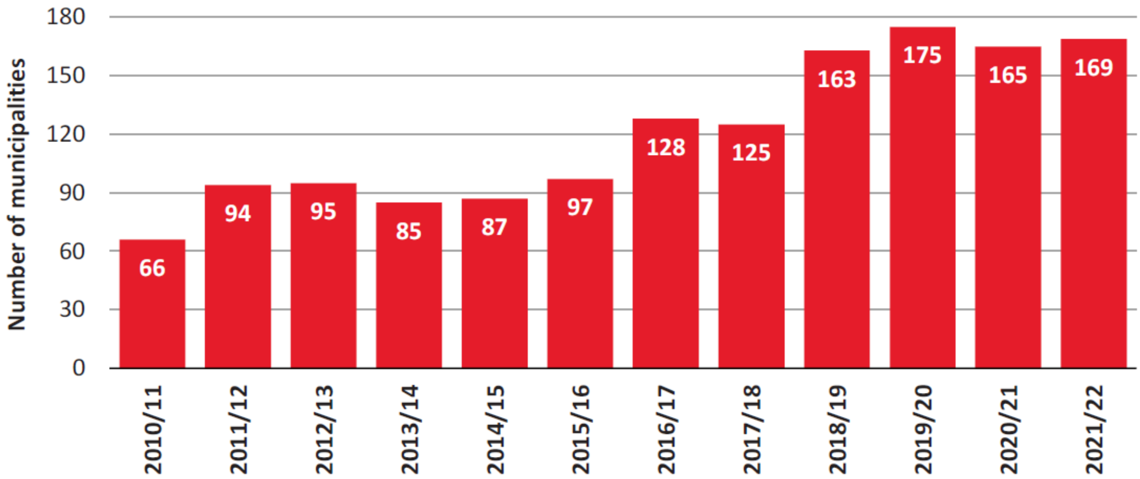
180. Should Parliament not delay the draw down till after the legislation has been passed and the relevant analysis and checks & balances put in place as to funding levels?

MUNICIPALITIES

181. In 2007, eight municipalities were dysfunctional and under administration. By 2022 that number had grown to 33 whereby provincial and national government had to take over their functions.

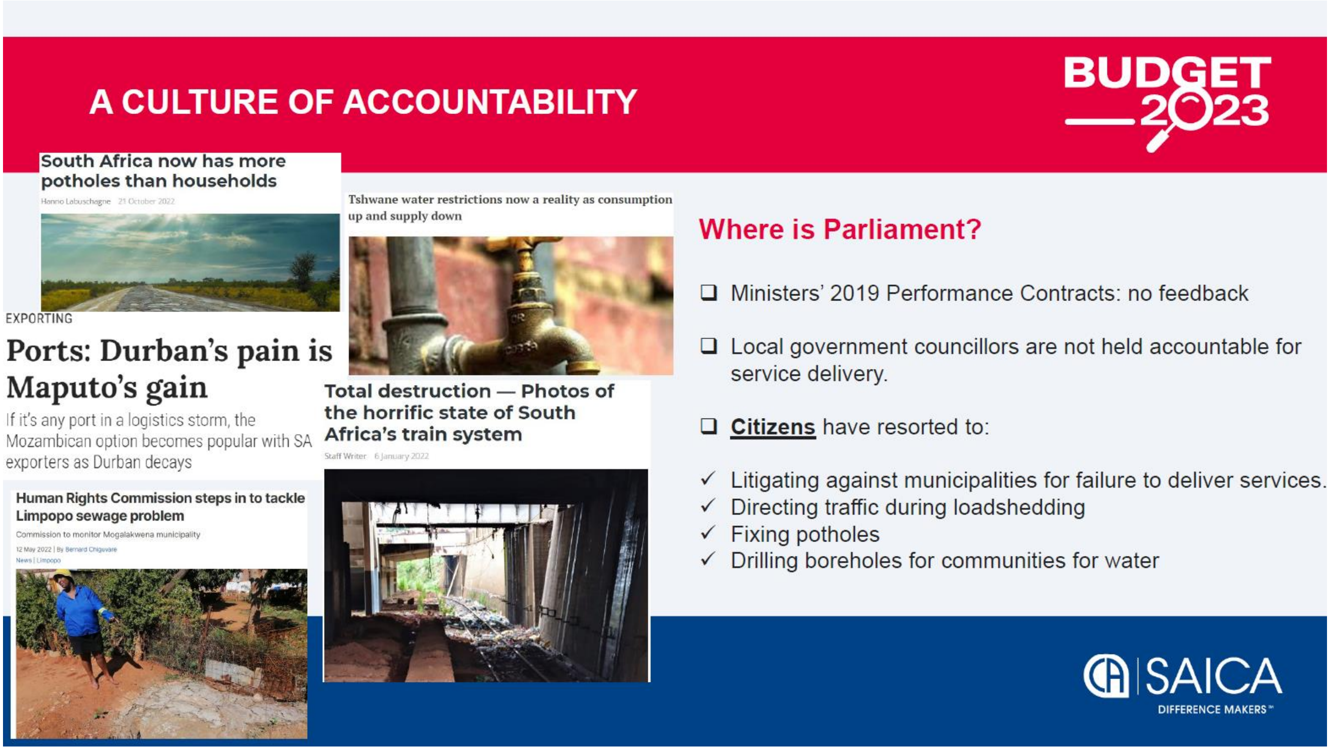
> The National Treasury's 2022 *State of Local Government Finances* report found that 169 municipalities were in financial distress at the end of 2021/22. The report noted a continued pattern of deterioration: only 66 of the 257 municipalities had been in financial distress at the end of 2010/11. Revenue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

