ORGANISATION UNDOING TAX ABUSE

March 2021

ANALYSIS OF BUDGET 2021

SUBMISSION BY THE ORGANISATION UNDOING TAX ABUSE (OUTA) TO THE SELECT AND STANDING COMMITTEES ON FINANCE ON THE FISCAL FRAMEWORK AND REVENUE PROPOSALS

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Introduction

Budget 2021 holds the much-needed line on fiscal consolidation in the face of public service wage demands but continues to avoid addressing South Africa's fundamental problems. National Treasury finds itself cornered by a triple threat. Taxpayers are fed up, ratings agencies bring consistent downgrades, and yet fragile political alliances refuse to allow the radical change we need. The result is a risk-averse strategy that fails to address root causes of our problems.

The recession we found ourselves in a year ago, along with the Covid-19 pandemic and strict lockdown regulations, has taken its toll. Reviving the economy requires structural changes and longstanding policy impasses to be confronted. Allocations for the vaccine program are important to save lives and in order to revive economic activity. Though this budget brings some relief, much of it is treading water. The size of the deficit is less than previously expected, but it is still vast and must be paid with increased debt, which South Africa borrows at premium rates. This compounds our debt and risks an irreversible debt spiral over the medium to long term.

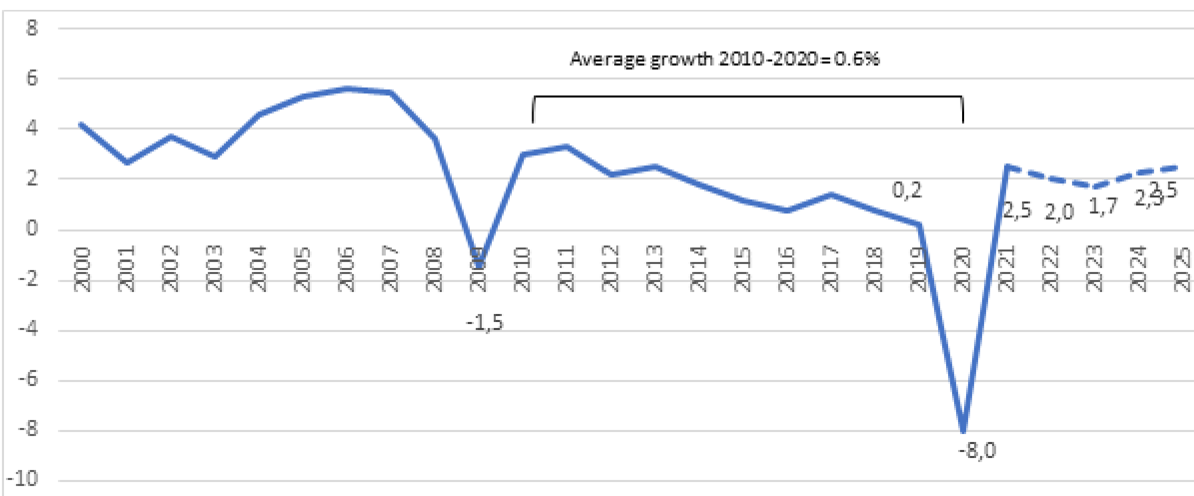
Hence, there is a long and difficult road ahead. Current fiscal policy trends suggest more difficult years ahead, with money being sunk into failing SOEs that should be restructured or closed. Government capacity is still lacking at every level, which affects every program from vaccine rollout and early childhood development programs to mega infrastructure projects. This fiscal framework and those going forward will need to increase tax revenue by stimulating economic growth and private investment, as opposed to increasing rates of taxation.

The Standing and Select Committees on Finance invited written submissions on the Fiscal Framework and Revenue Proposals. In line with the call, this submission focuses on (1) the fiscal framework, (2) tax policy proposals and estimates of revenue, (3) borrowing levels, (4) the contingency reserve as well as (5) implementation of zero-based budgeting, (6) parliamentary oversight and (6) and public governance improvements.

Fiscal Framework

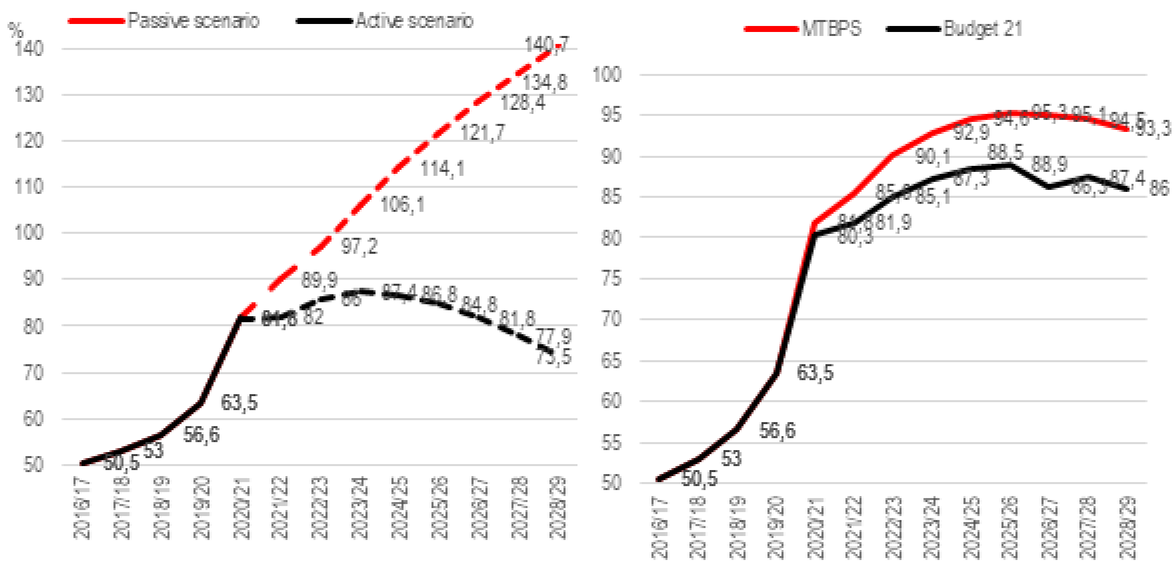
Budget 2021 was always going to be a tough budget given the limited resources and the impact of the pandemic on the economy. The pandemic has led to a faster-than-expected economic output decline of around -8% in 2020 (see figure 1 below). Economic growth was on a downwards trajectory prior to the pandemic and despite various economic plans and increased government spending over the years to help resuscitate the economy, the decline continued. Since 2008, government spending growth increased on average by 4.1% and during the same period annual GDP averaged 1.5%. This means that South Africa does not have a funding problem; it has a spending problem. Spending has gone to areas which have not generated economic growth. Government launched a series of spending reviews in 2020, the outcomes of these reviews should be made public and a clear process for restructuring or reforming the budget needs to be made public. This process must include new forms of public participation.

