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National Treasury

BY EMAIL: FOAsubmissions@treasury.gov.za

Dear National Treasury

SAICA COMMENTS ON SOUTH AFRICA'S FISCAL POLICY – 2023 MEDIUM TERM EXPENDITURE FRAMEWORK

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 (FOA) project launched by the International Budget Partnership and Global Initiative for Fiscal Transparency in 2019. 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.

As requested, SAICA's submission consists of an abstract and a conclusion with recommendations.

ABSTRACT

Enforcement of the country's laws and ensuring appropriate accountability are key requirements for the budget process to be successful. Without implementation the preceding steps lose credibility and buy-in. Various recommendations are made by SAICA in this submission on how to improve and stabilise fiscal policy in the country and how productive employment can be created. Of particular concern is the lack of consideration of prior year performance and accountability in the subsequent budgeting process. Further recommendations are made on challenges of execution of fiscal policy of the budget process including steps to return credibility to the budgeting process. The social compact should be reflected in the budgeting process including the agreements as reached at NEDLAC and with labour in particular. The return on investment of employment costs is a key aspect of the budget and requires numerous aspects to be addressed in the budgeting process. Clear and strategically aligned prioritisation of limited resources for competing needs should underpin the budget and its execution.

We set out below our detailed comments and recommendations in this regard.

DETAILED COMMENTS

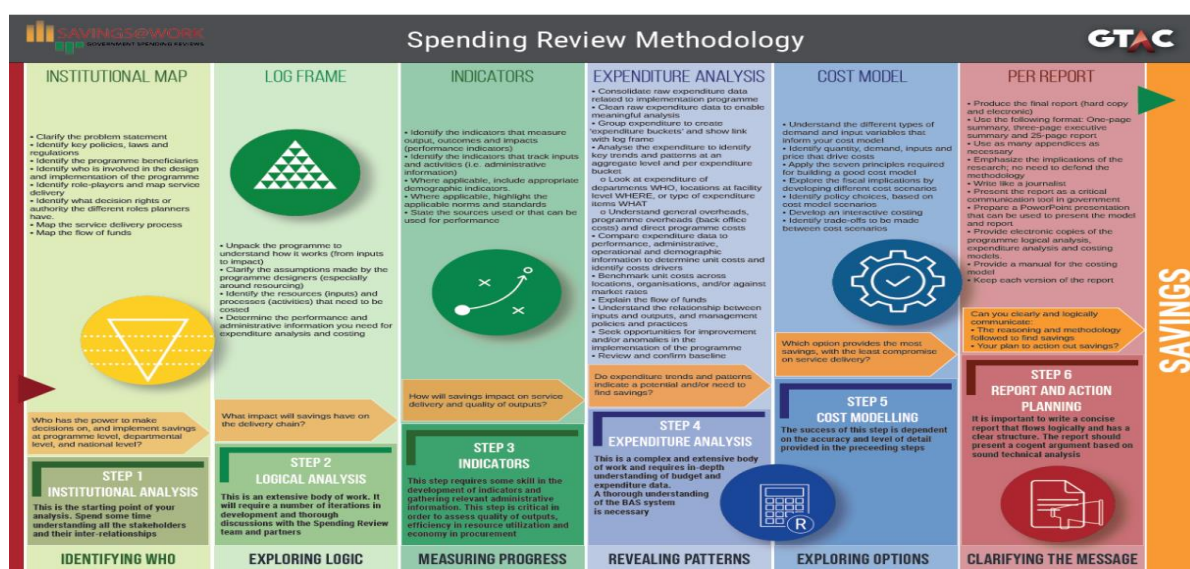
Due to a restriction on the number of pages that can be submitted (10 pages), the comments below are limited to only a few of the guiding themes provided in the call for comment letter released by the National Treasury on 28 July 2022. This by no means implies that the other themes are not important, but we have focused on the themes that we feel are of critical importance and are fundamental to laying the foundation for good fiscal governance.