Figure 6.1 Municipalities in financial distress



Source: National Treasury

182. The unfortunate state of municipalities remains an on-going cause for concern which we posed a various questions to Parliament, questions that remain answered unfortunately.



183. In this regard, the 2024 Budget Review notes the recommendation from the Select Committee on Appropriations that *National Treasury review the funding model of local government and calls for more meaningful commitments to increase the proportion of the nationally raised revenue allocated to local government*. National Treasury agrees with this committee and work is currently underway to that effect.

184. NT has also proposed for the use of a new financing instrument from the Development Bank called Project Vumela, which blends municipal revenue sources with financing from development finance institutions and commercial finance. It is aimed at raising funds for bulk infrastructure projects required for services such as water, sanitation and electricity.

185. SAICA welcomes these developments.

186. Of note regarding Project Vumela is the fact *that financing will be secured against future revenue, including development charges, municipal grants and a portion of property rates*.

187. It is worth noting, in this regard, that reduced revenue from municipalities' sale of both water and electricity is a major risk, as more paying customers migrate off the grid because of load shedding and the badly maintained water and electricity infrastructure.

188. The 2024 Budget Review notes that:

189. "*The solar rooftop tax incentive announced in the 2023 Budget has promoted the installation of solar panels that are now generating 5 200 MW of electricity for households and businesses.*"

Submission: National Treasury's projections of future revenue should therefore account for that fact.

190. Furthermore, it is one thing to earn revenue, but collecting said revenue is equally important. Unfortunately, municipalities have struggled in this regard, as indicated by the below[18] startling picture:

Figure 6.2 Municipal debtors, 2021/22

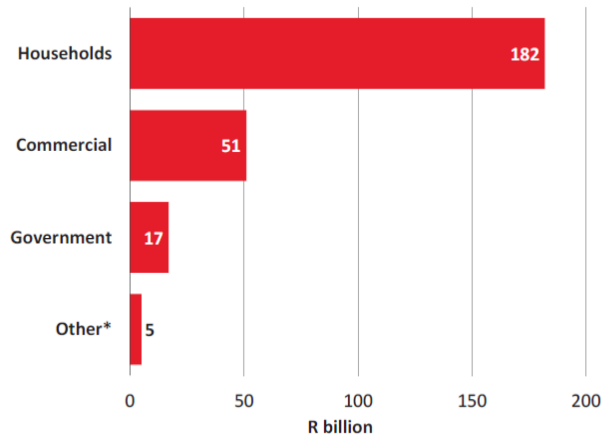
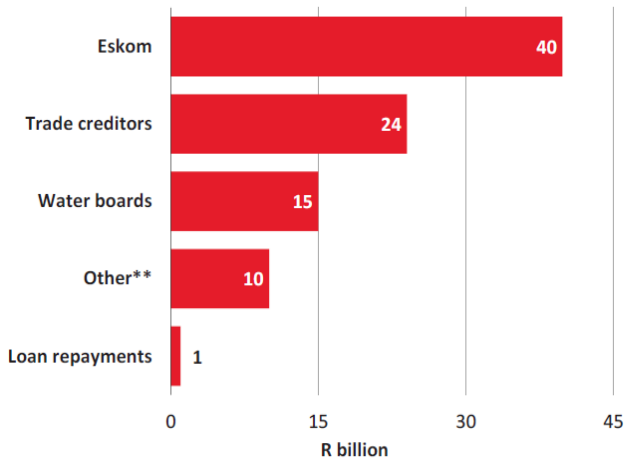


