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Dear Madam and Sirs

### **COMMENTS ON THE 2024 MEDIUM TERM BUDGET POLICY STATEMENT (MTBPS)**

We present our comments and submissions on behalf of the South African Institute of Chartered Accountants (SAICA) on the Medium-Term Budget Policy Statement (MTBPS) released by Minister Enoch Godongwana on 30 October 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

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## Introduction

1. We welcome the Minister's continued commitment to financial prudence to ensure that South Africa does not fall further victim to an inability to properly manage its finances.
2. The Minister and National Treasury however cannot ensure fiscal prudence on their own and more support and accountability is required from the rest of the Cabinet. Treasury do have significant Constitutional powers to enforce financial compliance and prudence and we again would like to encourage the Minister and the Director General to more diligently enforce these in the interest of the country.
3. We have attached our last submission to the 6<sup>th</sup> Parliament as a point of reference to ongoing recommendations and concerns regarding the Budget and budget process.

## Credibility of the Budget process

4. Parliamentary oversight and reflection on the Budget and the MTBPS 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):
  - 4.1 Budgetary processes promote transparency, accountability and the effective financial management of the economy, debt and the public sector;
  - 4.2 proposals for financing any anticipated deficit for the period to which they apply;
  - 4.3 an indication of intentions regarding borrowing and other forms of public liability that will increase public debt during the ensuing year;
  - 4.4 the need for flexibility in responding to emergencies or other temporary needs, and other factors based on similar objective criteria.
5. 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 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).
6. Similarly, we have questioned whether National Treasury has exercised its constitutional powers judiciously to enforce fiscal discipline and adherence by all three tiers of government, where performance, financial compliance and budget allocations seemed far removed from each other.
7. In particular, we continue to believe that the move to accrual accounting (GRAP) will assist in addressing the bad behaviour currently incentivised by the modified cash basis of accounting model. It will also provide Parliament with a better view of the actual state of public finances where large accrual amounts such as for state legal liability, infrastructure, purchased and unpaid goods/services and provisions for municipal and SoE debt guarantee realisations.
8. These costs continue to be understated or excluded from the national budget process, creating a misleading picture of the state of public finances.

9. Submission: It is therefore a welcomed development that the 2024 MTBPS mentions that the National Treasury has initiated a comprehensive review of the medium-term budgeting process to bring it in line with current economic realities and ensure it remains fit for purpose.
10. Similarly, implementation of accrual accounting and enforcement of fiscal discipline remain critical to ensure the credibility of the budget.

## FATF – Greylisting

11. The Minister noted in his speech that South Africa has recently received a positive review from the Financial Action Task Force ('FATF') and that there are only six outstanding action items to be addressed for the last scheduled reporting cycle in February 2025.
12. Of these six, the 25 October 2024 media statement from NT highlights that three of these outstanding action items relate to demonstrating a sustained increase in the investigation and prosecution of complex money laundering, terror financing and unlicensed cross-border money or value transfer services.
13. This requires the SAPS and NPA being sufficiently financed to make the relevant progress and interventions. The continued budget prioritisation of political services such as the SAPS VIP Protection Unit over the NPA etc remains a concern.
14. The aforementioned media statement further noted that if the FATF Africa Joint Group assesses that South Africa has not adequately addressed all remaining action items in February 2025, the exit from greylisting will be moved from June 2025 to October 2025, or later.
15. South Africa cannot afford to remain on the grey-list for longer than need be.
16. An IMF working paper, titled [\*The Impact of Gray-Listing on Capital Flows: An Analysis Using Machine Learning\*](#), analysed the impact of grey-listing on capital flows in a sample of 89 emerging and developing countries between 2000 and 2017. Findings include:
  - Capital inflows decline on average by 7.6% of GDP
  - FDI (foreign direct investment) inflows decline on average by 3% of GDP
  - portfolio inflows decline on average by 2,9% of GDP and
  - other investment inflows decline on average by 3.6% of GDP.
17. The country simply cannot afford any more unnecessary impediments to economic growth.

