Waste not, want not

OUTA comments on the 2020 mid-term budget

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Overview of presentation

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Introduction

- **The 2020 MTBPS is arguably the most important moment in South Africa’s fiscal history.**
- **We face a looming fiscal crisis.**
- **This is because of the combined effects of the Covid-19 pandemic and the failure to curtail systematic looting of public resources over the past decade and beyond.**
- **We spend significant amounts on the public service but instead of improved productivity, we see:**
    - **An increased wage bill whilst service quality is deteriorating**
    - **the increased entrenchment of corruption and maladministration**
    - **knee-jerk solutions for failing state-owned entities**
    - **economic stimulus plans that are not properly implemented**
    - **and ever-increasing debt.**
- **Government has failed to do more with less, and blaming the problems on the impact of Covid19 deflects the problems of more than a decade of systemic corruption and maladministration.**
- **Each year, a significant amount of tax revenue is raised – if the waste is eliminated, this tax revenue would be enough to enable efficient public services without borrowing money. As the adage says: “waste not, want not”.**

Fiscal policy

Restoring the balance

- **The current situation demands robust fiscal policy.**
- **OUTA recommends the establishment of a committee which focuses on inclusive fiscal policy**
- **We recommend that this committee be tasked to develop a fiscal policy paper promoting private sector growth and focusing on more productive categories of spending.**
- **Cutting costs is crucial but has not been sufficiently successful to date.**
- **OUTA supports improvements to allocative efficiency in order to enable allocations to areas of the budget that will stimulate the economy.**
- **Allocative efficiency needs improving – this means applying cuts that eliminate unnecessary activities but preserves social spending: this balance has yet to be achieved.**
- **Greater transparency on spending at all levels is a crucial weapon against corruption.**

Compensation

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- The Wage Bill is unaffordable despite capped growth over the medium term.
- Government budget deficits are mostly structural in nature, with the Wage Bill accounting for about 36% of spending.
- By the state's own admission, labour productivity in government is low compared to the private sector.
- Despite the decline in private sector wage growth, government employees salaries have grown by about 40% in real terms over the past 12 years, without equivalent increases in productivity.
- Over the medium-term, compensation and debt-service costs will be the largest expenditure items, outstripping the investments government makes in human capital, social and economic infrastructure, and service delivery.
- This is not acceptable and must be addressed without delay.
- We do not get value for money from the public service.
- We therefore support Treasury's moves to reduce the disproportionate cost of remuneration in line with performance outcomes and relative public benefit.
- Dubious appointments which aid(ed) state capture must be investigated and remedied.