Figure 6.3 Municipal creditors, 2021/22



**Includes rental and equipment leases income, interest on arrears and other recoveries, and outstanding payments from national or provincial government for projects carried out by municipalities on their behalf*
***Includes PAYE deductions, output VAT less input VAT, pensions or retirement and Auditor-General*
Source: National Treasury

191. In 2022, private households owed municipalities R182 billion, who, in turn, owe Eskom and the water boards (Rand Water, etc) R40 billion and R15 billion respectively.

192. Rand Water has specifically noted in its 2022 Annual Report that defaulting customers cause a reduction in its income, thereby affecting the implementation of its infrastructure expenditure[19].

193. Partial payment of the debt owed to municipalities by households would create a positive domino effect which would alleviate some of the financial pressure faced by the municipalities and ultimately, Eskom and the water boards.

194. Submission: Municipalities must therefore improve their ability to collect amounts owed by households, otherwise the funding objectives of Project Vumela will not be realised.

MUNICIPAL FINANCE MODEL

195. It is worth noting, in this regard, that reduced revenue from municipalities' sale of both water and electricity is a major risk, as more paying customers migrate off the grid because of load shedding and the badly maintained water and electricity infrastructure.

196. A case in point is Tshwane Municipality, which has had a steady decline in profits earned from the sale of water and electricity in the ten years from 2012 to 2022.