A. FISCAL POLICY

Credibility of the budgeting process

1. Budget 2022 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.
2. The **transparency of the budget process has always been a pillar of strength** and National Treasury should be commended in this regard. However, the actual credibility of the data submitted to National Treasury and the robustness of the process as to how the budgets are compiled is what we have historically questioned. The data has often been inaccurate, and the process has shown a lack of accountability.
3. Despite these commitments by government, we have raised questions as to the credibility of the budgeting process as these commitments do not address the core challenges with the budgeting process. These core challenges have resulted in a decade-long trend of materially over-estimating revenue and economic growth and expenditure ceilings have habitually been breached.
4. The budget is only credible if it is capable of delivering on what it strives to achieve. In this regard it must:
 - 4.1 **Align its allocation and spending mix** to the Economic and Fiscal Policy of South Africa including a **prioritisation on delivery** of the most important elements;
 - 4.2 Be based on **accurate estimations** of costs and revenue which includes accurate estimates of labour costs, accurate estimates of CAPEX costs and accurate estimates of operational costs.
 - 4.3 Be subject to **monitoring and accountability** as to what it *has to* deliver on and what it *has* actually delivered on.
5. There has also been a historical mismatch between planned service delivery and spending patterns, for example, continued funding is provided to departments where more than 10% of their following year's budget is committed to historical liabilities, creating current year shortfalls. Budget increases are also approved for Departments who spend 100% of their budgets but do not even deliver half of the budgeted and planned services.

6. Various unbudgeted expenses have not been taken into account in the budgets, such as the SOEs' contingent liabilities that are fast becoming government debt (R1.2trn); municipalities that are in a precarious situation of financial health (R7.4bn); dilapidated water & sanitation infrastructure which is likely to require repair; costs needed to appoint 12 000 new police recruits as promised by the President in the 2022 SONA as inflation will erode the current increases given to the Police Department; contingent legal liabilities that history indicates will most likely realise (R121bn); [excessive public sector wage payments](#) (actual payments are continuously above those budgeted); GEFP's underfunding ([R2.5bn per annum](#)) and increased debt service costs on foreign loans and on other expenses.
7. All of the above concerns will have a collective impact on the debt borrowing estimations, indicating that the current levels disclosed in the budget are not credible. This concern is affirmed by the upward trend of debt level estimations in the last 12 years, notwithstanding estimations of a reduction or stabilisation in various medium-term budget estimations.
8. The current budget process can thus not be relied upon as a measure of fiscal control for estimations.
9. It is evident that **National Treasury (NT)** have had similar concerns with the Minister of Finance announcing the consideration of a **Zero-Based Budgeting (ZBB) Approach** in his 2020 Budget Review. NT has since implemented a Spending Review Framework¹ though whether this is an adoption of a ZBB-like policy still seems unclear as at 2021².
10. The methodology of the Spending Review Framework is disclosed as follows:



¹ [Zero Based Budgeting Framework.pdf \(treasury.gov.za\)](#)

² [Committee wants briefing from Mboweni on zero-based budgeting and its implications | Fin24 \(news24.com\)](#)

11. In this regard we note the following:

11.1 Though efficiency (i.e. savings) is important, it is not the most important thing and is also more of a consequence of processes like ZBB. It should not be the main focus. The main focus should be to **align spending with necessary activities of a function** i.e. **do the right things with the right amounts**. In this regard we therefore question, if the Spending Review Framework is being done correctly with the above main focus in mind, and why questions like “*what impact will savings have on the delivery chain*” and “*how will savings impact on service delivery and quality outputs*” are even necessary. Savings at all costs should not be the focus, spending on the right things and spending the right amounts should be. Where further “cost cutting” must occur due to lack of available resources, again it is about **further prioritisation** i.e. do what is most necessary and stop doing what is less necessary, not “creating savings” or “doing more with less”.

11.2 Assuming a Spending Review is a form of ZBB process, this is a **prioritisation and alignment exercise**. Preparatory processes like the Institutional Map and Log Frame should therefore mainly be focussed on what the main goals are that need to be achieved, whether the goals are aligned to the overall national prioritisation and the expenditure necessary to achieve this. The power of decision-making is therefore most relevant as to **who can take the decisions regarding prioritisation and alignment**. This **prioritization and alignment** is, however, not merely relevant at the departmental level – it is even more relevant at the **national level** as that is what departments have to align to, their “North Star”, in a manner of speaking. This has been one of the key challenges of the overall budget³ as the reality is that government will never have the resources to do all it would like to do, **it needs to focus on doing what the country needs most which involves trade-offs, starting with the “low-hanging fruit”**. This sometimes is reflected in clearly needed trade-offs. For example, do we need a R3,5 billion VIP unit for the convenience of a handful of politicians or instead, should we rather redirect half of that budget to ensure effective prosecutions by the NPA, which would be for the benefit of the entire country of approximately 60 million people. In other words, should a 40% budget increase not rather be given to the NPA?

