26 February 2018

Mr Allan Wicomb
Parliamentary Standing Committee of Finance
3rd Floor
90 Plein Street
Cape Town
8001

By e-mail: Allan Wicomb, SCoF (awicomb@parliament.gov.za)

Dear Sir

COMMENTS ON THE 2018 BUDGET REVIEW

1. We present herewith our written submission on the 2018 Budget Review on behalf of the South African Institute of Chartered Accountants (SAICA) National Tax Committee.

2. Our submission includes a discussion of the most pertinent matters we believe require the Committee's most urgent attention.

3. As always, we thank the Standing Committee of Finance (SCoF) for the ongoing opportunity to provide constructive comments in relation to the 2018 National Budget (the 2018 Budget). SAICA believes that a collaborative approach is best suited in seeking actual solutions to complex challenges.

Yours sincerely

Tracy Brophy

CHAIRPERSON: National Tax Committee

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SENIOR EXECUTIVE: Tax legislation and practitioners

Attachments:

Annexure A - Detailed submission

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ANNEXURE A

TOUGH BUT HOPEFUL

> *There are no joys without mountains having been climbed. There are no joys without the nightmares that precede them and spring them into light –*
>
> *Ben Okri, A Way of Being Free, 1997*

4. The words of Ben Okri as quoted by the Minister of Finance, Mr Trevor Manual, in presenting the 2006 Budget Speech eerily felt like *déjà vu* when listening to the recent 2018 Budget Speech. The recent public discourse has been quite positive across the country, as political leadership change in South Africa has unfolded in the last weeks. Even in Parliament, we note that the usual adversarial environment and scenes of violence have temporarily abated, in favour of uncannily civil discussion.

5. However, as the euphoria dies down and we all get back to evaluating and doing what must be done 'to right Ship SA', questions start arising as to whether structurally our society and economy is really going to change or whether, like before, as a country, we have been provided a 'quick political fix of euphoria' before the same path is trodden through again.

6. Much expectation, like before, rests on the shoulders of our political leaders, though society's apathy with the unsustainable *status quo's* lingers large.

7. If there is one lesson we have learnt from the past decade it is that we should be vigilant in keeping our leadership, both political, societal and in business, accountable for the undertakings of change which they make.

8. The Minister has reinforced the message of the President in that this is a budget of hope. We need to busy ourselves with finding solutions and not being discouraged by the challenges but rather looking forward to the joy when we conquer them.

9. Many who continue to suffer the injustice of poverty and exclusion will, however, not agree with this sentiment unless tangible benefits are realised soon, as they have heard this message before but have not experienced its benefits.

10. We can summarise the Minister's speech, in his own words:

> *'It [the Budget] required us to make difficult but necessary trade-offs, important to ensure that this budget is a platform for renewal, inclusive growth and job creation. It directs spending to our most pressing national priorities: educating our youth, protecting the vulnerable and investing in enablers of inclusive growth. It moderates spending and raises the revenues required to contain the growth in national debt, whilst trying to minimize negative effects on growth.'*

11. The President and the Minister are rightfully preaching hope. However, the words of Ben Okri, as quoted above, resonate even more loudly now than ever before since 1994, and there are mountains and nightmares to conquer before we get to the joy.

12. We are hopeful that the right path can be created together and we are encouraged that many of the concerns raised in the last 3 years such as unsustainable debt, fiscal expenditure morality and prudent funding of the state have been acknowledged. However, we will remain vigilant and full of expectation to witness the implementation of changes which address these matters by 2019. In this regard, we echo the Minister's sentiment that we must act with urgency to make tangible progress; "*we must run while others walk*".

13. We pause to commend National Treasury for taking such bold steps and making even bolder acknowledgements in a time when, politically, many of these would not be expedient and they did so knowing that it would attract great political criticism.

14. However, the context to this challenge is that many of the current challenges which our country faces have been of our own creation. In fact, many of the decisions which have the deepest consequences for the poorest in society are as a result of decisions taken in our recent past.

15. To this extent, it should be acknowledged that especially the increase in the VAT rate, which National Treasury has resisted for the last few years, was an unfortunate consequence of such decisions that created a situation where there was no other way to fund the fiscus. The acknowledgement that even 'flogging the dead horse of PAYE' has not yielded the expected results, with substantial under budget recoveries in the last 2 years for the first time in decades, notwithstanding a marginal tax rate increase to 45% last year, prompted the need for a broader based solution to the budget deficit crisis.

16. In seeking to achieve tangible and urgent change, we set out below the matters we believe should be addressed.

DEBT AND ECONOMIC GROWTH

> *"I contend that for a nation to try to tax itself into prosperity is like a man standing in a bucket and trying to lift himself up by the handle."*
>
> *Winston S Churchill*

17. The Minister has rightfully concluded that our current debt path is unsustainable and that more will have to be done to avoid us going further down this slippery debt slope which we find ourselves on.