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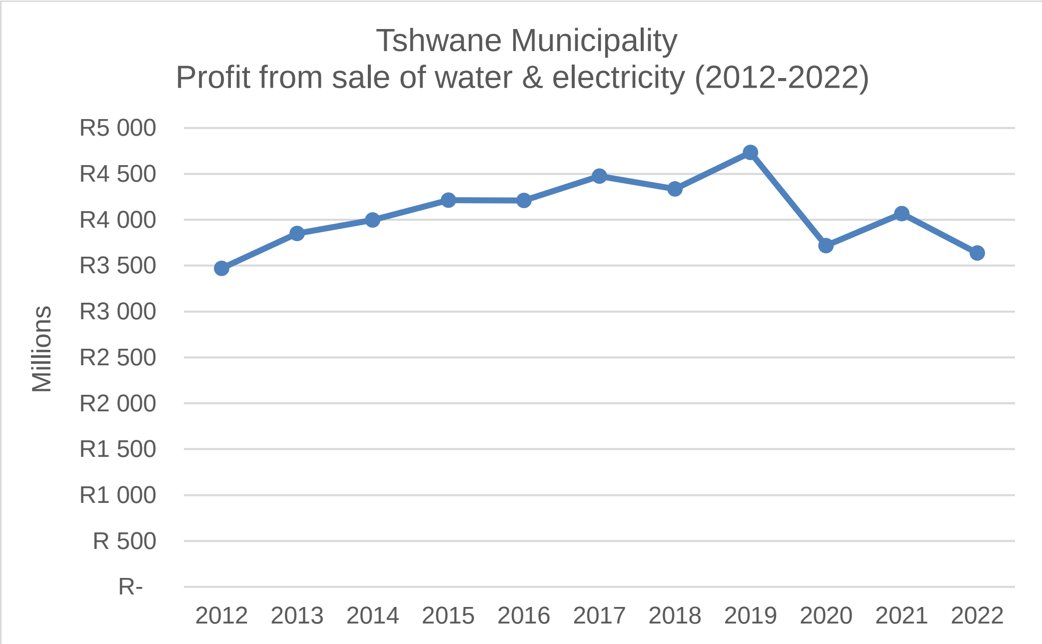
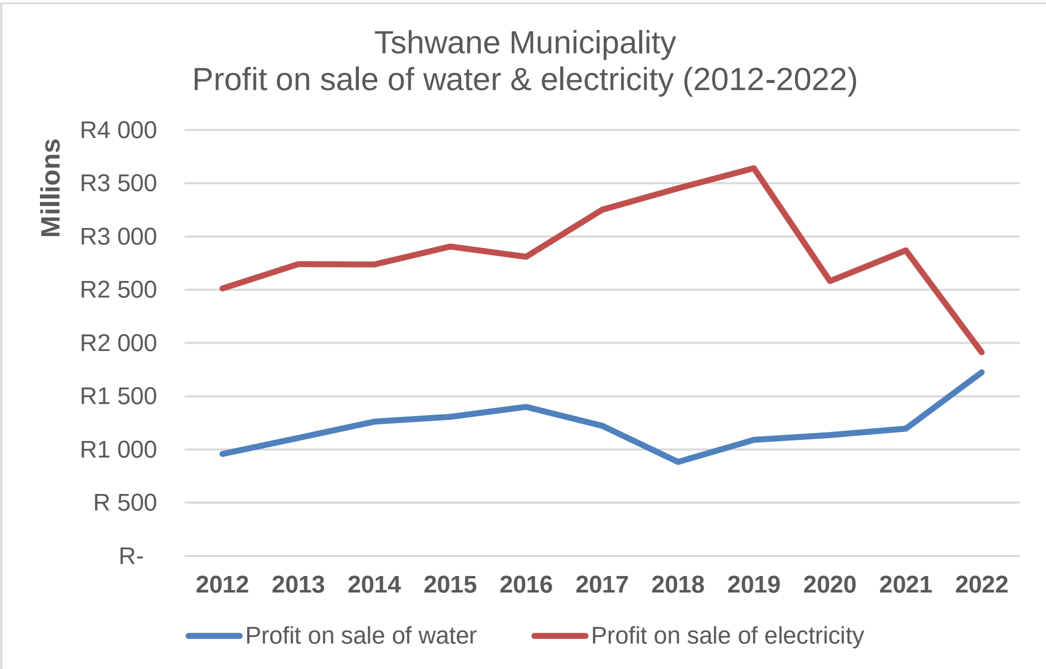
[18] 2023 Budget Review

[19] https://www.randwater.co.za/media/annual_reports/RANDWATER-%20INTEGRATED%20ANNUAL%20REPORT%202021-22.pdf