11.3 Budgets are of course spent by people when executing activities. **Staff vacancy rates and improper skills mixes**, especially in key roles, should always be key factors in the budget process, though this is not evident in the methodology. When budgets are planned without regard to these factors, **overbudgeting and underspending** will inevitably occur and the latter is as bad, if not sometimes worse, than overspending. A Spending Review Framework should always take into consideration the reality of, and not just the planned, human capacity and skills available and more so at the key roles required for implementation and delivery. This will impact which activities are prioritised and the spending of funds. The most chance of success will clearly be in areas that are **appropriately resourced**.

³ For example [Policy - Busa; Implications of government's re-prioritisation, or lack thereof, in the recurring KZN floods \(iol.co.za\)](#)

11.4 **Productivity of human capital** i.e. return on investment on spending, is also a key focus area and challenge⁴. **Government's inability to properly determine and benchmark how much productivity it should be receiving for the amount of money it pays is a critical component of the budget**⁵ as compensation of employees is the largest single expense in all departments and indeed, across the whole of government.

11.5 **Accountability for productivity** is to be addressed by the National Implementation Framework towards the Professionalisation of the Public Service⁶ but again, its roll out and effective implementation remains a concern. Again, its principles need to be fully adopted as key components of the Budget process in determining who the right people are, what the right amount of people is and the right level of productivity to deliver the required services. One of the important risk indicators in this regard is that many departments, including both NT and DPE, have vacancy rates above 20% but yet still manage to meet or exceed current performance targets. In a properly managed skills and productivity value chain, this should be impossible or very seldom achieved.

11.6 **Budgets are not linear but cyclical processes.** In this regard it is never divorced from either the previous year or the following year. **Prior year performance and reflection** is a critical part of why a current year budget will work or fail. Many of the "failures" are well recorded in the Auditor General's report and the work done by oversight authorities like the NT in terms of the PFMA and the Standing Committee on Public Accountants (SCOPA). Performance analyses done by committees like the Standing Committee on Appropriations are also relevant here. "Exploring the logic" of a budget and "revealing patterns" is important in this regard. For example:

11.6.1 A department that has high levels of **fruitless and wasteful expenditure** clearly has a lack of budgetary control and inevitably, high levels of bad managerial decision-making.

11.6.2 A department that spends all of its budget and yet only achieves 35% of its **performance targets** usually would have experienced poor budgetary assumptions as to its ability to execute. This would also highlight a lack of performance management.

11.6.3 Budgets that continually require large movement between programs without a change in prioritisation of outcomes, indicate poor budgeting.

⁴ [South Africa's public sector pay has soared – but productivity has declined: analysts \(businesstech.co.za\)](http://businesstech.co.za)

⁵ [NSG - Professionalising the public service - FINAL.pdf \(agsa.co.za\)](#)

⁶ [National Implementation Framework towards the Professionalisation of the Public Service: Comments invited \(www.gov.za\)](http://www.gov.za)

11.6.4 Budget overruns for expenditure that should have been anticipated should not be described as “**Unforeseen Expenditure**”. This includes legal liabilities that are regularly incurred, ongoing detrimental impacts such as those that result from recurring droughts or ongoing dilapidated water and sanitation infrastructure that requires emergency intervention.

12. NT and the Department of Public Enterprises were first to pilot the methodology and it is assumed that would be for 2021/2022. **It is, however, unclear what the roll out time frame is to other departments and this undermines the whole framework.** For example, Generally Recognised Accounting Practice (GRAP) was adopted in 2012 as the replacement for the Modified Cash Basis of Accounting, without clear and compelled timelines for its implementation. A **decade later** government still has not fully implemented GRAP, including what are perceived to be relatively effective state organs like SARS. Will the Spending Review Framework suffer the same fate of procrastination and a lack of skills?