18. We are in complete agreement with the Minister in that the answer cannot just be more taxes and we welcome the acknowledgement that South Africa has become a high tax country in so many aspects. For those who avoid their lawful tax obligations, we welcome proposals to address these to the fullest extent of the law, but we caution that the answer does not lie in further burdening the compliant taxpayers.

19. Debt has been used by government in the last decade to enhance and subsidise its spending plans and we need to consider the impact of this decision and why it may not be the ideal to bring about real economic change and growth.

20. To give context to the enormity of this challenge, we need to look at this holistically for both the state and consumers, as the debt of the latter has a direct impact on the state's ability to collect taxes.

21. Furthermore, over-indebtedness by the state has severe consequences for a country and, as we have seen in the Irish Republic and Greece, will be enforced with severe adjustments to spending policy. As rightfully conceded by the previous Ministers of Finance, debt does not make the country subservient to the people, but rather to its creditors.

National debt crisis

22. Similar to the early and mid-2000s, concern of state debt was high on the agenda and much had been done in those preceding years to 'rein it in'. The then Minister of Finance noted that debt in 1994 cost South Africa 24 cents for each Rand borrowed and predicted that if the same fiscal policy was followed, by 2009 this would be down to less than 10 cents for each Rand.

23. In 2001, a columnist in Personal Finance was so impressed with the government's ability to control its finances that he had this to say:

> *'The most important issue is that the ANC government, for it is the ANC's Budget, not only Manuel's, has stuck to a rigid regime of fiscal discipline. In other words, it has not borrowed and spent its way to popularity with any particular interest group.*
>
> *'The principles of running a country are not much different to running your home, namely, to use an old cliché, you have to cut your coat according to your cloth. If you borrow too much money, you will ultimately land up in trouble and you will have to make major sacrifices to get yourself back on the straight and narrow. Likewise with any government and its citizens.'*

24. These fiscal principles sound as true today as they did then, though the change in political leadership and fiscal prioritisation would unfortunately mean that this road 'less travelled' would be no more.

25. The Minister of Finance has acknowledged this problem and echoes the same sentiment in the 2018 Budget:

> *'Debt service costs were also projected to rise, crowding out social spending.*
>
> *'We dare not borrow irresponsibly, leaving it to future generations to repay. Our fiscal interventions also demand greater efficiency in the use of funds across the public sector. Government recognises the*

need to shift spending away from consumption towards higher investment.'

26. These are wise words indeed and all should heed the warning. The question is whether we will be willing to climb the mountain or will continue to 'kick the can down the road', as we have done, especially in the last five years. We need to understand why this debt nightmare is going to haunt us, so that we can bring hope to us all in conquering it. But we must not underestimate the enormity of the task that lies ahead.

27. Public debt is estimated to increase from the current 53,3% to 56,2% of GDP and decline after 2023. It is unclear how this reduction will be achieved to prevent us from reaching the MTBPS 2017 estimate of over 60% debt to GDP in 2023. To reduce debt, the Minister seems to be hoping for significant GDP growth, but real GDP growth is not estimated to reach anywhere near 3% to 4% in the medium term. In fact, during the preceding five years under low GDP growth, debt managed to grow by more than 10%. So, if nothing else changes, it begs the question why the next 5 years would be any different? In 2017/2018 we borrowed R217 billion, which is R50 billion more than budgeted in 2017. Long gone are our plans for public debt levels of below 50% and decreasing by 2019, as was estimated five years ago − and these amounts do not even include SOE guarantees realising.

28. Local government has suffered from the same lack of debt control with more than R100 billion in debt and debt instruments. What makes this even more problematic for them is that, unlike the national debt book collected by SARS, the municipal debt book and unrecoverable debt is escalating daily, including debts from National Government with debt due to municipalities currently at R148 billion.

29. By 2021, debt service costs are estimated to be R214 billion, which will be more than or nearly equal to what we intend to spend in 2020 on health (R206 billion), social protection (R207 billion), policing and defence (R221 billion) with even basic education (R273 billion) not that far ahead. This is all assuming that South Africa does not receive a local debt downgrade before then.

30. In addition to this, the state is also exposed to SOE debts through guarantees, and as we saw in 2017, this is becoming a lot more akin to debt than guarantees. In 2017/2018, these stood at R466 billion, and if only 10% or 20% of this guaranteed risk realised, the state would be in serious financial difficulty.

31. In addition, it is not just the state which is over indebted. In 2015, the World Bank reported that South Africans are the most indebted people in the world, with 86% of people having debt compared to the global average of only 40%.

32. Over and above the R101 billion owed to municipalities, the National Credit Regulator shocked Parliament last year with the news that consumers owe formal lenders R1,6 trillion. Forty per cent of credit active persons have impaired records, but when taken as a percentage of persons in the formal employment sector, that figure balloons to over 60%.