Figure 1. GDP



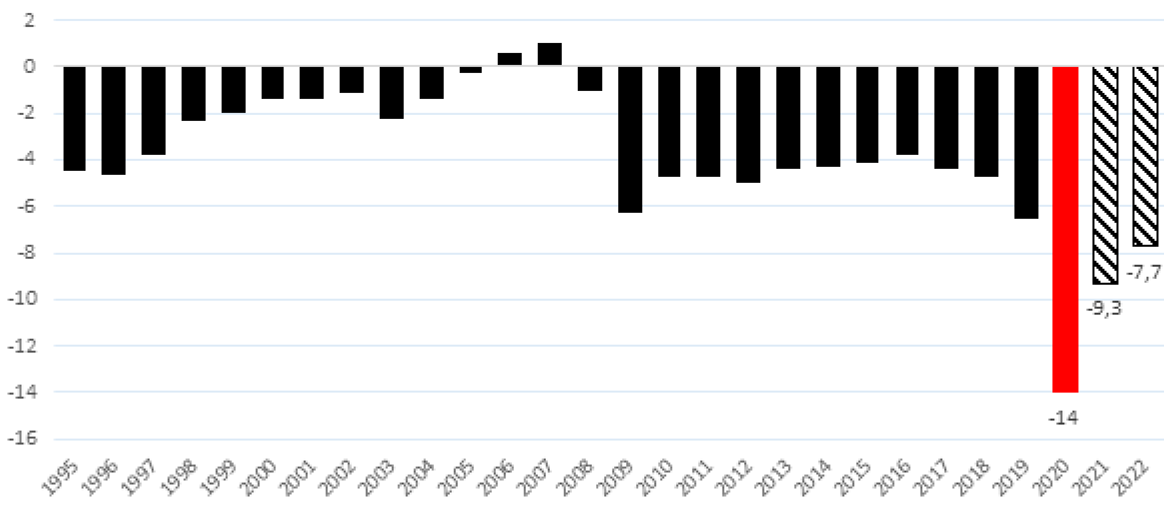
The Budget projects GDP growth of 3.5% in 2021 and thereafter growth is expected to average 1.9% in the following two years, however, Treasury expects to shrink the budget deficit from -14% in FY21/22 to -6% in FY23/24. The deficit, which is the gap between expenditure and revenue can only shrink when revenues increase, which is a function of economic growth or large cuts in expenditure. This inconsistency in policy brings to question Treasury's credibility. Similarly, Treasury projects a better debt ratio of 80.3% of GDP in FY20/21 compared with 81.3% estimated in the MTBPS (see figure 2). Treasury expects debt to stabilise at 88.9% in FY 25/26. What is missing are details on how Treasury plans on stabilising debt and how they hope to reduce it beyond their forecast period. We recommend that these committees request this clarity from National Treasury in its report.

Figure 2. Supplementary Budget vs MTBPS and Budget 2021



There are two important aspects of South Africa's debt position that distinguish it from other countries. South Africa faces high interest rates on government debt that are far above the rate of economic growth. The 10-year bond yield, the benchmark interest rate on government debt, has been rising for years, while economic growth has fallen. The second is that the debt level is not stable. There is no particular threshold of debt-to-GDP ratio that should be a concern, but if debt is rising without limit, it is unsustainable. This makes South Africa different from other countries who, during the pandemic, can take on more debt to buffer the economy from collapse. In South Africa's case, our inability to rein-in debt makes it exceedingly difficult to support any suggestion of increasing debt during this time.

Figure 3. Budget deficit



Since the Supplementary Budget, which was tabled in June, we have had three different debt-to-GDP assumptions, but what is notable is that the assumptions made in the Budget Review of 2021 are higher than those of the active scenario tabled in the Supplementary Budget. Therefore, Treasury has already overshot its active scenario, a scenario which seemed unattainable then.

The Budget did not contain details on the funding of SOEs such as Denel, SABC and SAA. Since there is yet to be a decision on the fate of the SOEs that are a burden to the country's balance sheet, we are likely to see haphazard funding. Moody's rating agency expects South Africa's debt as a percentage of GDP to reach 100% by 2024. They too doubt Treasury's ability to limit spending and note that despite a marginal increase in SOE financial support, Eskom poses a "contingent liability risk".