13. **Submission:** We welcome NT and Governments’ efforts to really unpack how to improve the budget process as a key enabler. As to its current pilot program, a spending review is intended to realise immediate and not just incremental changes. Thus, we would expect it to reflect in Performance Plans and assist in an immediate improvement in the accuracy of budgets. A review of the 2022/2023 outcomes of the Budgets and delivery on appropriate performance and the impact of the methodology would only be able to be ascertained in future.

14. **Spending impact enhancement**, ensuring the right things are acquired for the right amount, should always be the **key focus** as opposed to mere savings or cuts. The latter is more a **focus of prioritisation**, i.e. what can we do for the greater good or what do we have to do without, so that we can deliver on the even more important activities.

15. **Return on spend on human capital** is probably the most important item in the Budget and the budget process should address this as a matter of key importance.

16. A new budget approach and appropriations should only be approved if credible in terms of the relevant criteria⁷. A proper **and credible oversight** of future estimations cannot be made without being properly informed as to **historical actual spending and performance** which should be reviewed prior to reviews of the budget by Parliament and its committees.

DETAILED FISCAL POLICY RECOMMENDATIONS

To address the concerns raised above we recommend the following:

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

⁷ Section 214(2) and 215(1) of the Constitution of the Republic of South Africa 1996

18. 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.
19. To avoid inefficiencies in execution, principles for budgets and budget priorities should be **agreed at NEDLAC** as part of our Constitutional framework and our nationally adopted principles of a Social Compact. This agreement must be followed by government and reflected in budgets, as currently NEDLAC is circumvented in the budget process.
20. The current Budget process and even the proposed pilot do not yet create an integrated environment for enhanced productivity and efficiency but rather rely merely on execution efficiencies. Neither do they seem to really create a “National Imperatives” alignment or incentivise compelled collaboration across departments and government (which seems rather to be a relegated duty of certain organs of state). 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 inherently enables good competition and collaboration amongst departments (i.e. budget efficiencies) and also ensures spending is directed at government’s strategic priorities (i.e. prioritisation).
21. Although the budgeting process is transparent, it does not seem to take into account the findings of the Auditor General’s (AG) report or outcomes from performance reviews in Parliament. 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.
22. 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 discussed above include: State guarantees becoming government debt (eg. SOEs), bailouts of SOE and Scheduled Entities, water and sewage infrastructure that is imploding etc. 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.
23. The contingency reserve, (i.e. our “rainy day money”) must be replenished and only used for real emergencies (such as the floods that occurred in KZN or drought intervention in the Eastern Cape) and not on anticipated expenses such as bailouts of SOEs or unbudgeted wage payouts to public servants. Government should not have to rely on emergency debt measures to address events that are likely to materialise and should properly plan for those in the budget as events that will eventually occur and for which the people of South Africa will **require a quick funding response**.
24. 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 by the law should be enhanced and become a priority. As a budget principle, more funds should be allocated to

budgets for those who are to investigate and enforce the law, for example 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 because, among other things, one cannot implement policy and legislative changes to which only a few adhere – see further comments on this below.

B. CROSS CUTTING THEMES

Climate change financing

25. In the 2022 Budget Speech, Government indicated that the impact of the carbon tax will be reviewed before the next phase is implemented and additional changes to rates, thresholds and allowances will be made thereafter.
26. The SAICA Carbon Tax Committee (a sub-committee of the SAICA National Tax Committee), raised certain policy matters that it thought the Government should take into consideration during the review period. These matters included the increase in carbon tax prices, the Climate Change Bill and the renewal of carbon tax licence requirements. Further details on these can be found in the [submission](#) dated 15 July 2022.

Gender/household responsive budgeting

27. If an equity lens is directed over the realities created for women by South Africa's fiscal policy, as it was in the [Women's Report 2022: Women and fiscal policy](#), it is evident that a symmetrical outcome is not always achieved in the South African context.
28. This report paints a worrying picture of the current status of women's permanent employment, income levels and the wage gap, based on national tax data, together with a discussion of tax laws that disproportionately burden households with a single breadwinner, of which 41.9% are women.
29. The disproportionate tax burden faced by single income homes, is best explained by means of an example as provided by Dr Steenkamp in the Women's Report 2022:

Example

30. The personal income tax liability for two hypothetical households is calculated on the next page based on the following assumptions:
- Each household earns R17 000 per month, all by way of salaried earnings;
 - No other types of income (e.g., interest or dividends) were earned;
 - No tax exemptions or deductions are available;
 - The adults are younger than 65, and the children are younger than 18; and
 - The income tax rates and rebates apply in respect of the 2023 tax year.