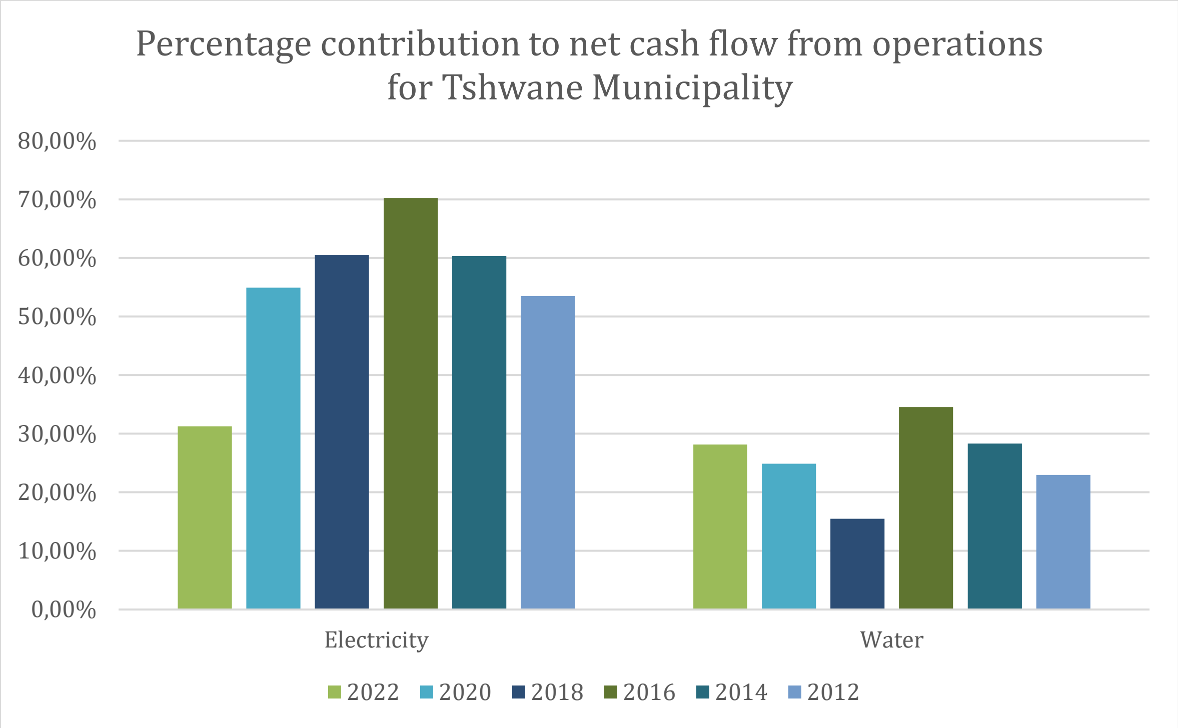


197. A more detailed analysis shows that this overall decline is mainly attributable to electricity.



198. This trend is likely to continue.

199. As noted in our 2023 submission, though profits are declining especially for electricity (due to reduction in sales volumes and technical loss increases), municipalities are still reliant on these profits to fund nearly 60% of their cash flows.



200. Though the Minister in 2023 and 2024 acknowledged the problem with municipal funding model, very little was done in the Budget to alleviate the concern, including no real measures to ensuring better financial management or more treasury control being exercised. This will merely result in municipalities becoming more indebted than the current nearly R90bn and further reducing also non-existent service delivery and infrastructure maintenance/expansion/replacement.

201. Submission: On reflection on the dire financial state of municipalities, is Parliament comfortable that the Minister has done enough and undertaken to do enough to get municipalities functional again and operating with proper financial oversight and management?

WATER INFRASTRUCTURE

202. We are now firmly in the midst of a water crisis; long predicted by numerous academics and other stakeholders.

203. SAICA first warned Parliament 6 years ago in its 2018 Budget submission and continued to do so every year since. We provided you, our members, an analysis of this problem in last year's Budget Summary.

204. With the 2024 elections approaching, it is worth reflecting on the progression of this issue since the current government was elected.

Annexure D of the 2024 Budget Review notes:

"…government is prioritising 11 strategic projects with an estimated value of R139,1 billion. The projects are expected to create about 20 000 jobs during construction and 14 000 jobs during the operational phases."

205. A National Water Masterplan was published in 2019; the same year the current regime was elected). At that point, the document noted that South Africa needed at least R89 billion per annum for 10 years to fund water infrastructure.

Funding Gap over the next decade

Funding Requirement	-	Funding Available	=	Funding Gap
• R 898 billion		• R 565 billion		• R 333 billion (37%)

206. Regrettably, the amounts highlighted in the below table from the 2024 Budget Review show that government's allocation for water infrastructure over the medium term is nowhere near the necessary level.