33. As a country and a nation, we have taken the easy road and have developed a bad habit of financing our wants and needs with other people's money. This will not lead to economic growth, just a constant need for unsustainable tax revenue and salary increases.

34. Submission: We concur with the Minister that economic growth is the only way to ensure we can fund the state appropriately and provide our people with a means to make a decent living.

Economic growth factors

35. It appears that substantial economic growth is achievable but that certain environments needs to be created for it to flourish. These environments would not be unique to South Africa, as we compete in a global economy and we will only see higher than peer growth *if we run when others are walking*.

Meeting of minds between business, labour and government.

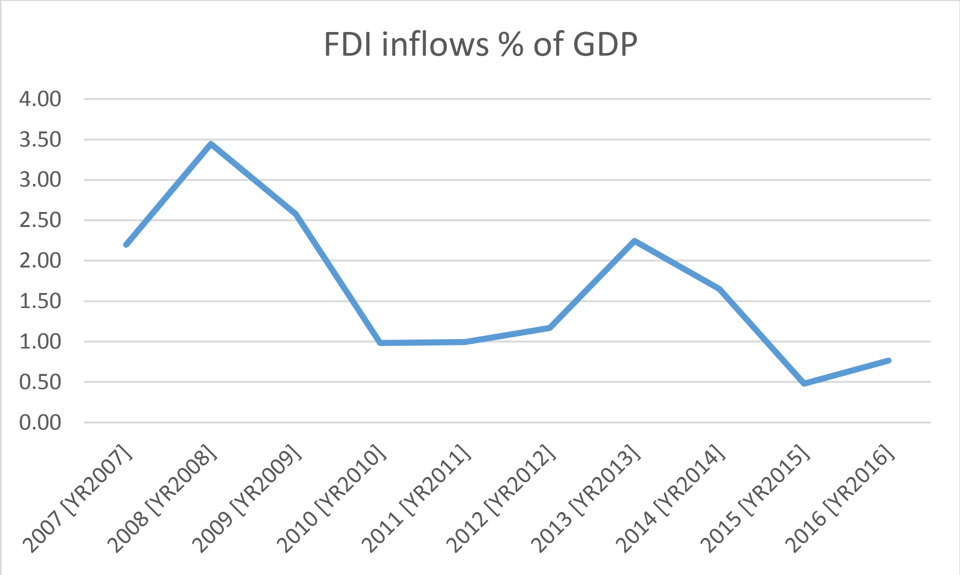
> "When elephants fight *it is* the grass *that suffers"*
>
> *Swahili proverb*

36. A nation that is in disagreement with itself cannot move forward and it has become imperative that the leaders in society, both political and business, need a 'meeting of their minds'.

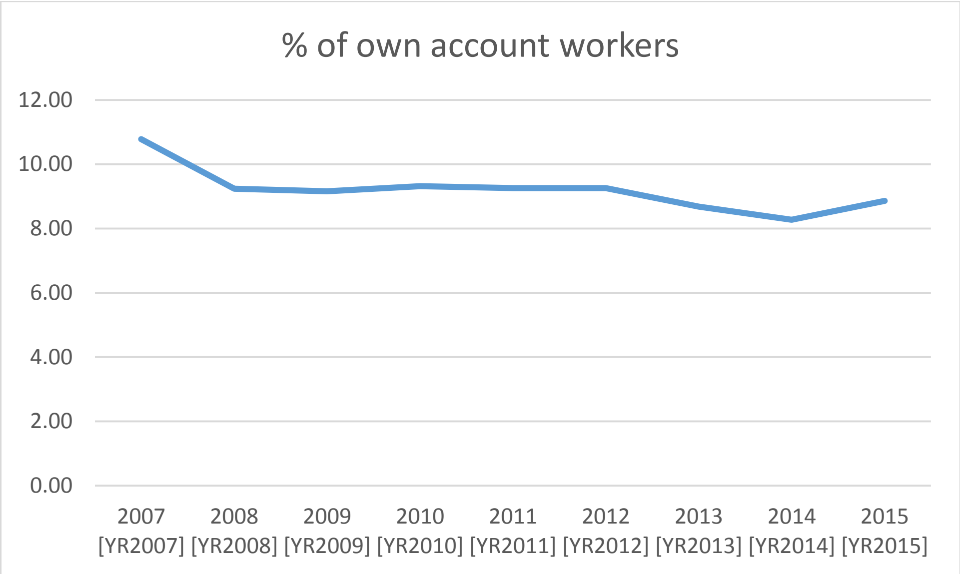
37. The DTI funded research which reported in 2017 that SA businesses are retaining more than R1,4 trillion in cash reserves and have gone on an "*investment strike*" since 2008. Some of this can partially be attributed to the global economic downturn, but not all of it for the last 10 years.

