OUTA

ORGANISATION UNDOING TAX ABUSE

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OUTA comments on the 2019 Revised Fiscal Framework and Revenue Proposals (MTBPS)

Submission to the Standing and Select Committees on Finance

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Overview

The Organisation Undoing Tax Abuse (OUTA) is a proudly South African civil society organisation that is working for a better South Africa by addressing and challenging maladministration and corruption.

The 2019 Medium-Term Budget Policy Statement (MTBPS) was delivered under extraordinarily difficult circumstances. In 2018 OUTA presented to the finance committees in Parliament on that year's MTBPS.

At the time, our economic climate was such that we recommended moderate austerity measures in the form of targeted public-sector expenditure cuts. More specifically, we highlighted Government's limited revenue-collection prospects – and suggested a thorough revaluation of business-as-usual spending.

The suggestion was qualified by the context of widespread corruption, maladministration and the normalisation of wasteful expenditure. In addition, over the past years, Government has consistently overestimated its prospective revenue.

Similar to Eskom's consistent overestimation of energy demand in South Africa, such a fundamental error justifies excessive allocations which buffer poor financial management in reality. In retrospect, we know that such overestimation serves to sustain the going-concern status of companies and entities that are no longer able to finance their current expenses.

Current context

The 2019 national and provincial elections gave us some hope that sweeping changes would come about. The despair of ordinary South Africans was expressed in the record low turnout at these elections as well as significant decreases in support for the top two political parties. This is a clear message to Government stating that the people are not experiencing value for money in public service delivery.

The MTBPS that was delivered by the Finance Minister on 31 October 2019 did not include any significant plans for change. Instead, it mainly contained the Minister's reiterated plea for understanding and support for the reforms that he and National Treasury consider to be necessary to save South Africa's economy from its current paralysis.

Concerns over VAT shortfall and economic constraints

The 1% increase in value added tax (VAT) did not deliver expected increases in national revenue. This serves as testament to the fact Government has reached its limits of taxation – underscoring the position that OUTA and many other stakeholders took when presenting to the Standing and Select Committees on Finance in November 2018.

The situation is compounded by virtually non-existent economic growth, as well as recent rating downgrades that have pushed South Africa to the brink of a "junk" credit rating status.

In order to rectify the VAT shortfall, OUTA believes that lowering the VAT rate will create more disposal income (which will be spent to generate more VAT revenue).

It is also urgent that a concerted effort be made to reduce the national debt-to-GDP ratio to below 65%. To this end, the development of a detailed and strategic plan, in collaboration with respected economists, should be contemplated.

This underpins the need for a greater emphasis on a bolder economic growth strategy and policy. Frequently, we've seen forecasts for economic growth far beyond actual performance, necessitating downward revisions in the context of a stagnant economy. What is needed is more investment-attractive policies that will see economic growth exceeding the 3% per annum target.

Impediments to spending in priority areas

In light of the prevailing fiscal constraints, it becomes clear as to why much needed increases in allocations to Basic Education and Health are regarded as impossible in the context of the Special Appropriation Bill. As the Minister said, we spend more than we earn – and the systemic lack of value for money means spending more won't necessarily improve economic growth.

Furthermore, our country is in the grip of deep societal crises. This includes the devastation of gender-based violence and xenophobic attacks. The Minister's condemnation of such social ills doesn't replace action to remedy them – and plans for such action are conspicuously deficient in MTBPS 2019.

Addressing public service expenditure

OUTA welcomes the first step in addressing our bloated public service. However, more drastic measures may be necessary. The targeted reduction in expenditure of R50 billion per annum – as a minimum – needs to be actioned and accelerated, together with a commitment to reducing the high public wage bill (which consumes approximately 45% of the budget).

A noteworthy shift in intergovernmental fiscal relations is the proportional increase in allocations to local government over the medium term. While welcome, this shift must be accompanied by finalisation of the Local Government: Municipal Systems Amendment Bill and Local Government: Municipal Structures Amendment Bill that will rightfully draw the line between party politics and business of the State. These interests are not the same.

OUTA believes that Government should effectively eradicate all forms of patronage that allow politically connected people to accumulate massive wealth without contributing to the economy. These individuals or companies use and abuse the tender system by being the intermediaries who either outsource the work to third parties and add on a hefty premium, or buy and sell goods to Government at inflated prices. This is tantamount to legalised fraud that escalates costs to Government.