ANNEXURE D

PUBLIC SECTOR INFRASTRUCTURE
AND PUBLIC-PRIVATE PARTNERSHIPS UPDATE

Table D.1 Public-sector infrastructure expenditure and estimates

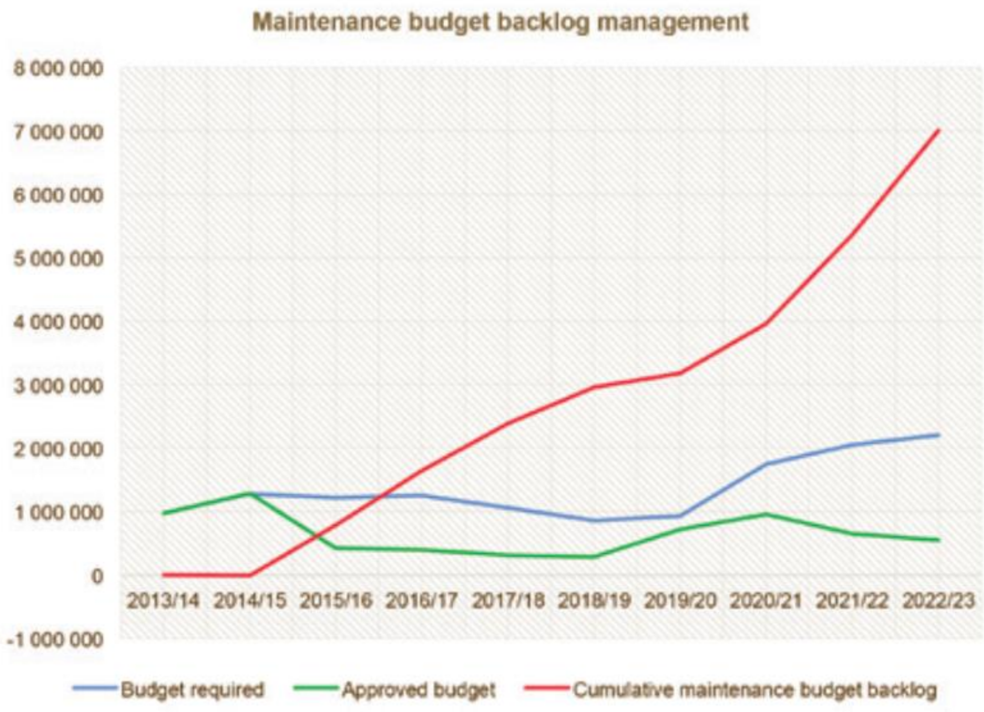
	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	MTEF
R billion	Outcomes			Revised estimate	Medium-term estimates			Total
Energy	30.0	35.5	38.7	54.8	58.5	70.5	74.8	203.8
Water and sanitation	29.5	30.6	35.4	43.8	53.2	57.6	50.1	160.9

207. The 2019 National Water Masterplan also highlighted a maintenance backlog for existing infrastructure, specifically:

- a refurbishment backlog of R12,5 billion caused primarily by inadequate maintenance; and
- a renewal backlog of aged infrastructure of about R23 billion.

208. The 2024 Budget Review indicates that National Treasury has not allocated any funding for this maintenance backlog.

209. Five years after the current government was elected, the backlog is as follows:



210. Submission: Is Parliament satisfied that National Treasury is doing enough to allocate the appropriate funding towards the maintenance of our ailing water infrastructure?

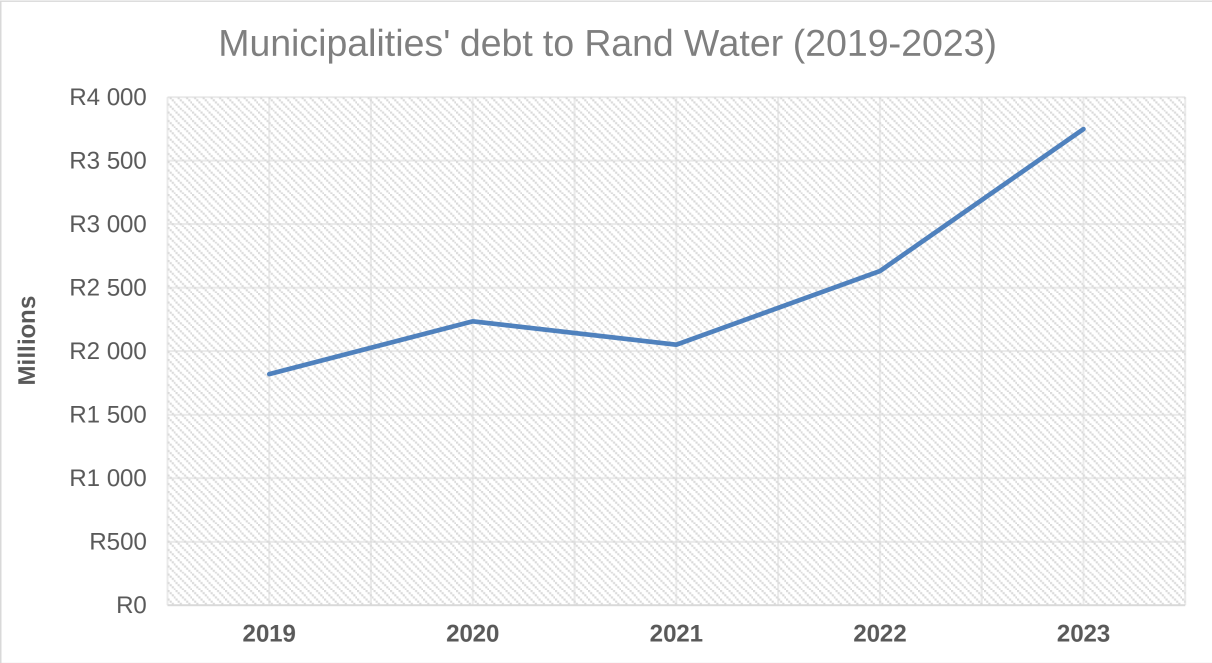
211. Rand Water is South Africa's largest water utility. As such, its financial performance is also worth considering, since it provides drinking water to more than 11 million people in Gauteng, parts of Mpumalanga, the Free State and North-West.