18. Submission: National Treasury has largely addressed the deficiencies (noted by the FATF) that are within the scope of its portfolio.
19. However, are members of Parliament satisfied that as a collective, they cannot do more to hold the Police and Justice Ministries accountable for finalising the investigations and prosecutions mentioned in the FATF Report, as this is likely to have had a major impact delaying our exit from the on preventing the grey-listing?
20. National Treasury has certainly demonstrated a sense of urgency in addressing the deficiencies that are within its control, however the Budget does not seem to prioritise enabling the

investigative and prosecutorial arms of government to ensure they meet their FATF peer review obligations.

21. Therefore, are members of Parliament satisfied that the same can be said for the Police and Justice Ministries and will the necessary measures be taken to ensure that these government departments fulfil their responsibilities in contributing to South Africa's removal from the grey-list?

## Public sector wage bill

22. The 2024 MTBPS refers to the fact that the wage bill is the largest expenditure pressure facing government.
23. To further contain public service wage costs, government is proposing to reactivate early retirement without penalties. An additional R11 billion will be allocated over the next two fiscal years to this end.
24. This figure is based on a scenario where **12 000 people** opt for early retirement **in the first year** of the scheme being introduced and **18 000** public servants taking early retirement **in the second year**<sup>1</sup>.
25. National Treasury deputy director-general Duncan Pieterse said the scheme was expected to save the fiscus R2 billion a year by reducing salary costs if their assumptions about the take-up of the offer are correct.
26. As in our previous submissions, the size of the public headcount and wage bill continue to remain a concern but mainly due to **the lack of productivity and value produced** for the money spent. This will not be rectified by merely reducing headcount on an indiscriminate basis.
27. In fact, as seen in the private sector, indiscriminate headcount reduction rather than a performance-based headcount reduction creates a risk of losing skills as skilled public sector employees are more likely to take up the offer due to their ability to find alternative employment in the private sector.

28. Submission: Our concern is the impact of the loss of 30 000 public servants (in 2 years) on the State's capacity to provide much-needed services in critical government departments such as education, health and the police. An indiscriminate approach to head count reduction is not supported.
29. Another point for serious consideration is at what rate these workers will be replaced by new employees entering the public sector. Citizens are still in desperate need for public services and the hiring freeze currently imposed across all government departments is having dire consequences.
30. The MTBPS concedes that higher average remuneration costs for public sector employees have hindered government's ability to effectively grow the public-service headcount due to affordability constraints.

<sup>1</sup> <https://www.news24.com/fin24/economy/govt-has-an-r11bn-plan-to-tempt-30-000-civil-servants-into-early-retirement-20241030>

31. The MTBPS further notes that the uncertain outcome of the 2025/26 wage agreement on employee compensation baselines poses a significant risk to medium-term fiscal projections.
  32. We have previously recommended in our [2023 Budget submission](#) that wage offers be negotiated with National Treasury's input and then when consensus is reached, before the wage agreement is signed, the budgeted wage offer is tabled in the Budget and approved. Then, no midyear "finding of money" would be required and no further Treasury approvals would be required to legitimise wage offers.
  33. However, the aforementioned National Treasury comprehensive review of the medium-term budgeting process (to bring it in line with current economic realities) is a welcomed development and we hope it will address this longstanding problem.
  34. The timing and ongoing under-provision for wage increases do remain a failure of the budget process.
35. Submission: Wage increase negotiations should be concluded before the start of the fiscal year in which the increase applies to enable Treasury and departments to properly budget for wage costs. In this regard, Parliament should hold the relevant departments accountable for the ongoing delayed timing of negotiating wage agreements.
  36. The ongoing retrospective adjustment of wage costs in the budget that materially affects the budget and requires either additional debt or budget reprioritisation during the year remains a less-than-ideal situation.