Local government

The overall local government financial position has reached a perilous state and poses a serious fiscal risk. In total, local government is responsible for managing about R1.6 trillion (consisting of municipal expenditure/budget, value of PPE, outstanding debtors and liabilities).

The financial mismanagement and massive liabilities have the potential to affect the economy adversely as more and more municipalities have liquidity shortfalls and are unable to pay their short-term or current liabilities. This includes suppliers of goods and/or services, salaries, taxes deducted from employees and other mandatory payments.

Currently there is no strong legislation for municipal bailouts, and this creates a serious fiscal exposure which may not be provided for by National Treasury.

In summation, there is a strong need for a total rethink on the local government business model which has led to a widespread, systemic failure of municipal systems. Should the current model persist, the same results are likely to be repeated.

State-owned enterprises and public procurement

Noteworthy line items in the Adjustments Appropriation Bill tabled by the Minister are focused on keeping state-owned enterprises (SOEs) such South African Airways, South African Express, Denel and Eskom afloat. OUTA strongly recommends that the same stringent and transparent conditions attached to the Special Appropriation Bill are applied to other entities in the run up to their long-term restructuring, liquidation or strategic privatisation.

Welcome “discussions” with potential equity partners do not reconcile the fact that those responsible for the insolvency of major SOEs are shamelessly resisting accountability without suffering any real consequences.

We welcome the announcement that the Public Procurement Bill will soon make its way through Parliament. Exploitation of discretionary loopholes in the legislation have facilitated immeasurable waste of taxpayers’ money. Excessively centralised accountability mechanisms in the Executive simply are not working – rather than frugality, sustainable growth and the rule of law, taxpayers have had to face state capture, political chaos and moderate austerity to compensate for Government’s dismal failures.

In general, the indication that money that has been repeatedly allocated to organs of state that no longer serve the public interest will be withheld and rather spent on productive line items is encouraging. Still, we need detail and timeframes in this regard. As OUTA warned in 2018, the increasing cost of servicing our sovereign debt does not bode well for a country that cannot squeeze its tax base much harder without breaking it.

Many SOEs act as monopolies and are responsible for unaffordable and excessive price increases above CPI to municipalities who, in turn, are forced to pass these increases to the consumer. The effects are that this becomes unaffordable to the consumer who invariably defaults on payment to the municipalities. These municipalities are, then, unable to collect payment to service their liability to the SOEs, resulting in the “remedy” of government bailouts. This effectively creates and perpetuates an unsustainable vicious circle.

Public leadership in key institutions

OUTA welcomes strategic increases in allocations to the National Prosecuting Authority and South African Revenue Service (SARS) as well as the positive feedback on reparations of the recovering SARS.

Implementation of the recommendations of the Nugent Commission's Report is long overdue. We intend to participate in the impending Bill that will outline the terms of this implementation. However, OUTA calls for the recommendations contained in the Report of the High-Level Panel on the Assessment of Key Legislation and Acceleration of Fundamental Change to be implemented urgently. These include a total review of Government's public-participation model, as well as intentional inclusion of the public in the appointment processes of key leadership positions in the public service.

In this context, we would oppose suggestions that core posts such as the SARS Commissioner should be filled by conducting interviews in camera. The same principle of openness and public participation should be applied to the dismissal and appointment of persons in Institutions Supporting Democracy and institutions responsible for forensic financial investigations and law enforcement. Unbridled political discretion is obviously problematic in these appointment and dismissal processes.

Conclusion

Government must take serious and urgent cognisance of the harsh reality that the Minister highlighted in the MTBPS. Austerity is not a sustainable solution, but systemic corruption, pervasive misspending and jaw-dropping political instability have eroded our domestic social contract enormously and discouraged international partners from doing business with us. This leaves us with relatively few options.

OUTA welcomes the shift in National Treasury's thinking toward a self-sacrificing cost-cutting strategy in government. There is justifiably pronounced public outrage over the persistent looting in the public sector without any real consequences for political leaders and public-office bearers who enrich themselves at our expense.

We call on Government to recognise the seriousness of where we are as a nation and settle its differences to do what must be done – no matter what the political cost.

There is a lesson to be learnt from our country's recent Rugby World Cup victory. Springbok coach Rassie Erasmus was asked what his formula was and answered that he used the "best resources available in the country". Every player in the squad was there purely on merit and was the best available.

This should serve as a lesson to Government, and indeed all sectors, that the time has come to employ the best resources and skills available to move our country forward.