212. It has recently suffered reputational damage due to its inability to fulfil its mandate; caused in large by load shedding.

213. To address this, the utility is working on the use of renewable energy sources for water treatment and supply, having already identified a suitable site for construction of hydropower units and installation of solar panels across all sites.

214. The entity has struggled to operate effectively, not only because of ESKOM, but due to the municipalities as well, which account for over 97% of its debtor's book.

215. The table below indicates the growth in municipalities' debt to Rand Water since the 2019 elections:

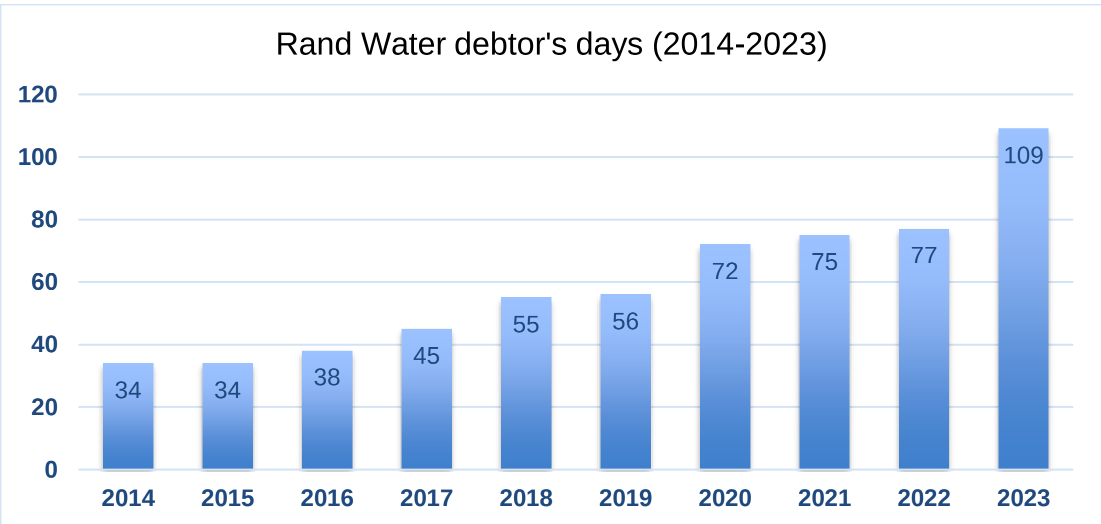


216. There has also been a drastic increase in Rand Waters debtor's days, largely caused by municipalities' financial mismanagement.

217. Ten years ago (2014), Rand Water was able to collect its debts within an average of 34 days. When the current government was elected in 2019, it took 56 days for the entity to collect its debt.

218. By 2023, this had ballooned to 109 days.

219. The following graph illustrates this progression:



Budget

2024

REFLECTIONS

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