In June 2020, President Ramaphosa set up the State-Owned Enterprise Council which is tasked to look into repositioning SOEs as effective instruments of economic transformation and development. So far, the panel has only met once in November 2020. In 2016, the former President Jacob Zuma put together the Presidential Review Committee on State-Owned Entities, which was a similar initiative faced with addressing the same issues as the 2020 Council. Despite these efforts to solve multiple problems faced by our SOEs, nothing has been done to stop the haemorrhaging of these entities and hold those involved accountable.

Government's wage bill remains high at 34% of spending and remains the fastest growing spending item. In February 2020, the Treasury announced that it will reduce the wage bill by R160 billion over three years. The 2021 Budget Review shows that the fiscal framework relies heavily on savings in the wage bill of about R303 billion over four years. Government is already falling behind this target. Moody's has penciled in stronger growth in the government's wage bill because they too do not believe in the state's ability to reign in the wage bill. After government indicated that it could not implement the wage agreement due to economic and fiscal circumstances, there was a court case which affirmed Treasury's Constitutional role in safeguarding public finances and when taken on appeal, the Labour Appeal Court reaffirmed this.

Most government workers are not paper-pushers but nurses, doctors, teachers, refuse collectors etc., who make up 70 percent of the government wage bill, therefore government needs to ensure that in its efforts to trim wages, does not affect the wages of those who have worked hard over the years, especially frontline workers, who are dedicated public servants. Those who work in government departments, earning huge sums of money whilst enabling corruption and rent seeking behaviour should be the target for wage adjustments.

Problem with the composition of spending

Total consolidated expenditure is just over R2 trillion. Government has increased Social spending and Health in line with the demands of the pandemic, however, Education has been reduced slightly. Debt servicing costs now account for 13.4% compared with 11.8% in the MTBPS. The Budget allocations are still heavily weighted towards consumption versus investments. This has been the case even before the pandemic. A closer look at how each department spends its funding allocation reveals that a large proportion of departmental expenditure is allocated toward paying salaries. In some government departments, this number is as high as 70% of total expenditure. Is the taxpayer getting value for money given the large allocations given to government departments and the poor service delivery taxpayers receive? Take Transport, which receives one of the largest allocations of just under R100 billion within the Economic Affairs functional classification. Less than 10% of trains are operational and road funding is increasingly funded through a private-public-partnership model, or provincial and municipal allocations that are abused. A closer look into how government departments utilise their Budgets is needed in order to ascertain whether funds are used effectively. We recommend that the Budget Review and Recommendation Reporting process in Parliament, for example, is significantly strengthened by integrating these with AGSA reporting and incorporating substantive public participation as in the Oversight and Accountability Model.

Debt servicing costs, funding fee free education, social grants and transport are the largest government programmes, crowding out spending on areas that can generate economic growth. Total capital expenditure by public sector institutions decreased by R19 billion between 2018 and 2019. See Figure 4. This is an alarming trend that should be reversed immediately.

Figure 4. Total capital expenditure by public-sector institutions 2010-2019 (Rbn)