38. Commentary on this report noted that policy uncertainty and distrust between the public and private sector was a big problem with downgrades resulting in multinational companies walking away from South Africa. No person, especially a foreign person, will invest in what he or she does not trust or believe in and that includes a country.

39. This is clearly illustrated by the following graph from STATSSA data:



40. A further symptom of economic problems is that employment is favoured over own-business ownership, notwithstanding government priority for SME's, which in itself leads to market concentration, with the existence of small businesses becoming less, as demonstrated in this graph from STATSSA data:



41. In this regard, we welcome the President's initiative of a jobs summit. However, we remain cautiously optimistic that if we can really have a 'meeting of minds', rather than 'shop talk' between government, business, organised labour and society, real change will occur leading to prosperity for our country.

42. However, the challenge is greater than just talk and promises, as there are known conflicting ideologies which need to be addressed for the country to really have a productive engagement and a meeting of minds.

43. We need a common ideal and plan by these ‘elephants in society’, or the grass will suffer even more.

44. Certainty underpins a growing economy and uncertainty creates hesitation and the reconsideration of investment.

45. Below we list 7 principles, on which we believe agreement needs to be reached:

    45.1 Agreement as to what government’s role should be and the size of its role in participating as player, rather than facilitator, in the economy;

    45.2 Agreement on principles and measures to create stable employment relations;

    45.3 Agreement as to the principle of long term currency stability;

    45.4 Agreement on what quality education actually is, what is hindering its implementation and how long term skills are created;

    45.5 Agreement on principles and measures for long term political and policy stability, including agreement on appropriate measures of accountability and efficient enforcement for government, labour and business;

    45.6 Agreement on an urgent plan for the reduction in crime, including white collar crime, which is an inordinate burden on society;

    45.7 Agreement on the infrastructure build priorities for the country and how this will be achieved, without creating an unmanageable debt burden.

46. Any summit needs to be very clear as to its required outcomes, which in our view should not be mere practical solutions created in a hypothetical environment; they should rather seek a single vision with commonly agreed and accepted principles for the country, irrespective of political, labour or business affiliations.

47. It is submitted that economic growth is not like a widget which you manufacture, but rather like a village in which a child grows i.e. we need to create the stable environment for it to grow and continually nurture it. The characteristics of the economy, like the child, will reflect the village it grows in.

48. The above principles seem so far away given the current discourse. However, this is not the first time our country has stood at a cross roads which seemed impossible. Like in the 1990’s when the world observed what had never been achieved before; adversaries peacefully seeking a unified country and vision.

49. It is submitted that, just like back then, these discussions will not be easy and emotions will run high. However, just like back then, we are able to and should single-mindedly emerge with a new unified view, notwithstanding our differences and conflicting ideologies beforehand.

ACKNOWLEDGEMENT OF CHANGED INTENT

50. President Ramaphosa, in his recent State of the Nation Address, stated that 'a new dawn is upon us' and urged those charged with governance to 'renew our nation's promise'. He declared this 'a year of change, renewal and hope' and the Minister resonated the same message.

51. These statements were not made in passing and it was encouraging to note that issues such as corruption, wasteful and unlawful expenditure, inefficiencies in management of various organs of state and poor administration, including concerns at SARS, have now come to the forefront as serious matters to be addressed, rather than focusing purely on addressing the deficit by increasing revenues through taxes.

52. The time has come to 'get our house in order', though we acknowledge that National Treasury had to be brave in respect of some of the proposals.

Tax morality and tax avoidance

53. The acknowledgement by the Minister that tax morality on the expenditure side is as critical as the revenue side is most welcome as it has remained an ongoing concern of SAICA.

54. The state of our state expenditure morality is partially reflected in the Auditor General's report released on 1 November 2017.