## Municipalities

37. The unfortunate state of municipalities remains an on-going cause for concern.
38. The 2024 MTBPS notes that
  - municipalities owe creditors R116.5 billion
  - in 2023/24, municipalities were owed R339.9 billion, R294.1 billion is debt older than 90 days.
  - Households account for 73 per cent of this debt and businesses make up another 20 per cent.
39. The Minister has previously expressed his disappointment on this issue, noting in his 2023 Budget Speech:

*More generally, the culture of non-payment, not only by municipalities but by all organs of state and individual household customers is concerning. Such behaviour undermines and cripples our institutions and makes it impossible for them to deliver services.*

*[own emphasis]*

40. The 2024 MTBPS mentions proposals by National Treasury to address this issue:

*Government's long-term sustainability strategy for municipalities is to raise payment rates and improve credit management, with the Municipal Finance Improvement Programme being set to enhance tariff setting, budget policies and debt management to strengthen municipal revenue systems, while the R2 billion smart meters grant aims to improve revenue collection through prepaid solutions.*

41. While this is a welcomed initiative, we do note that National Treasury [informed](#) the Portfolio Committee on Water and Sanitation, in a presentation titled *'Measures to prevent Water Board falling into Bankruptcy and Municipal Debt'*, that **there is simply a lack of political will to collect** especially from traditional/tribal areas, which have historically resisted paying for rates and municipal services. This is further exacerbated by the Electricity Regulation Act, 2006, which prohibits Eskom from restricting supply to assist municipal revenue collection.

42. Submission: National Treasury's host of interventions to improve the financial state of municipalities are to be lauded though much more should be done, including forceful application of the fiscal control measures such as withholding allocated appropriations of equitable share.

43. The implosion of local government has been happening over more than two decades and the "soft touch" approach followed to date has failed. This implosion places significant risk on the national budget just like SoE's have done and continue to do.

44. Without national and provincial treasuries taking material steps to intervene and force municipalities into prudent fiscal compliance, the decline will continue given that **lack of political will** underpins it.

45. Is Parliament satisfied that enough is being done in this regard?

## Infrastructure

46. Public and private sector fixed investment levels, which are the foundations for inclusive and sustainable growth, are reportedly half of the target of 30 percent of GDP set out in the National Development Plan.

47. The Minister in his speech mentioned effective infrastructure investment as one of the four pillars necessary to fostering inclusive growth over the medium term, noting a series of reforms that will create conditions to attract greater private sector participation.

48. The 2024 MTBPS further elaborates that various institutions across government will apply lessons learnt from the Renewable Energy Independent Power Producer Procurement Programme, which has unlocked billions of Rands in private-sector participation in infrastructure investments and helped develop a credible project pipeline.

49. This is a timely development for which the Minister should be applauded.

50. Submission: National Treasury should apply more forceful budget controls to ensure that infrastructure budgets and grants are applied as planned.

## Water Infrastructure

51. "Watershedding" has moved from a future state to a current state and just like "loadshedding", warnings of the implosion of water assets and infrastructure have gone unattended.

52. National Treasury also plans for the abovementioned infrastructural proposals to be directed at addressing the urgent need for massive investment to address the water crisis.

53. A National Water Masterplan was published in 2019 noted that South Africa needed at least R89 billion per annum for 10 years to fund water infrastructure. This "Water Plan" remains uncostered

and therefore there is no real indication of the size of the overall problem at the 3 spheres of government. As in our previous submissions, we have at a high level estimated a water infrastructure replacement and maintenance shortfall of R2 trillion.

- 54. The lack of budget information as to accrual of costs across all 3 spheres of government remains a concern.
- 55. Regrettably, the amounts highlighted in the below table from the 2024 Budget Review published earlier this year 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**

R billion	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	MTEF
	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

- 56. Annexure D of the 2024 Budget Review published earlier this year included the following ambitious declaration concerning planned investment in the water sector:

*“...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.”*

- 57. Six months into the 2024/2025 financial year, the Department of Water and Sanitation has unfortunately failed to achieve almost all of its own targets:

1. No mega regional bulk infrastructure project phases were completed in the first half of the year because of Eskom electricity connections not being available and poor contractor performance (against a target of 4 for the financial year).
2. Only 1 large regional bulk infrastructure project phase was completed by mid-year, against an annual target of 6.
3. Only 30 of an annual target of 112 small projects funded through the water services infrastructure grant were completed because of the delayed commencement of some projects.