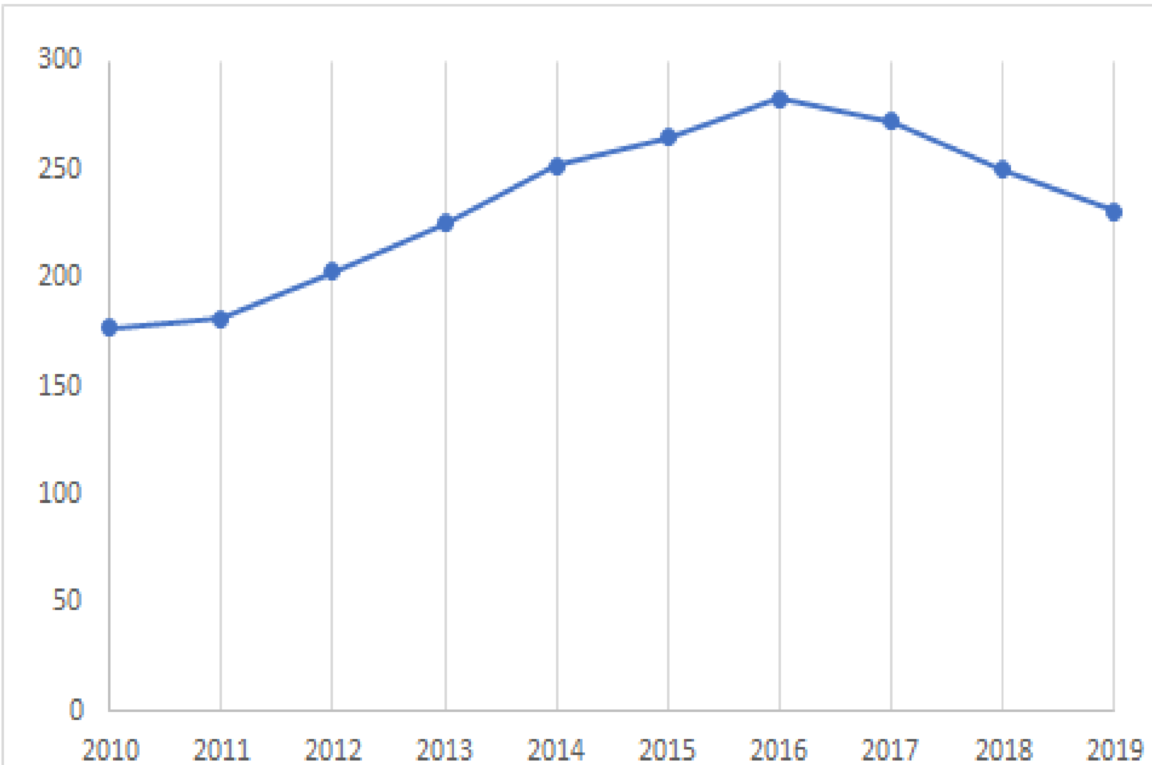
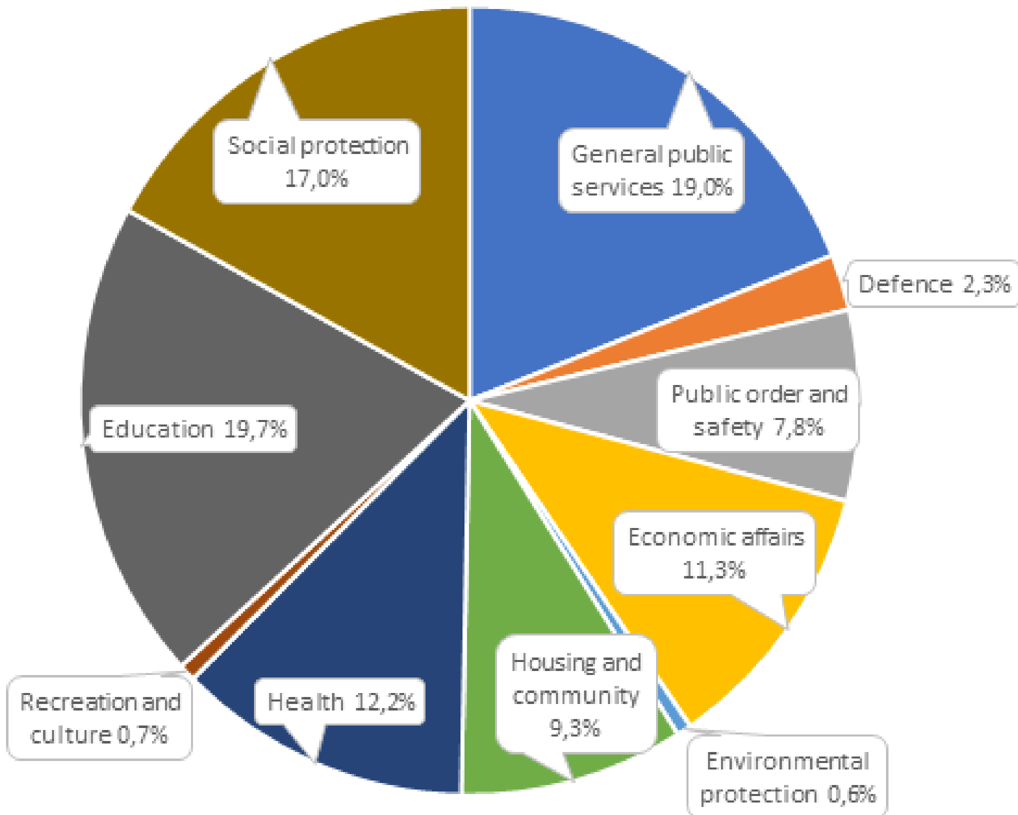
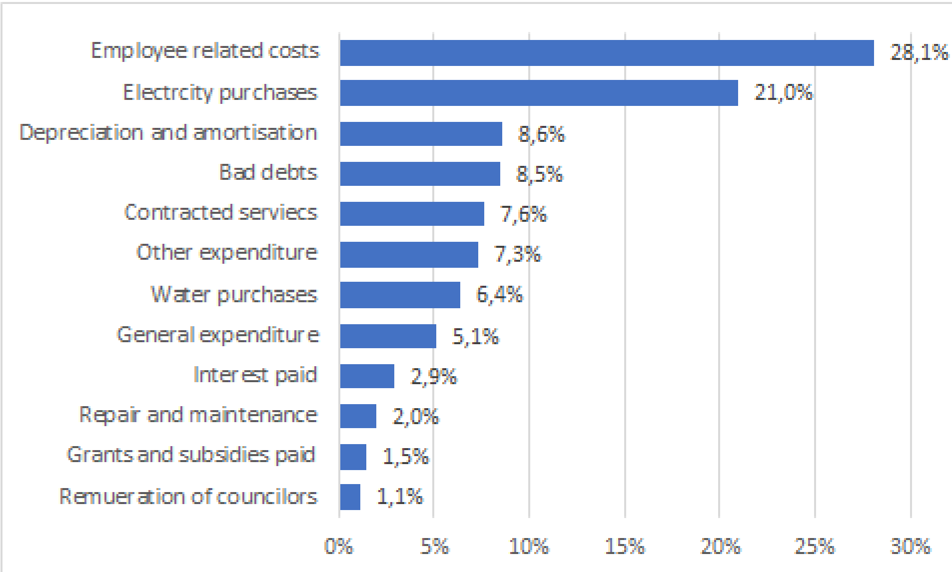


Figure 5. Consolidated government expenditure



At the municipal level, funds that should be spent on water infrastructure development are often inappropriately spent. Maintenance of water storage, treatment and distribution systems has been neglected. According to annual data produced by StatsSA, bad debts account for 8.5% of municipal operating expenditure. Employee costs take the lion's share at 28.1% (see Figure 6).

Figure 6. Municipal Operating expenditure % of total expenditure 2019



Due to the pandemic, government has had to suspend several programs to prioritise spending needs wrought by the pandemic. This has resulted in large infrastructure backlogs.

On the revenue side, Treasury abandoned its course to hike taxes that was mooted at the MTBPS in October 2020. Instead, Treasury offered tax relief firstly by reducing corporate income tax by 1 percentage point to 27% effective 1 April 2022. This move provides some breathing room for companies that have been struggling over the months due to slow economic activity. The desired outcomes are fewer retrenchments and more investments by companies. The second adjustment is an increase in the personal income tax brackets by 5%t. The 5 percent adjustment is above inflation, which will leave the average taxpayer slightly better off.