Household composition	Dual-earner household			Single-earner household
	Working husband (earns R9 000 p.m.)			Working single mother (earns R17 000 p.m.)
	Working wife (earns R8 000 p.m.)			
	Two minor children			Two minor children
	Husband	Wife	Total	Single Mother
Taxable income	R108 000	R96 000	R204 000	R204 000
Tax at 18%	R19 440	R17 280		R36 720
Less: Primary rebate (< 65yr)	- R16 425	- R16 425		- R16 425
Income tax liability	R3 015	R855	R3 870	R20 295
Difference: R16 425				

31. This example illustrates the fact that dual-earner households benefit twice from the same tax breaks and results in a single-earner household paying R16 425 more in taxes.

32. This report also highlights that many women do not earn enough to save for retirement, many do not enjoy employers' contributions to a retirement fund and they also overwhelmingly bear the greatest caregiving burden in society — often without compensation. The gender pension gap may also be ascribed to the fact that, in South Africa, more women than men hold non-permanent jobs — approximately 59% of temporary employees are women.

33. Submission: In order for the government to understand the effects of gender-sensitive or single household fiscal policies not only on gender inequality but also on other macroeconomic and social variables, the government should analyze the macroeconomic and distributive impacts of these fiscal policies so that it can adopt the most effective and sustainable measures to support gender equality while boosting economic growth and reducing income inequality and poverty.

34. Thus more comprehensive gender-disaggregated data should be gathered and gender-impact analyses should be conducted as an IMF [study](#) has found that fiscal policy choices that address gender equality, create more economic opportunities for women, increase growth and reduce poverty and inequality.

35. A recent OECD report (18 February 2022) entitled "[Tax Policy and Gender Equality: A Stocktake of Country Approaches](#)" confirms the IMF findings and also provides insight into the extent to which countries consider gender equality in tax policy development and tax administration, how they address explicit and implicit gender biases in their tax systems and the availability and use of gender-disaggregated data. The report analyses country perspectives on how and to what extent gender should be taken into account in the tax policy development process (including via gender budgeting). South Africa was a participant in this study and can thus use the information from the other countries to gauge best practice in this regard.

C. TOPICAL ISSUES

Safety and crime

36. An agreement is needed on an urgent plan for reduction in the crime rate, including white-collar crime, which is an inordinate burden on society. South Africa is ranked 145 out of 160 by the Global Peace Index as one of the highest countries in the world for violent crime⁸ and poor rankings for corruption⁹ and white-collar crime are undermining our economy. Small businesses disproportionately carry this burden as they are unable to mitigate this impact and costs increase in moving goods from place to place and in attracting customers and clients.
37. Despite this urgent need to reduce crime, the NPA (that has a broad mandate to prosecute serious crimes that impact on thousands of victims each year) has stated that it needs a further [R1.7 billion](#)¹⁰ to prosecute state capture cases and to modernise the organisation.
38. Furthermore, one of the Financial Action Task Force's (FATF) recommendations on South Africa's standards to address money laundering, financing of terrorism and counter financing of proliferation, was to provide the SAPS Directorate for Priority Crimes Investigations with more staff, especially financial investigators and forensic accountants. However, this SAPS Directorate received R1.743 billion for employees in the 2021 Appropriation and R1.829 billion in 2022, or a 4,9% increase. This does not show any intent on behalf of the South African government to meet its commitment to FATF and puts the whole country at risk of being put on the "grey list" and potentially reducing the country's capital flows by as much as 7.6%¹¹.
39. Submission: Parliament should be doing more in its oversight role and not approve (as it has always done in the past) the estimates of expenditure allocated to the NPA and SAPS Directorate as included in the Budget documentation.
40. Parliament should accept joint accountability for the country's obligations to FATF and the consequences of non-compliance should that arise.