Public entities

Still a major fiscal risk

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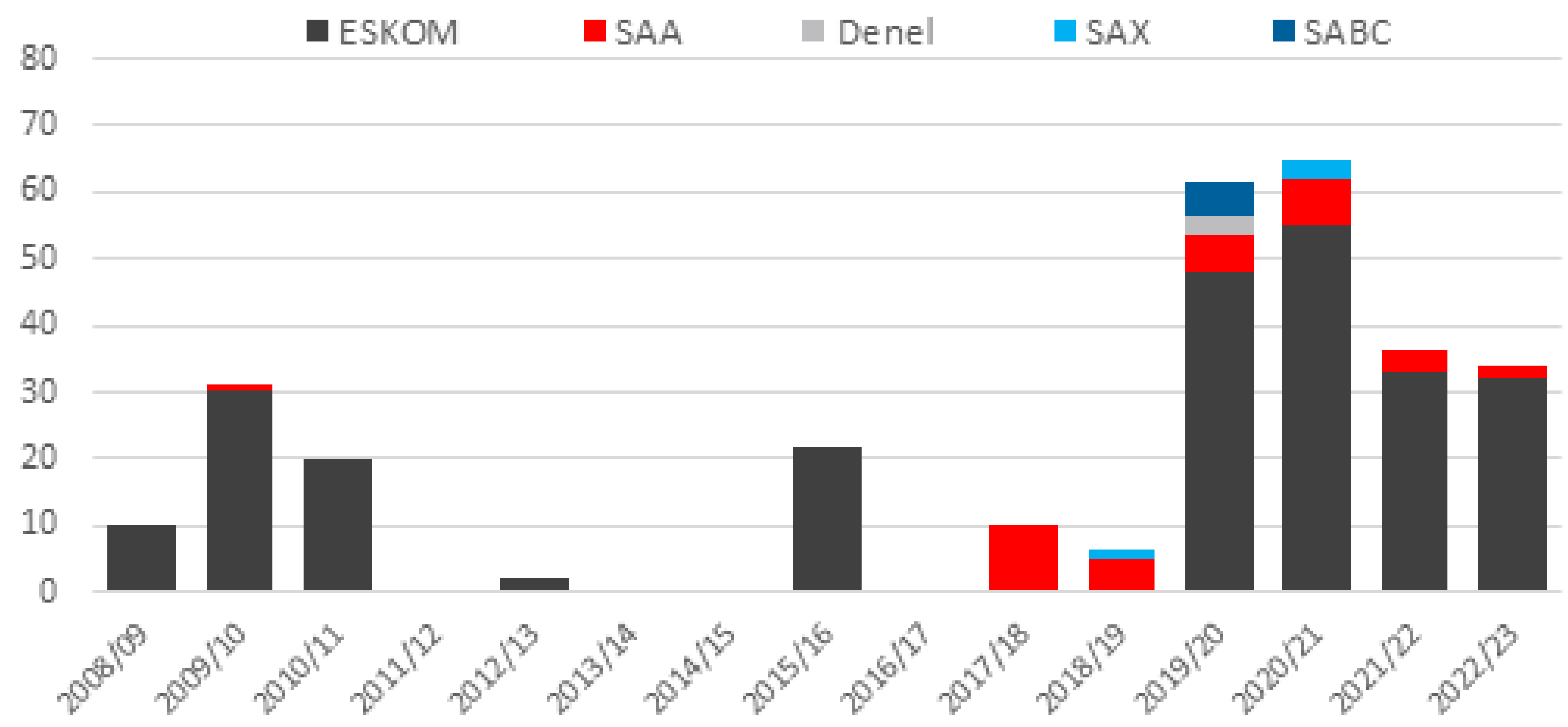
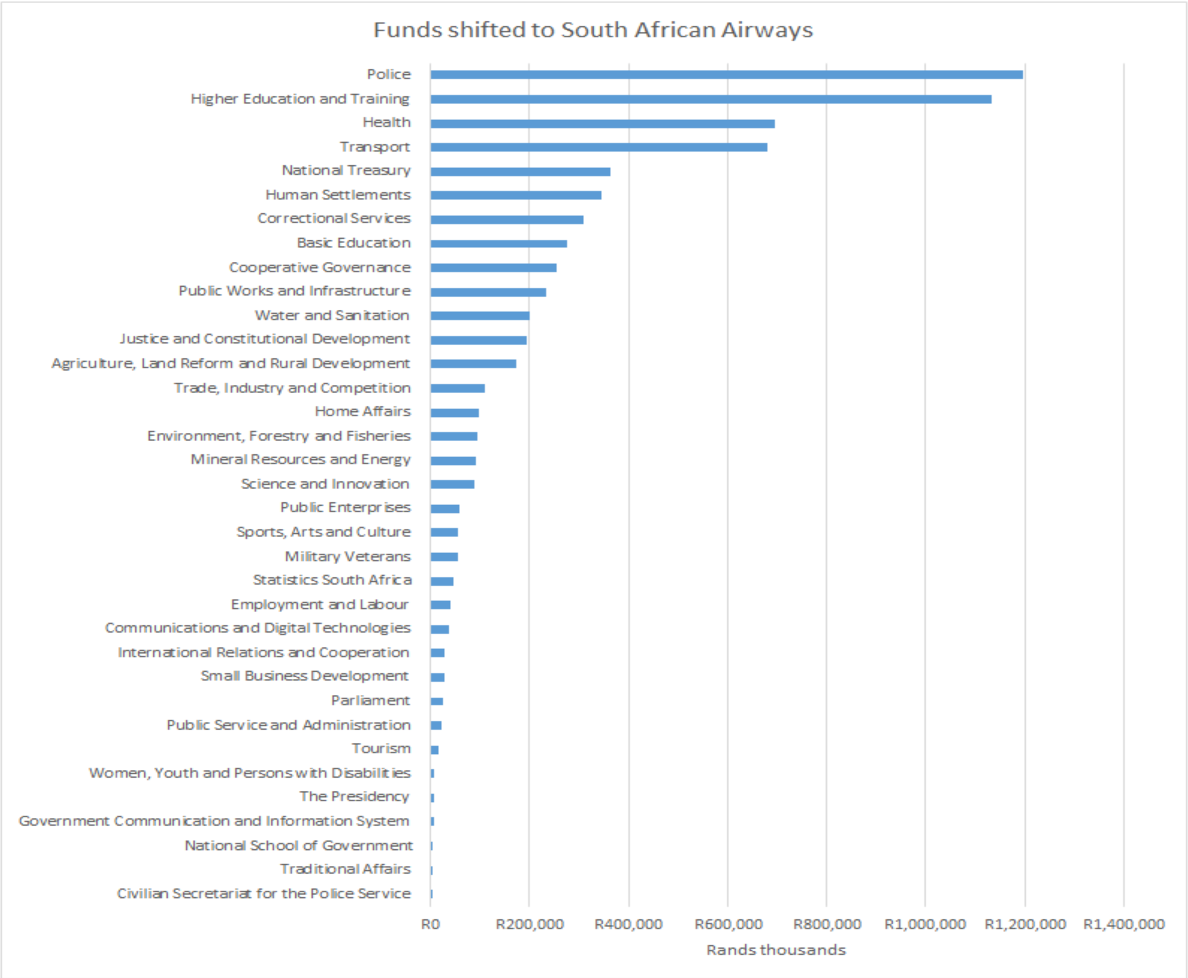
- **State-owned enterprises continue to drain the fiscus.**
- **There is no clear policy on failing SOEs: instead, government provides ad hoc bailouts, although these are insufficient to keep them running.**
- **It is time to let go of failed entities like SAA and Denel, and for the state to become the enabler of competitive industries.**
- **The R10.5bn bailout for SAA is unjustifiable and we are saddened that this involved raiding 41 votes.**