Government has given R3 billion to SARS to strengthen its digital systems. While this is a good decision, more funds could be given to support SARS. The fiscal framework depends heavily on SARS' capability to bolster revenue collection. SARS capacity to detect tax evasion was affected by mismanagement and corruption at the revenue collector. Capacitating SARS will contribute to SARS' objective of maximising revenues and minimising illicit financial flows.

Growth and structural reforms

The unemployment rate is high at 30.8% and government has struggled to implement policies that are targeted at growth creation. It should provide further incentives to companies in exchange for employment and training. It should also investigate reforming the education system into one that promotes STEM and entrepreneurship. This will equip those with a good school leavers certificate to choose between tertiary education, entrepreneurship, or apprenticeship.

Fiscal credibility

Fiscal credibility is difficult to earn, easy to lose, and once lost, almost impossible to regain. Fiscal policy must be realistic and responsible. Government must be committed to establishing and maintaining a sustainable medium-to-long term fiscal framework that supports long run stable economic growth. Such a framework should be able to accommodate temporary fiscal actions, stimulate aggregate demand and cushion fluctuations in output. Fiscal policy must be prudent and transparent. Full disclosure of analysis and information must be provided. Without transparency there can be no accountability - something we have sorely missed in South Africa.

Addressing fiscal risks

The following risks are listed in the budget review (National Treasury, 2021, p.6) as fiscal risks over the medium-term:

- The fiscal framework assumes compensation budget ceilings are maintained. A departure from this assumption in the forthcoming wage agreement will be unaffordable and compromise debt stabilisation.
- The financial positions of public entities and local government remain weak because of poor financial management.
- Medium-term debt redemptions of SOEs total R182.8billion. Without rapid improvements in financial management and the resolution of longstanding policy disputes – including the user-pay principle – they will continue to put pressure on public finances.

In response to the assertions about the user-pay principle, our message is that the user cannot be asked to pick up the cost of corruption. Users are already being squeezed beyond their capacity by paying a range of taxes and tariffs that do not get used properly to provide decent public services. Competition Commission rulings have shown how construction firms colluded to massively inflate the prices they charged SANRAL during the Gauteng Freeway Improvement Project (GFIP) project and other projects and only a fraction of the billions lost has ever been recovered[1]. 'Cost-reflective' tariffs for electricity cannot include the cost of corruption. Why must users continue to pick up the bill for corruption and maladministration when a lack of adequate governance at SANRAL allowed it to contract firms at massively inflated amounts?

Tax Policy Proposals

This budget seems to have heeded the frustrations of taxpayers and avoids increasing the tax burden by withdrawing R40 billion in previously announced tax increases. To support economic recovery, National Treasury has indicated that it will not raise any additional tax revenue in this budget. We welcome this acknowledgement that, because of a chronic failure to use fiscal resources in a manner that promotes economic growth and attracts private investment, increased rates of taxation will worsen our situation.

The personal income tax brackets and rebates will increase above the inflation rate of 4 per cent. This will bring some relief to the many taxpayers in the lowest income brackets. However, future revenue planning must consider the departure of many high-net-worth individuals from South Africa on whom current expenditure norms unfortunately depend. Similarly, these deliberations must be married to the elephant in the Appropriations committee's room - which is freezing public wages as a primary fiscal consolidation mechanism. We recommend that future revenue plans should be moderated by targeted reductions to salary growth with an emphasis on high earning public servants in Departments, SOEs, provincial and local governments.

Treasury proposes to increase excise duties on alcohol and tobacco by 8 per cent for 2021/22. Whilst this would be a welcome decision in principle, rather increasing rates of taxation on luxury goods that deteriorate public health than direct taxation of labour productivity, this will be another hard blow to the very industries that have been most constrained by national lockdown.

[1] Engineering News. 01 May 2016. [Online] Retrieved from: https://www.engineeringnews.co.za/article/sanral-takes-aim-at-collusion-accused-construction-companies-2016-05-10

Inflation-related increases of 15c/l and 11c/l will be implemented for the general fuel levy and the RAF levy, respectively, with effect from 7 April 2021. OUTA has been asking for the ringfencing of revenue streams for many years, specifically for capital expenditure on infrastructure that would benefit large portions of the public. Instead, we see the fuel levy consistently increased to compensate for the near bankruptcy of the Road Accident Fund. We recommend that this proposal be rejected as it reflects the flawed notion that consumers must subsidise poor public financial management and maladministration. This committee can reject it.

While tweaking tax rates and doubling down on tax evaders can play somewhat of a role in changing the extent of revenue collections, taxpayers of most tax types have reached the limits of their taxable capacity. The way to address the fiscal crisis is by enabling inclusive economic growth and to fix the fiscal framework. Government must ensure that it confronts policy impasses that are hampering the economy from anything more than sluggish performance. It needs to stop imposing frustrating challenges such as a lack of electricity supply, poor internet connectivity, raw sewage in our potholed streets and unnecessary red tape for businesses.

The country has a small tax base that is labouring under the strain of the Covid-19 pandemic. A banking sector study has revealed that there is evidence that since the pandemic started, an increased number of South Africans have taken out loans to pay SARS. Whereas tax evaders rightly catch flack in media reporting, we think it is important that members of the legislature, the executive and government officials take note that many honest taxpayers who want the country to succeed are paying interest on personal debt and making extreme sacrifices to meet their tax obligations and be tax compliant.

Those make sacrifices to uphold the social compact cannot see their contribution wasted. In various ways, OUTA’s members have conveyed to us that when there is a sense that their tax contribution will be used well to support well-functioning public services for all in South Africa, it is much less of a grudge payment. We cannot overemphasise to the Finance Committees the extent to which poor service delivery and corruption are a breach of the social compact and that much better is possible and can be achieved with the available public finances.