Developmental role of the Budget

41. South Africa subscribes to the principle that we have a developmental state¹². What this actually means is subject to interpretation but at its core is the phenomenon of state-led

⁸ <https://www.visionofhumanity.org/wp-content/uploads/2022/06/GPI-2022-web.pdf>

⁹ <https://www.transparency.org/en/cpi/2021>

¹⁰ [NPA needs a further R1.7bn to lock up state capturers and to modernise the organisation | News24](#)

¹¹ <https://www.moneyweb.co.za/news/south-africa/what-fatfs-greylisting-would-mean-for-sa/#:~:text=Further%20impacts%20include%20reputational%20damage,to%20an%20IMF%20working%20paper.>

¹² [Chap-13 \(nationalplanningcommission.org.za\)](#)

macroeconomic planning. In this model, the state has more independent, or autonomous, political power, as well as more control over the economy. A developmental state is characterized by having strong state intervention, as well as extensive regulation and planning¹³.

42. In the South African context, the developmental state is also a driver of employment creation and the budget is a tool for this¹⁴. There are opposing views in government, labour and business as to what the role of government is in the economy.
43. Agreeing a clear role for the state is, however, critical to ensure an appropriate budget to fund that role, as highlighted in SAICA's 2018 and 2020 submissions.
44. A 2019 article¹⁵ by Mariana Mazzucato articulates this point. We should accept that **innovation drives value creation** and consequently the creation of wealth. She sets out the importance of the role of governments over the last 100 years in either the direct creation of innovation or through indirect means by funding innovation that did not meet the corporate risk appetite.
45. It is thus important to consider the state's role in driving innovation as part of budgeted expenditure.
46. As Mazzucato concludes: *"History tells us that innovation is an outcome of a **massive collective effort** – not just from a narrow group of young white men in California," She continues: **"And if we want to solve the world's biggest problems, we better understand that."***

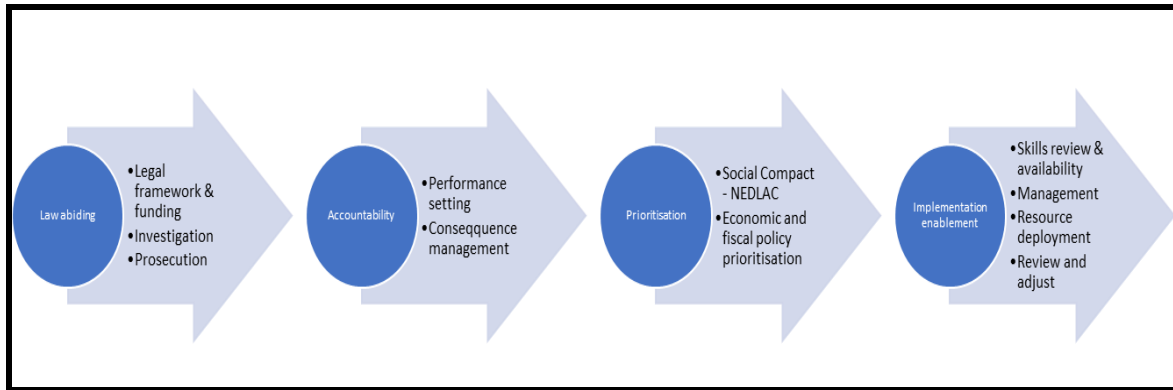
CONCLUSION

47. The Budget does not "exist in a vacuum" and is part of the overall process to ensure delivery by government of value to the people. To ensure sustainable budgeting and funding for key priorities, a coherent overall policy framework and prioritised implementation needs to be implemented.
48. Though not underestimating the complexity of this, we believe that the following workflow applies to both the Budget process and the country:

¹³ [Developmental state - Wikipedia](#)

¹⁴ [FullBR.pdf \(treasury.gov.za\)](#)

¹⁵ <https://www.wired.co.uk/article/mariana-mazzucato>



49. Unless a country can enforce its laws and ensure citizens abide by these laws, no policy or framework will be successful, and implementation will always be lacking and misdirected. Once citizens abide by the laws and face enforcement consequences if they do not, only then can a framework to set desired outcomes, monitoring and consequences for failure be set. The “what” and the “how” of the policy set by the government to be prioritised, should then be agreed with society to ensure buy-in and efficient implementation. The last step is then ensuring implementation, which has been an Achilles heel to date. Without implementation, the preceding steps lose credibility and buy-in.

Yours sincerely

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The South African Institute of Chartered Accountants