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National Treasury – (Submitted online)

Dear National Treasury

SAICA COMMENTS ON SOUTH AFRICA'S FISCAL POLICY

The National Tax Committee, on behalf of the South African Institute of Chartered Accountants (SAICA), welcomes the opportunity to participate in the pre-budget consultations in terms of the Fiscal Openness Accelerator project launched by the International Budget Partnership and Global Initiative for Fiscal Transparency. The project's overall objective is to build technical capacity of selected governments, enhance fiscal transparency and to support the implementation of a public participation pilot in the national budget cycle.

The purpose of the project is to enrich the national budget process and/or policy/ies with inputs from nongovernment stakeholders, and other relevant sectors towards better alignment of national government fiscal policies with citizens' needs and concerns. It also seeks to improve government practice and policy/ies on public participation and closing the feedback loop on the budget process (i.e. ensure documentation of inputs from citizen and government response for stronger accountability), increased government responsiveness and public accountability.

Budget 2021 confirmed government's fiscal strategy of returning the public finances to a sustainable position through ongoing restraint in expenditure growth and implementation of structural reforms to support economic growth. In this context, the fiscal strategy aims to:

- Narrow the deficit and stabilise the debt-to-GDP ratio, primarily by controlling non-interest expenditure growth.

- Provide continued support to the economy and public health services in the short term, without adding to long-term spending pressures.

- Improve the composition of spending, by reducing growth in compensation while protecting capital investment.

The 2021 Medium Term Budget Policy Statement allows for the opportunity to review this policy position. National Treasury is soliciting the public's views on South Africa's Fiscal Policy specifically:

a) What improvements can be made to the Budget to deal with the challenge of long-term fiscal sustainability?

b) In light of limited resources, how should South Africa finance key priorities?

We set out below the answers to these two questions posed but do wish to note that a very limited time was allowed for the public to participate (basically five working days).

What improvements can be made to the Budget to deal with the challenge of long-term fiscal sustainability?

1. Budgets should be done in accordance with long term economic and fiscal plans that remain constant for long periods and are monitored and performance managed. South Africa has had 7 such 30-year plans in 26 years.

2. Budgets should prioritise the top 5 strategic outcomes and these should be budgeted and monitored across all levels of government (ie a single focus on core items is needed). For example, if water and sanitation is a priority, then budgets across all levels of government and its entities should be presented in such a way that there is a single view of what is being planned, financed and delivered.

3. Principles for budgets and budget priorities should be agreed at NEDLAC and be followed by government and reflected in budgets as currently NEDLAC is circumvented in the budget process.

4. The economic and revenue forecasts should be done on a conservative basis and not be overly optimistic which has resulted in constant overspending and budget deficits.

5. Surpluses or, at a minimum, a break-even position should be budgeted for and surpluses should only be allocated to core priorities. If proper zero-base budgeting is implemented across all government departments, fruitless expenditure will be reduced to a minimum and there should be sufficient available funding for expenditure that is worthwhile. In this regard, consideration should be given to the New Zealand model where "excess" funds are spent only on strategic projects and these funds are "tendered" for by multiple departments. This enables good competition and collaboration amongst departments and also ensures spending is directed at governments strategic priorities.

6. Although the budgeting process is transparent, it does not seem to take into account the findings of the Auditor General's (AG) report. Additional oversight procedures relating to expenditure for those government departments, across all levels, that did not receive a satisfactory AG report should be put in place.

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7. The Standing Committee on Finance (SCoF) should prevail upon the various Government Departments to exercise proper oversight over their portfolios to ensure fiscal discipline and effective spending. National Treasury (NT) should be forced to better enforce the budgeting process (ie. over-inflated budgets that are then cross funded from other budget items such as capital expenditure).

8. Each projected project spend should be interrogated and where departments have not met their targets, misspent their budgets and/or they have received qualified audit reports, they should be held accountable, and their budgets should be adjusted accordingly. The rule should be that there are no increases for any department (unless it is a strategic imperative) and budgets should be reduced for those departments that get qualified audit reports. Output needs to be aligned to budgets and future budgets need to be aligned to strategic projects.

9. Only expenditure that provides value for money and for which there is a demonstrable need should be permitted. The zero-based budgeting process should be used to help identify additional areas where expenditure can be cut. SAICA undertook an analysis of expenditure by Department (see SAICA's February Budget 2020 and Budget 2021 submissions) to determine where Government is spending, what it is spending on and whether it is getting value for money. We examined eight of the separately disclosed expenses in the national Budget (compensation being one of them) and provide high-level insight on these. This analysis could also be used as a starting point for determining expenditure reductions.

10. The budgeting process should be streamlined and not be delinked between revenue (SCoF & NT), appropriations (Standing Committee on Appropriations & NT) and spend monitoring (Standing Committee on Public Accounts & NT).