Borrowing Levels

Public finances remain overstretched despite the unexpected improvement in tax collection. Despite being better than predicted, this was the largest tax shortfall on record. We remain deeply indebted. We plan to pass the R5 trillion mark for sovereign debt by 2023/24 - as indicated in the table below.

Table 1.6 Projected state debt and debt-service costs

R billion/percentage of GDP	2020/21	2021/22	2022/23	2023/24
Gross loan debt	3 949.7	4 382.8	4 819.9	5 234.5
	80.3%	*81.9%*	*85.1%*	*87.3%*
Debt-service costs	232.9	269.7	308.0	338.6
	4.7%	*5.0%*	*5.4%*	*5.6%*

Source: National Treasury

Debt-service costs are increasing as a percentage of the budget. Although this is increasing at a lower rate than previously predicted – which will reassure the ratings agencies – the size of the total debt is heading for an enormous R5.23 trillion by 2023/24. Those debt costs are slowly edging out social spending. In 2019/20, debt-service costs (R205bn) were less than spending on health (R222bn) and social development (R285bn), but by 2023/24, debt-service costs (R339bn) will be higher than spending on both health (R245bn) and social development (R325bn). Of course, such figures aren't sustainable.

The country risks losing our economic sovereignty if bonds start maturing in a crescendo without our house being in order. There is increasingly widespread agreement that higher rates of direct taxation will further impede economic growth driven by private capital. There is no more fiscal space for unchecked corruption to continue. Parliamentary intervention must be robust.

To protect the fiscus from the risks entailed in State Owned Entities defaulting on debt obligations leading to bailouts which then become drivers of national debt, we recommend that the procurement functions of entities repeatedly requiring bailouts be put under a microscope. The Auditor-General's reports show quite plainly the extent of irregular, unauthorised and fruitless and wasteful expenditure. It is unacceptable that billions continue to be lost to malfeasance and a total disregard for the AGSA's outcomes and recommendations.

Contingency Reserve

Government allocated R1.3 billion in the current year for vaccine purchases. Given uncertainty around final costs, an estimated R9 billion could be drawn on from the contingency reserve and emergency allocations, bringing total potential funding for the vaccination program to about R19.3 billion.

Table 3.7 Main budget framework

R billion/percentage of GDP	2017/18	2018/19 Outcome	2019/20	2020/21 Revised estimate	2021/22	2022/23 Medium-term estimates	2023/24
Revenue							
Gross tax revenue after proposals	1 216.5	1 287.7	1 355.8	1 212.2	1 365.1	1 457.7	1 548.5
Non-tax revenue	19.2	23.9	27.6	26.4	27.7	28.6	30.4
SACU[1]	-56.0	-48.3	-50.3	-63.4	-46.0	-33.4	-58.0
National Revenue Fund receipts	16.6	12.0	12.8	25.6	4.9	0.8	1.1
Main budget revenue	**1 196.4**	**1 275.3**	**1 345.9**	**1 200.8**	**1 351.7**	**1 453.7**	**1 522.0**
	25.5%	*25.9%*	*26.1%*	*24.4%*	*25.3%*	*25.7%*	*25.4%*
Expenditure							
National departments	592.6	634.3	749.7	804.5	763.3	736.3	739.0
Provinces	538.6	572.0	613.4	628.3	639.5	643.3	646.8
Local government	111.1	118.5	123.0	138.5	138.1	146.1	148.4
Contingency reserve	–	–	–	–	12.0	5.0	5.0
Provisional allocation not assigned to votes	–	–	–	–	11.6	32.1	33.2
Non-interest expenditure	**1 242.3**	**1 324.8**	**1 486.2**	**1 571.3**	**1 564.5**	**1 562.8**	**1 572.5**
Debt-service costs	162.6	181.8	204.8	232.9	269.7	308.0	338.6
Main budget expenditure	**1 404.9**	**1 506.6**	**1 690.9**	**1 804.2**	**1 834.3**	**1 870.8**	**1 911.0**
	29.9%	*30.6%*	*32.8%*	*36.7%*	*34.3%*	*33.0%*	*31.9%*
Main budget balance	**-208.6**	**-231.3**	**-345.1**	**-603.4**	**-482.6**	**-417.2**	**-389.0**
	-4.4%	*-4.7%*	*-6.7%*	*-12.3%*	*-9.0%*	*-7.4%*	*-6.5%*
Primary balance	**-45.9**	**-49.5**	**-140.3**	**-370.5**	**-212.8**	**-109.2**	**-50.4**
	-1.0%	*-1.0%*	*-2.7%*	*-7.5%*	*-4.0%*	*-1.9%*	*-0.8%*

1. Southern African Customs Union. Amounts made up of payments and other adjustments. The estimates for the outer two years include projected forecast error adjustments for 2020/21 and 2021/22, respectively
Source: National Treasury

When the contingency reserve gets a shot in the arm with extra funds being put there, it is usually to fund a bail out. Crisis control cannot be a mode of everyday operations at state owned entities. The vaccine roll out presents a tolerable exception. Still, we are cooperating with AGSA to ensure corruption prevention measures are implemented with the vaccine roll out.

Zero-Based Budgeting

The consistent decline in the local government audit reports indicates that municipalities are in great crisis and need to be reformed. This means tackling issues of revenue mismanagement, balancing local budget realities with decreased revenues, increased service demands, the costs of unfunded state mandates and the dramatic cost of infrastructure and associated costs, extensive corruption, exorbitant salaries and bonuses, and so forth contribute towards ineffective and inefficient municipal service delivery. Local government should also address the lack of expertise, professionalism, and ethical leadership. Frameworks are not legally binding.