55. These findings confirm that things are not all well and include:

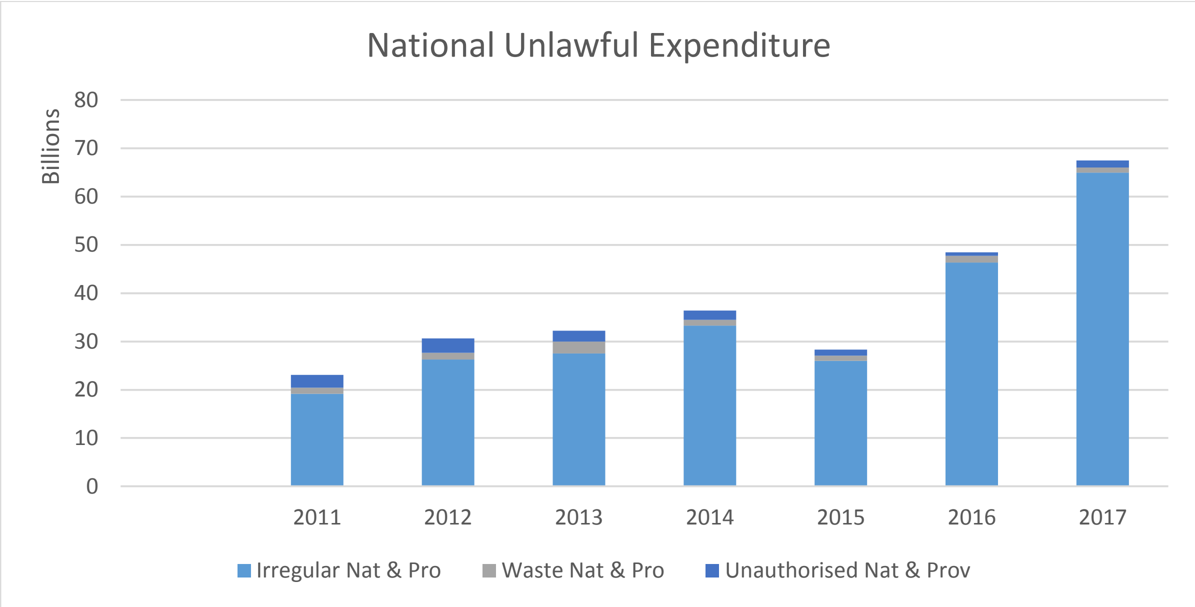
    55.1 Audits with qualified findings or outstanding audits (due to non-submission of AFS) increased to 27% in 2016/2017 from 22% in 2014/2015 (with outstanding audits up to 6% from 1%);

    55.2 Overall, there was an emerging trend of departments failing to manage their finances properly;

    55.3 SOE adverse audit opinions with findings increased from 0% in 2013/2014 to 11% in 2016/2017;

    55.4 The following 5 priority key programmes failed to achieve targets or provide any measures namely, 1. water infrastructure development 2. expanded public works programme 3. school infrastructure 4. food security and agrarian reform, and 5. housing development finance.

56. Irregular, wasteful and unauthorised expenditure was up more than 50%, as depicted below:



57. The deterioration of accountability is summarised by the Auditor General in these words:

As long as the political leadership, senior management and officials do not make accountability for transgressions a priority, irregular, unauthorised and fruitless and wasteful expenditure as well as fraud and misconduct will continue. An environment that is weak on consequence management is prone to corruption and fraud, and the country cannot allow money intended to serve the people to be lost. There was little improvement over the four years in the internal controls at auditees in the key areas of leadership, financial and performance management, and governance.

58. The various proposals to enhance accountability is welcomed, although we do have reservations as to the specific proposals and would seek engagement with government as to addressing these. For example, denying Eskom a tax deduction does little to hold the management accountable as Eskom does not trade in the free market and it will only be a cost which is passed on to taxpayers.

59. We also welcome the Minister's acknowledgement that the above lack of tax spending morality directly impacts taxpayer morality and undermines efforts by SARS and societal organizations to convince taxpayers to uphold their side of the societal pact.

60. Based on research performed by the Organisation for Economic Cooperation and Development, as well as other researchers, the following factors have been identified which influence tax morale (and related tax compliance) amongst citizens, especially in developing countries, i.e. satisfaction with public services and expenditures, trust in government, and perceptions of corruption. More and more, tax morality and the role that government and tax administration has to play in the levels of tax morality, have come to the fore.

61. Whilst there are always those taxpayers who are unethical and have no intention of complying with the law, research has shown that declining tax morality results in further tax avoidance or what some may term 'aggressive tax planning'. This is *perhaps* evident

from the fact that despite increasing personal income tax (PIT) rates, the PIT revenue collected was significantly lower than that budgeted in respect of the 2017/18 year (after taking into account lower than expected salary increases and bonus payments).

62. It is our view that to increase levels of tax morality and tax compliance in a country, the relevant government needs to enforce better spending fiscal morality and the tax administration must inspire trust and confidence within the taxpaying public. Taxpayers want to see their taxes put to good use or they may feel that there is no point in contributing.

<u>Accountability in tax administration</u>

63. President Ramaphosa, in his State of the Nation Address, highlighted that "tax morality is reliant on an implicit contract between taxpayers and government", and an essential part of this contract is that "state spending provides value for money and is free from corruption". The President also used that opportunity to announce his intention to establish a commission of inquiry into tax administration and governance at SARS, which was echoed by the Minister of Finance in the 2018 Budget, but went further to including proposing draft legislation to address the accountability of SARS to the Minister of Finance, the establishment of a supervisory board, as well as measures to strengthen the Office of the Tax Ombud (the OTO).

64. These proposals are most welcome.

65. However, we also acknowledge that there are aspects of SARS that remain world class and that in seeking to make the whole organisation world class we should approach the matter with the necessary tact and caution, to ensure that we are seeking a better SARS that collects more effectively and efficiently rather than just looking for ‘axes to grind’.