11. Certain expenditure that is rarely budgeted for but that will become concerns to government in the future should be included in the budget. These items include: State guarantees becoming government debt (eg. SOEs), SOE and Scheduled Entities government bail-outs, water and sewage infrastructure that is imploding, excessive public sector wage payments (actual payments are above that budgeted) and GEPF's potential underfunding (see SAICA's submission to Parliament in 2020 for further details). Spending money with no foreseeable financial or strategic return cannot be condoned and funds should rather be spent on projects where the prospects of a return are achievable.

12. Regarding the public sector wages, these should be fixed and should be based on known agreements and liabilities (ie a department cannot overspend without express parliamentary or Treasury approval by means of a transparent process) and not in respect of under estimations and understatements. That is, there should never be a need to increase the budget for public sector wage costs.

13. The lending terms of the international loans should be disclosed to the public so that its effect on the budget can be appreciated.

14. The contingency reserve must be replenished and only used for real emergencies and not to bail out SOEs or pay wages that were not budgeted for to public servants.

15. Budgets are only effective if those in charge of the budgets and those who oversee them are committed to acting in compliance with the law. Lawlessness has undermined policy imperatives and therefore law enforcement and a culture of abiding with the law should be enhanced. As a budget principle, more funds should be allocated to budgets for those who are to investigate and enforce the law like e.g. the NPA and the police to reduce crime and to expedite investigations into corruption and to ensure convictions take place. Reduction in crime is critical since one cannot implement policy and legislation changes to which only a few adhere.

In light of limited resources, how should South Africa finance key priorities?

1. SAICA has previously raised 7 key areas that need to be resolved in order to grow the economy which will improve the government's revenue inflows – see SAICA's submission in 2018 and 2020 in this regard.

2. But ultimately, key priorities should be financed through **government savings and expenditure prioritisation**.

3. Enhanced accountability and performance management (ie. wasteful expenditure includes spending of roughly R1,4bn for VIP security – we should have a smaller cabinet and less political staff etc) are required to ensure budget surpluses or at a minimum a break-even position. The professionalisation of the public sector is critical as a capable state that is independent and empowered can improve service delivery, outputs and investments into the country.

4. Another financing source is the **private sector** (through increased public private partnerships for instance); however, this sector will only invest if there is policy certainty and an environment where rational dialogue can take place which will build mutual trust and respect. Added to this is the need for quick execution of decisions taken by government.

5. Policy certainty is needed in the many areas (see SAICA's 2021 TLAB/TALAB submission) but also the following areas: Carbon tax – Roll out of Phase 2 and the taxation of retirement savings.

6. Details regarding the proposed rollout of Phase 2 of the carbon tax (1 Jan 2023 onwards) should be provided ASAP as taxpayers are finding it difficult to forecast their liabilities as the potential changes could have a significant impact on their businesses.

7. The taxation of individual retirement savings also requires certainty but yet we are seeing the taxpayer base shrinking at an alarming level in the upper income levels due to emigration. We experience enquiries from taxpayers seeking to permanently leave South Africa with disturbing frequency. This leads to a loss of much-needed revenue for the fiscus both in the short term as well as the long term. This alarming rate of emigration is caused by many factors including crime and opportunities elsewhere. However, tax policy plays a role. As examples:

- The requirement that a person be non-resident for three years prior to being able to access his or her retirement fund interests led, correctly or incorrectly, to the perception that the Government was attempting to make it difficult for citizens to access their retirement funds. It has led many to question whether they should be investing in SA retirement funds at all.

- The introduction of the above requirement is seen by many as a further lurch down a 'slippery slope', given the earlier alarming suggestion that investment in prescribed assets be introduced i.e. Government may prescribe certain assets that retirement funds will be forced to invest in and then also make it difficult to access the funds if one chooses to emigrate.

- The current year proposal that a deemed tax event in the form of a disposal of one's interest in retirements funds will occur on cessation of an individual's residence, appears to many to be unconstitutional. It may lead to double taxation (both in SA and in the residence country). This proposal appears to be an attempt to make it difficult for individuals to emigrate and is likely to lead them to do just that.

- The recent amendments to section 10(1)(o)(ii) of the Income Tax Act (the so-called 'expat tax') caused many citizens working overseas to sever their residency ties with South Africa.

8. Tax policy changes should always take into account the likely effect on emigration of the proposals in question. The question has to be asked: "Are the proposals in question likely to lead to further emigration or, more hopefully, attract immigrants and investors into South Africa?" If South Africa chooses to ignore the current emigration trend, it does so at its peril.

9. To ensure sustainable funding for key priorities, a coherent overall policy framework which includes policies that will fast-track fiscal consolidation is clearly still needed. The roles, functions, and accountability of different actors involved in fiscal policy design and implementation should also be clearly and transparently defined. Independent monitoring and oversight of the of these roles is necessary.

Yours sincerely

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