OUTA welcomed the recommendation made by the Minister of Finance during the supplementary budget speech in 2020 which proposed that municipalities should adopt a Zero-Based Budgeting (ZBB) approach to justify their expenses before adding them to their official budget. ZBB is a method of budgeting in which all expenses must be justified for each new period before ending in the municipal budget. OUTA acknowledges that ZBB is not a silver bullet for solving the financial mismanagement in local government, but it is a good start.

The purpose of ZBB is to create focused operations, lower costs, and enforce a disciplined execution of the budget. In November 2020, OUTA conducted extensive research exploring the practicalities of implementing ZBB at municipal level using metros as case studies. The research analysed the existing processes and practical and contextual realities that need to be considered when executing ZBB at municipal level.

Our findings suggest that, to effectively implement ZBB, municipalities should:

a) **Professionalise Local Government**- municipalities need professional, ethical leadership and skilled experts/personnel in critical management positions. ZBB requires specialised training and competent personnel to execute changes effectively. However, municipalities are significantly under-resourced or under-capacitated with unfit personnel.

b) **Plan, prioritise, and engage effectively with the community-** In practice, both IDPs and MTREFs are guided by political aspirations instead of the real needs of communities. There is a need to consistently ensure better planning beyond the 5-year political cycle and that the actual priorities of communities are expressed in plans and budgets that are based on them. The municipal budget on a 3-year cycle called Mid Term Revenue and Expenditure Framework (MTREF) and budgets in the previous MTREF must be considered as it was already a commitment to the community for specific projects and aligned to the adopted IDP. However, ZBB strategy focuses on current projects which limits long term planning in local government.

c) **Standardize ZBB** - ZBB is currently not standardised across all local municipalities, therefore, a practical guideline on how to implement it needs to be formulated and published.

d) **Regulate ZBB**- ZBB should be regulated by National Treasury and approached in a uniform manner across all municipalities.

e) **Consistently Share Knowledge**- municipalities should conduct a proper feasibility study in terms of the ZBB process. This can be achieved by sharing knowledge through workshops and seminars on best practices and consider which areas ZBB is best suited to. Solid policies and procedures need to be established that deal with associated practicalities in municipalities.

f) **Harmonise ZBB with existing municipal policies**- ZBB needs to be properly harmonised with the performance processes, contract management, procurement plans, wage agreements, Service Delivery and Budget Implementation Plan (SDBIP) and every municipality's existing strategic and performance plans.

Governance improvements

Ensuring tax compliance

SARS gets an extra R3bn over three years for a new unit to ensure tax compliance of those with wealth and complex financial arrangements. The Department of Justice gets R1.8bn to combat crime and corruption, but that does not necessarily mean the money will be applied where it's needed most. Ensuring tax compliance will support improved tax revenue collections.

Professionalisation of the public service

We hope the new National Implementation Framework towards the Professionalisation of the Public Service, which is still in process, will help move the public service further towards delivering value for money. We have seen similar frameworks come and go without any impact.

The Constitution of the Republic of South Africa (1996), Chapter 10 provides that the basic values and principles governing public administration demand a high standard of professionalism and ethics. Despite this, OUTA has experienced and documented countless instances of unethical, unprofessional conduct of public officials at all levels of government. This is related to ongoing revelations about high-ranking politicians who break the law with impunity.

We urgently call for predictable, mandatory, and enforceable consequences for those who fail to comply with the standards of professionalism that flow from this framework. However, we also recommend positive reinforcement of exemplary behaviour among public servants by means of, for example, salary increases and bonuses that are exclusively available to individuals who have measurably performed well. Unemployment is a major challenge in South African society, but we emphasize the need to implement the principle of quality over quantity in the public sector. Salary increases and bonuses at lower ends of the income spectrum can be financed by caps or reductions of the enormous salaries enjoyed by civil servants at the top of the income hierarchy. This would enable continued restriction of the wage bill over the medium term.

Public Procurement Bill

The finalisation of the Public Procurement Bill is urgent. Civil society has raised concerns about its limited provision for public transparency. If NERSA and its shocking decision-making is the model, a new central procurement Regulator on the horizon does not exactly inspire confidence.

At the same time, fast-tracking the draft Bill cannot mean that weaknesses identified in it are not addressed. The public participation process via Parliament should constitute robust democracy. This Bill must be subjected to meaningful, impactful public participation and proper scrutiny. We would like to remind Members that Parliament is an important democratic institution and critically must not be used as a platform to defend the indefensible. Those who are involved in corruption need to be held to account and the avenues that enable corruption need to be addressed urgently - including through the measures contained in this Bill.

We take note of the commitment that 40% of procurement will be set aside to be awarded to female-owned businesses. With this commitment we urge that it must be about stimulating genuine female-owned businesses to thrive. It cannot be about using public finances to enable fronting or symbolic transformation. Localisation should not imply that 'middlemen' who do not add value and politically connected persons get contracts to the exclusion of productive small and medium-sized businesses. Localisation needs to be about growing functional businesses.

We need inclusive industrialisation. This is hard work and difficult policy impasses should be confronted, but it is necessary to enable more participation in the South African economy and to create jobs. These do not need to be in the public sector. The private sector is struggling with the impacts of the pandemic. In many respects, government's actions are not at all enabling and the environment in which private businesses must operate is therefore fraught with challenges. Female-owned businesses face additional barriers. Weak implementation, ongoing corruption and dithering on matters such as spectrum is causing great harm. We welcome the Minister's suggestion that public-private partnerships can help improve economic outcomes, but these cannot be dominated by government or exploited for concentrated private interests. State capture has clearly demonstrated how conniving public and private actors can exploit public resources.