66. <u>Submission</u>: In our view, the establishment of the Commission of inquiry is welcomed though caution that its mandate should target wide consultation and inclusion from all stakeholders with a single view of making SARS more effective and efficient.

67. Furthermore, we submit that any supervisory board should contain representatives from non-governmental stakeholders such as taxpayer bodies, professional bodies and tax practitioners.

<u>Davis Tax Committee recommendations</u>

68. The Davis Tax Committee (DTC) came into being on 25 July 2013, following the announcement of such committee by the then Minister of Finance, Mr Pravin Gordhan. The intention was to create a committee with the purpose of initiating a tax review *“*to assess our tax policy framework and its role in supporting the objectives of inclusive growth, employment, development and fiscal sustainability*”.*

69. Whilst many welcomed this initiative as anticipating invaluable tax policy review, amendment and implementation, almost five years later, not much change has materialised. In the past, it appeared that despite the intention behind it, as well as the resources involved in appointing the DTC and supporting them in fulfilling their mandate, the outcomes produced were not given the attention they deserved.

70. Whilst the DTC reports and findings should not be selectively relied upon, it is encouraging to note that more reliance on these reports is starting to occur.

71. Submission: Given the vast knowledge of South Africa's tax policy and system which is held by the DTC members (and those experts who have been making submissions to the DTC), the magnitude of research which has been performed to support the recommendations made and, of course, the funds and resources supporting the DTC, more credence needs to be given to the DTC's recommendations.

72. In addition, there should be a requirement for fully researched opinions to be provided where the recommendations are not be implemented.

Tax morality for tax professionals and taxpayers

73. SAICA welcomes the proposals to extend the accountability measures for tax practitioners and that those who are entrusted to serve the public interest in the tax system should lead by example in their own tax affairs.

74. We furthermore welcome any measures and proposals that seek to address tax evasion, including addressing the informal non-subsistence economy and hope that enabling SARS to recruit the relevant professionals and implement the systems required to address these matters is a step in the right direction.

75. However, in both these matters we believe that National Treasury and SARS needs to take the tax profession and business into its confidence in seeking solutions and it is only through collaboration and integrated thinking that we can address these ills in society.

ADDRESSING THE EDUCATION CONUNDRUM

76. Nelson Mandela once said that *"education is the most powerful weapon which you can use to change the world".*

77. Section 29(1) of the South African Constitution also embedded the right to education, providing that *"everyone has the right to a basic education, including adult basic education and further education, which the state, through reasonable measures, must make progressively available and accessible."*

78. As 2018 marks an imperative milestone in South Africa's history, as Nelson Mandela's 100th birth anniversary is celebrated, SAICA welcomes the focus on education.

79. However, we are cautious that we must not address the problem from a single aspect and that university tertiary education is but a small part of the equation with limited resources to resolve a much bigger problem.

80. Through our experience with the Thuthuka Bursary Scheme, SAICA has identified the need to assist in the public interest in contributing to the education conundrum and apply what we have found to work.

81. In this regard, SAICA is running the Ikusasa Student Financial Aid Programme (ISFAP) pilot for government as part of the Thuthuka Education Upliftment Fund (TEUF). The

ISFAP pilot had 697 students placed in the 2017 academic year who achieved a 96% pass rate, indicating that it is a viable and impactful solution for higher education funding and student support. However, student's support needs are much more than just providing money to students.

82. The SAICA School Governing Body Project, which started as a collaborative pilot for 20 schools in 1 province, has now, in collaboration with Provincial Departments of Education (assisting with data capture and financial reporting) targeted to place CA(SA)s and interns in 531 schools in 2018. In the 73 schools, which we currently assist, we have seen a clear improvement in academic achievement where schools are financially better administrated. It also demonstrates that progress can be made where there is collaboration and the relevant education departments should be congratulated for not shying away from a project which also identifies departmental challenges.

83. However, we have also noted systemic challenges including no standard financial reporting format for schools and that current financial reporting requirements and controls are overly complex and nearly impossible to implement, especially at disadvantaged schools.

84. These pilots need significant expansion but it also emphasises how the public and private sector can work together on a single vision for the country.

85. Set out below are some of the matters we believe require further consideration.

<u>Access to education does not create jobs</u>

86. Education usually has a "next step", i.e. elementary school is followed by middle school, where after high school comes and thereafter University/College. A "next step" is still required despite having higher education namely the person requires employment.

87. STATS SA1 reported that there is an 8.2% year-on-year growth rate in individuals that have a tertiary education, but are unemployed.

88. However, economic growth is barely exceeding 1% p.a. in the medium term.

89. In such a stagnant economy, even highly qualified graduates are not absorbed into the market place. SAICA's current membership statistics reveal that there are 668 CA(SA)s, representing about 1.5% of SAICA's membership that are not currently employed, which emphasises that a stagnant economy affects all of its members (both skilled and unskilled) and economic growth is in our communal interest.