Economic outlook

- **The South African economy has been underperforming for more than a decade.**

- **Whilst external factors such as the global economic crisis in 2008 contributed to a persistently dissatisfying economic outlook, aggregate outcomes are primarily attributable to domestic issues like maladministration and state capture.**

- **South Africa has seen various economic disruptions due to political decisions and found itself downgraded and in a technical recession in the beginning of 2020.**

- **The combined impact of state capture and the hard lockdown in 2020 is a significant revenue shortfall.**

- **National Treasury pegged the gross tax revenue at R1.4 trillion in the budget review, however, gross tax revenue is expected to be 17.9 per cent lower than collections in 2019/20, or R312.8 billion below the 2020 Budget forecast.**

Economic recovery plan

Infrastructure investment

- **President Ramaphosa’s reconstruction and recovery plan provides a useful direction, but government must prove it can implement these crucial reforms. It’s time for government to pick a plan, stick to it and prove that it can be implemented.**

- **Public infrastructure is central to many of government’s plans.**

- **However, spending on public infrastructure has worsened from 3.5% of GDP in 2009 to just about 2% in 2018.**

- **Whilst we welcome the prioritization of capital expenditure and infrastructure in particular, increased spending here is consistently promised but seldom delivered, and we do not see sufficient value for money.**

- **We are faced with incompetence in key positions, remuneration unrelated to performance, administrative negligence and systemic financial crime in the public service.**

Economic recovery plan

Stimulating local economic development

- **Local economic development is crucial for the country's recovery, and significant amounts of the Covid-19 recovery funds were allocated to this level.**
- **But local government shows ongoing and widespread failures, and inadequate vision, hampering local economies.**
- **Local government needs urgent attention.**
- **Had there been sufficient investment in the local economy – and if municipalities were financially well managed and delivering the required services adequately – the impact of the pandemic would have been less severe on the poor and vulnerable.**
- **Compare the R20bn handed to the municipalities for Covid-19 relief with the R32bn in municipal irregular expenditure.**
- **More accountability is required at provincial and municipal level to ensure that service is delivered to the local economy.**
- **We recommend a rules-based model of accountability where officials are removed if the audits are not 80% satisfactory.**
- **Accountability should be the very essence of democracy, and essential to accountability is transparency.**

Economic recovery plan

Economic enablers

- **Electricity, transport, digital technology are key economic enablers.**
- **The just energy transition and a move to a greener economy is a key strategic priority.**
- **We believe nuclear energy should be avoided and subsidies for fossil-fuels ended.**
- **On transport, we reiterate our call for the scrapping of e-tolls once and for all, and the renegotiation of the PIC's unreasonable SANRAL bonds.**
- **Rail is in serious financial and infrastructural chaos and rebuilding this would have been a better use of the R10.5bn SAA bailout.**
- **We recommend a Presidential Task Team to sort out the whole rail system.**
- **Investment in digital technologies is essential and the auction of additional spectrum is long overdue.**
- **Those responsible for frustrating the process and who have underperformed should be held accountable.**
- **Costs of communications and data must come down. Parliament can play a key role in this.**

Tax policy

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- **Tax revenue is expected to fall shorter than it has in over a century.**
- **National Treasury pegged the gross tax revenue at R1.4 trillion in the budget review, however, gross tax revenue is expected to be 17.9 per cent lower than collections in 2019/20, or R312.8 billion below the 2020 Budget forecast.**
- **OUTA would like to see stringent action against perpetrators of tax evasion and fraud. Better mechanisms and teams within SARS are needed to detect and tackle transgressors, as was the case in the past. An investment in such task teams will pay for itself many times over.**
- **We want to see SARS and NPA being given sufficient budget allocations**.
- **We question whether the current tax regime promotes growth.**
- **The state must introduce investment friendly policy. Big businesses here will sit on their reserves and not invest in South Africa if they are not encouraged to do so though tax breaks, policy certainty and corruption eradication.**

Zero-based budgeting

- **We support the zero-based budgeting approach, with the promise of looking at each programme to assess its benefit.**
- **This is not a panacea for curing management ills, but it is a useful tool to increase the efficacy of the budgeting processes.**
- **We would like to see this implemented at all levels of government, and hope it will enforce efficient allocation of resources and detect inflated budgets.**
- **Clarity is needed on who will be responsible for what aspect of the government wide ZBB overhaul. We recommend that National Treasury has authority over assessment, rather than the very same entities that have been bleeding tax revenue.**

Key recommendations

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OUTA's key recommendations are as follows:

1. **Establishment of a committee which focuses on inclusive Fiscal Policy and is tasked with developing a fiscal policy paper.**
2. **OUTA supports improvements to allocative efficiency in order to enable allocations to areas of the budget that will stimulate the economy.**
3. **There is a need for proactive financial intervention in broken municipalities, including civil society capacity.**
4. **Zero-Based Budgeting is an approach that we welcome. It must be implemented at ALL levels of government.**
5. **Ensure that NPA and SARS are funded sufficiently.**

Thank You!

Any Questions?

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