Local government

Local government finances remain a major concern. There does not seem to be a solution on the table to the municipal debt problem, and a doubling down on "own revenue" is being put forward. As part of the fiscal consolidation policies over the medium term, transfers to local government are reduced by R19.4bn. Municipalities are already implementing wage increases most cannot afford, so these cuts will add fuel to our call for managerial wages to be frozen. The solution is not for municipalities to hunt for other sources of revenue but to improve the management of revenue streams they already have and to stop abusing our rates and taxes.

The Minister announced that the Municipal Systems Improvement Grant has been extended for the rollout of the District Development Model. This Model cannot result in what is effectively an additional sphere of government while failing to address the issues in existing spheres.

Parliamentary oversight

In July 2019, a report to the Joint Standing Committee on the Financial Management of Parliament (JSCFMP) pointed out that constituency offices are dysfunctional. Such offices are funded by Parliament which means that South Africans are funding a system that does not work for them. The performance outcome for these offices is situated under Parliament's Program 5: Associated Services. This program provides travel, communication, and other facilities to Members of Parliament to fulfil their duties as elected public representatives. This program also provides support to political parties, their leaders, and constituency offices. The 2019/20 annual report states that 100% of payments to political parties are compliant with policy. However, while parties receive money from Parliament to run these offices, the value communities get for in return is unclear and there are no effective indicators to evaluate outcomes from this expenditure. Parliament does not prioritize addressing these issues.

South African citizens need a culture of accountability and responsiveness in Parliament. We recommend that the operational management of Parliament should establish a platform for public commitments so that Members of Parliament can be held accountable by their constituencies and inclusively reprioritize budgets to this effect.

Implementing the Auditor General’s recommendations

In the Auditor General’s second special report on the financial management of government's Covid-19 initiatives, it is highlighted that:

We have been reporting for many years on poor control environments where the basics of financial management and record keeping are not in place. We have highlighted the impact of instability in leadership, a lack of consequences for transgressions and the non-compliance with legislation, and opportunities for abuse in the supply chain management processes. We have reported on projects and programmes that have failed because of poor planning, execution without oversight and a lack of coordination across government, fuelled by poor intergovernmental relations (Auditor General of South Africa, 2020, p. 7).

Highlighting the deficiencies in repeated reports and expecting established authorities (who are often to blame for the very financial deterioration at issue in organs of state) to take remedial action has largely failed. We previously recommended tangible actions to address the root causes of malfeasance. Responsible executive and accounting authorities must be held personally liable for corruption and maladministration that occurs under their watch. Such individuals should ultimately be replaced and barred from the public service.

We reiterate that a clean governance culture needs to be inculcated. This includes appropriate division of duties, suitable internal controls and corporate governance measures being complied with. We also recommend that publicly broadcasted key performance indicators should be implemented with monitoring and evaluation systems that create more transparency on the performance of key individuals in Institutions and SOEs.

Recommendations

Our key recommendations are as follows:

1. **Vaccine strategy**: That civil society, business, academia and professional health bodies are pulled together to establish a concrete, detailed and practical plan to roll out the Covid-19 vaccine strategy with timelines and anti-corruption measures.
2. **Introduce a Fiscal Rule**: To address burgeoning public debt, primarily by introducing a fiscal rule which constrains spending levels (over and above our expenditure ceiling).
3. **Improved efficiency of spending**: That government focuses on reducing its size to find the needed funds whilst enhancing the quality of service delivery and its performance.
4. **Reforms**: The outcomes of the spending reviews should be made public and a clear process for restructuring or reforming the budget should include the public shareholder.
5. **Zero-based Budgeting**: Improvements to allocative efficiency. Zero-Based Budgeting is an approach that we welcome. It must be implemented at ALL levels of government.
6. **Public sector wage bill**: That no salary increases will apply to any positions within the state for the next two years, especially those in higher income brackets.
7. **Economic enablers**: That Ministries of Energy and Communications will be given clear, hard deadlines on deliverables for renewable energy and embedded generation on the grid, high demand spectrum to be opened and digital migration to finally take place.
8. **Infrastructure**: That Government will focus on rolling out infrastructure and programs to provide communities with access to free and reliable internet access.
9. **Public Procurement Bill**: That the draft Bill will reach Parliament this year to ensure better transparency and advance the fight against maladministration and corruption.
10. **Procurement practices**: That all procurement processes will be transparent at every stage of the tender and purchase cycle, to improve civil society's oversight role on all infrastructure development, to reduce the cost of infrastructure build and service delivery, which is often costs double to triple that which the rest of the world pays. One of the approaches we strongly advocate to achieve this is the use of IT systems that utilise artificial intelligence and machine learning to make improved contract award decisions.
11. **State Owned Entities**: That the value of every SOE will be assessed with a clear plan presented for some to be closed, sold, or amalgamated, within six months. And that this includes an SIU list of those facing prosecution for corruption and maladministration.

12. **Local government**: That the collapse of local government is regarded by Government as a most serious threat to the future of this country and that a civil society led intervention will be instituted to provide input and participation in the delivery of a raft of practical and implementable solutions.
13. **Professionalisation**: That cadre-deployment will no longer be tolerated and all state employees who do not have the necessary qualifications for their respective roles will be phased out of office.
14. **Anti-corruption**: That the National Anti-Corruption Strategy (now six years in the making) will be rolled out within months, by a credible team who will implement recommendations from the Auditor-General's reports and commissions of inquiry reports, with an emphasis on best practice methodologies to tackle corruption.
15. **Consequence management**: That the Presidency, Treasury and Department of Public Service and Administration identify all in the public service who have dishonestly done business with government, claimed Covid-relief or other grants, or in any way benefitted illegally, and a clear plan rolled out within months to hold all perpetrators to account.