90. SAICA submits that access to education alone will not guarantee graduates a job, nor does it create jobs. Economic growth is the "next step" that plays a key role in making the initiative a success and concrete plans regarding how to make this a reality are of crucial importance.

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[1] STATS SA Quarterly Labour Force Survey for Q4 of 2017, page 76
http://www.statssa.gov.za/publications/P0211/P02114thQuarter2017.pdf

<u>Basic Education and Technical and Vocational Education should also be a focus</u>

91. The 2017 National Senior Certificate Examination Report revealed a matric pass rate of 75.1%.[2] The statistic does not, however, account for the drop-out rate of 44.9% considering only 629 155 full time students registered for the matric final exams compared to 1 141 731 learners that were enrolled for Grade 1 in 2007 per the Department of Education 2007 Statistics.[3]

92. <u>Submission:</u> SAICA submits that the importance of fundamental and basic education should remain a focus of Government. However, in our view it is not just money, but rather lack of and inappropriate school administration, labour inefficiency and lack of proper understanding that has resulted in our poor results notwithstanding government's significant monetary investment.

93. Furthermore, given the above statistics a key focus should also be providing individuals with the opportunity to enrol for Technical and Vocational Educational Training (TVET) to ensure that our economy has access to a wide variety of skills, especially in the priority areas identified by government of manufacturing.

<u>Lack of skills and work experience</u>

94. The Commission of Inquiry into Higher Education and Training, in its Report[4], alluded to the lower earning power of TVET graduates and challenges finding employment after graduation, due to lack of workplace experience during training. It further noted that if this distressed situation is left unattended, the quality of the lives of these graduates will not improve.

95. Similarly, the skills gap is also found in the tertiary curriculum. Business typically reports a shortage of soft skills, such as social and emotional intelligence, critical thinking and problem-solving skills.

96. <u>Submission:</u> SAICA submits a further challenge that needs to be addressed is equipping graduates and/or trainees with the necessary skills set and work experience to succeed in the professional world.

97. This is achievable by growing the economy resulting in capacity building in the private and public sector which in turn would create opportunities for graduates and trainees to gain the required skills and necessary workplace experience.

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[2] 2017 National Senior Certificate Examination Report https://www.education.gov.za/Portals/0/Documents/Reports/2017%20NSC%20Examination%20Report.pdf?ver=2018-01-05-112628-360

[3] Education Statistics in South Africa 2007, published by the Department of Education, page 9 http://www.dhet.gov.za/DHET%20Statistics%20Publication/DoE%20Stats%20at%20a%20Glance%202007.pdf

[4] The Commission of Enquiry into Higher Education and Training Report, page 549 http://www.thepresidency.gov.za/sites/default/files/Commission%20of%20Inquiry%20into%20Higher%20Education%20Report.pdf

98. We also require a social pact between labour, business and government to ensure absorption into the labour market under trying times and acknowledgement that the skills acquired by a student is far more valuable than any wage he or she can earn in such period.

<u>A holistic approach is required considering all stakeholders</u>

99. The Minister of Finance noted in the 2018 Budget Speech that the National Student Financial Aid Scheme (NSFAS) students at university will have their loans for 2018 onwards converted to bursaries.

100. This is but one example that provides no detail as to how the initiative will be implemented and further rolled out to second and third years, especially considering key stakeholders being impacted, such as universities.

101. The proposal was also unilaterally adopted without government seeking insights from tertiary institutions or private collaboration and funding support.

102. SAICA's ISFAP pilot's success can be attributed to the collaborative platform that it operates in by integrating and engaging with multiple stakeholders, including Higher Education Institutions, Private Sector, Professional Bodies, Government and students.

103. This model, even as a pilot, shows that such a collaborative approach is much more successful in addressing societal challenges.

104. <u>Submission:</u> SAICA submits that a holistic approach should be followed, communicating to stakeholders the initiative, implementation plan and the key part that each stakeholder needs to play to make the free higher education initiative a success.

105. All stakeholders should work together in reaching the common goal of improving the quality of higher education through interventions, while ensuring all South Africans have a meaningful participation in growing the economy.

<u>UNKNOWN EXPENDITURE ITEMS</u>

106. The transparency of the budgeting process is world renowned and government should be commended on its commitment thereto. However, there remains many aspects for improvement, especially as to quantifying material future exposures and costs.

107. Economies need certainty (especially in relation to future expenditure) in order to grow. The existence of uncertainties is detrimental to the achievement of future targets, as we either don't know how to fund them or do not know how large an impact they will have as they remain unquantified.

108. SAICA is concerned that the 2018 Budget, read in context with prior years' budget reviews, contains a number of items of expenditure, the impact of which are largely unknown. However, these unknowns have one thing in common though, insofar as they are anticipated to have significant economic and tax implications, negatively impacting all South Africans.