- 58. What is even more concerning is that this is a repeat of the state of affairs this time last year, as indicated in the 2023 MTBPS:

**Performance of the Department of Water and Sanitation (2023 MTBPS)**

Indicator	Programme	MTSF priority	Annual performance		
			Projected for 2023/24	Achieved in the first half of 2023/24 (April to September)	Changed target for 2023/24
Number of rivers in which the river eco-status monitoring programme is implemented per year	Water Resources Management	Priority 2: Economic transformation and job creation	75	85	-
Number of catchment plans implemented for mine water and wastewater management per year	Water Resources Management		2	2	-
Number of river systems monitored for the implementation of resource-directed measures per year	Water Resources Management		6	1	-
Number of wastewater systems assessed for compliance with green drop regulatory requirements per year	Water Resources Management		1 004	256	-
Number of mega regional bulk infrastructure project phases completed per year	Water Services Management	Priority 5: Spatial integration, human settlements and local government	1	0	-
Number of large regional bulk infrastructure project phases completed per year	Water Services Management		10	1	-
Number of small regional bulk infrastructure project phases completed per year	Water Services Management		9	2	-
Number of water services authorities assessed for compliance with the requirements of the no drop regulatory programme per year	Water Services Management		1	0	-
Number of small water services infrastructure grant projects completed per year	Water Services Management		86	45	103
Number of district municipalities per year with developed five-year water and sanitation reliability plans	Water Services Management		22	13	-

#### 2023 ADJUSTED ESTIMATES OF NATIONAL EXPENDITURE

A progress report on the number of water services authorities assessed for compliance with the requirements of the no drop regulatory programme is being developed for 2023/24 based on the 2022/23 assessments. No mega regional bulk project phases were completed in the first half of the financial year as a result of poor contractor performance. An acceleration plan is being implemented.

59. **Submission:** We submit that Parliament request National Treasury and the Department of Water and Sanitation to prepare an estimated cost analysis on the new, replacement and maintenance backlogs for water and sanitation infrastructure to enable Parliament to have a better understanding of the matter and also be able to critically review the appropriateness of current budget allocations.
60. The Portfolio Committee on Water and Sanitation deserves some credit for giving the necessary urgent attention to the water crisis, meeting 11 times within the last 2 months:



## Water and Sanitation

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03 Sep 2024	<a href="#">Dam safety, status of tailing dams &amp; eradication of dam safety evaluation backlog; Closure of Lesotho Highlands Water Project for maintenance and impact on Gauteng; with Ministry</a>
27 Aug 2024	<a href="#">Municipal debt to water boards; DWS Quarter 4 2023/24 Performance &amp; Quarter 1 2024/25 Performance; with Ministry</a>

61. However, the Department's 6-month progress report shows that an even more fundamental problem than that of funding is present in this area: a lack of consequences and accountability management.
62. A report of a [17 September 2024 meeting](#) of the Portfolio Committee on Water and Sanitation, noted the concerns of one Member of Parliament:

*Highlighting infrastructure delays, Mr...pointed to the Regional Bulk Infrastructure Grant (RBIG) and the water services infrastructure grant, noting that more than 50% of these projects were delayed, and fewer than 20% were completed on schedule.*


*He cited the critical Umkhomazi Water Project in KwaZulu-Natal, originally set for completion in April 2025, which had now been extended to March 2032. He called this delay "unacceptable" and flagged it as a major challenge.*

*Turning to maintenance concerns, Mr...criticised the water trading entity for achieving only 39% of its planned maintenance, despite having the budget to address these issues.*

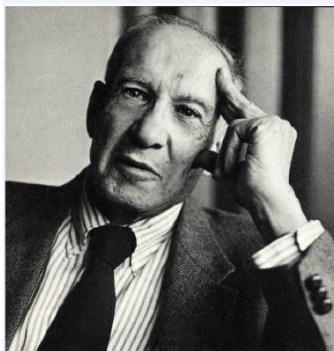
[own emphasis]

63. South Africa's policies are generally sound, but it is the implementation of these policies that is lacking. This concern is evidenced by the yearly Auditor General Reports that continue to show a dismal picture of implementation of policies across the provincial and municipal sectors.
64. SAICA raised this concern in [our presentation to this Committee](#) on the 2023 Budget Review:

## A CULTURE PROBLEM?




**“Culture eats strategy for breakfast”**  
- Peter Drucker




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

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

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





**Submission:** Is Parliament satisfied that enough is being done to hold the relevant persons accountable for poor service delivery in such a time of national crisis?