109. These specifically include the items below specifically listed matters.

Free education

110. The one-sided nature of this matter is of concern, as it creates much expectation but does little in dealing with the enormous education challenge in a holistic manner.

111. Whilst the 2018 Budget includes specific budget commitments, as set out in more detail herein, the future years' roll-out remains largely unknown.

The National Health Insurance plan (NHI)

112. We welcome the acknowledgement in the 2018 Budget that the DTC provide important input into determining the key tax proposals.

113. Considerable uncertainty exists around the proposed implementation plans of the NHI and how the bulk of funding for this project will be sourced and what the plans are for rolling this out.

114. We are a few years in from government's initial proposal and still no funding model for this exists.

115. The 2018 Budget indicates that the medical tax credit adjustment saving of R700 million, together with proposed savings for 2019/20 and 2020/21 of R640 million and R586 million respectively will be contributed to the NHI.

116. In the 2017 Budget, the Minister of Finance, Mr Pravin Gordhan, set aside R5,2 billion for the NHI fund. Whilst this proposal in the 2018 Budget to earmark additional funding over three years, is in line with the proposals made in the NHI White Paper released in June 2017, it seems that this will not have a significant impact on the NHI cost, given that the 2025 estimated cost is in the region of R256 billion.

117. This funding uncertainty, together with the huge political expectation created by its announcement, creates much uncertainty within the economy.

State-owned enterprise (SOE) guarantees

118. The 2018 Budget notes in Chapter 1 that large parts of the public-sector balance sheet have been exhausted and that national debt is approaching R2,5 trillion. It is further stated that the debt of SOEs has increased rapidly whilst several of these companies have large government guarantees with concerns around long-term viability.

119. We echo these concerns and consider that more information should be available on the extent of the problem to enable more meaningful engagement with the private sector to assist in addressing these concerns and finding solutions to contain the economic exposure.

120. Given the additional appropriations in 2017 to SOEs, we believe it prudent that SOE guarantees risk be revisited and that where these guarantees have a high risk of being realised in the short to medium term, they should be included in the budget.

Projected infrastructure requirements to grow the economy.

121. The 2018 Budget notes in Chapter 1 that the Budget Facility for Infrastructure was launched to improve the planning and execution of large infrastructure projects. The Budget then highlights some of these initiatives and mentions that options to engage development finance institutions and the private sector through the private sector will be explored.

122. We are however concerned that government is under budgeting for infrastructure and over stating actual infrastructure spend. The latter is based on the concern that the 2017 Budget Review showed an increase in infrastructure investment but included interest and maintenance, which are not capital items in such amounts.

123. Furthermore, we note with concern that very little disclosure is being done on the state and estimated cost of South Africa’s dilapidated water infrastructure. The new infrastructure backlog still requires 1,7 million households for water and over 3 million for sanitation.

124. The National Water Department notes that it requires an additional R600 billion, and various provinces reporting capital requirements such as KZN at R200 billion, Eastern Cape at R139 billion and even Johannesburg looking at R17 billion. This is to reduce infrastructure that results in 37% of our municipal water being lost due to leaks. This is over and above the sanitation backlog with more the 50% of municipalities’ sanitation plants in critical or non-working condition.

125. These costs are over and above the infrastructure and cost to deal with acid mine drainage, which in 2015 was estimated to cost about R15 billion p.a. to treat.

126. The uncertainty of the total exposure for water infrastructure needs to be addressed, as this is a critical resource which the country cannot afford to shut down for even a single day.

Other taxes and incentives

127. Apart from the above-mentioned, other taxes and decreased incentives on the horizon include the carbon tax (implementation 1 January 2019), sugar sweetened beverage tax (implementation 1 April 2018) and gambling tax (implementation date unknown).

128. The implementation of these taxes will result in the tax to GDP ratio ballooning over 30% and moving South Africa into the top 10 of the highest taxed countries in the world.

129. We welcome the announcement in the 2018 Budget that the Department of Planning, Monitoring and Evaluation is conducting a review of all tax incentives and grants and that the incentives are being evaluated to ensure that they align with inclusive growth objectives. Our concern is just whether this initiative properly ties back to the unknown expenditure items, as well in terms of an overall holistic approach to determine the funding needs going forward.

130. Submission: We submit that current fiscal policy contributes to uncertainty, together with funding uncertainty, and continues to contribute to a lack of economic growth. As per

our written submission on the 2017 Budget, foreign and local business do not have sufficient confidence in the economy, which still seems to have contradictory fiscal policy versus funding and implementation plans.

131. We propose that government introduces transparency measures and actively engages the private sector in discussions on proposed implementation plans around all these taxes.

132. We propose that the private sector and financial institutions must be engaged at the planning phase of all infrastructure planning.