



**MTBPS**  
26 OCT **2022**

**ACCOUNTING FOR  
IMPLEMENTATION**

**Standing & Select Committees on Finance  
Public Hearings  
2 November 2022**

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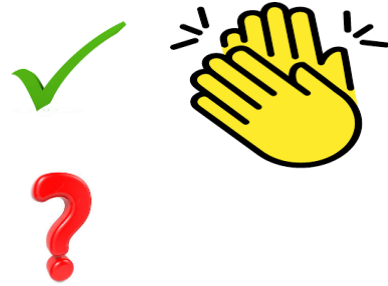
05 Implementation accountability

*Enabling you to ask the right questions and impose consequences*

# FATF GREYLISTING

Legislative amendments  
(Easy job)

Law enforcement and  
Prosecutions  
(Difficult job)



VIP Protection

Does halving this  
lavish budget by  
R1.7 bn not show  
more intent and  
budget  
prioritisation?

## Medium Term additional funding:

- SAPS for constables
- BMA
- NPA tax units
- ID specialist prosecutors
- ID forensic auditors
- Forensic data centre
- SIU state capture prosecutions

Only in Budget 2023  
and over 3 years.  
Average Grey Listing  
is 5-10 years.  
Mauritius achieved  
shortest period of 2  
years.

# IS THIS ENOUGH TO PREVENT GREYLISTING IN FEB 2023?



1. How will SAPS, ID, FIC, NPA be held accountable to ensure effective spending on additional budgets?
2. Why still so many media reports of SARB oversight failure for banks for AML?
3. What will the impact be on the budget if we are greylisted and has that been factored into medium term debt costs, FDI and GDP growth forecasts?

# ESTIMATES OF REVENUE



- 01 Revenue estimates
- 02 Tax-to-GDP ratio
- 03 SARS funding

# ESTIMATES OF REVENUE

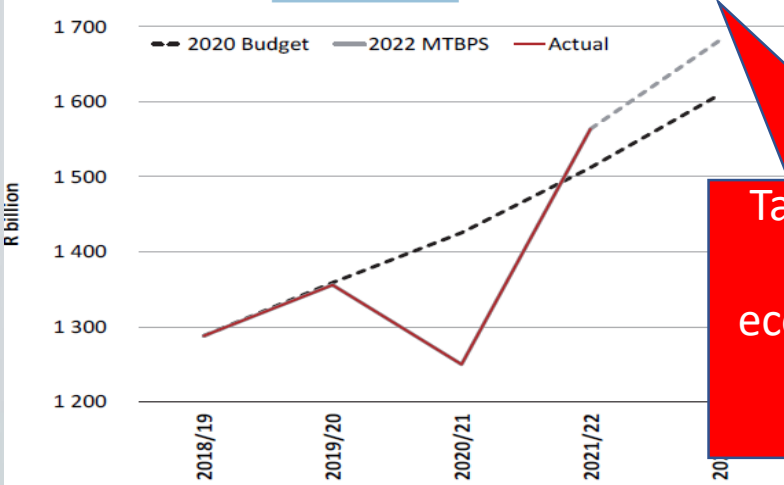
## Revenue estimates

## MTBPS

Partially reflect permanent increase



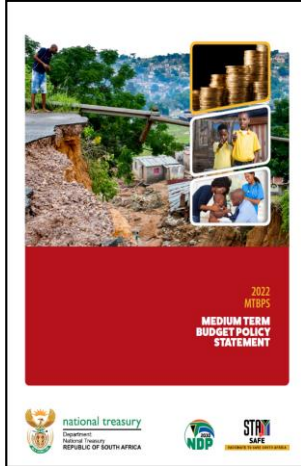
Figure 3.9 Gross tax revenue projections



Tax revenue growing despite weak economic growth and worsening tax buoyancy



“As SARS, we accept the challenge of the revised higher revenue estimate. While the revised revenue estimate is steep, we are committed to act according to what is permissible in law to meet this challenge.”



### 2022 MEDIUM TERM BUDGET POLICY STATEMENT

there is significant uncertainty associated with this projection. Revenue projections have changed rapidly before, during and after the COVID-19 pandemic. Any significant downward revisions would place the current fiscal strategy under pressure.

	2021 Budget	2022 Budget	2022 MTBPS
2022 GDP growth	2.2%	2.1%	1.9%
Average growth medium term			1.6%

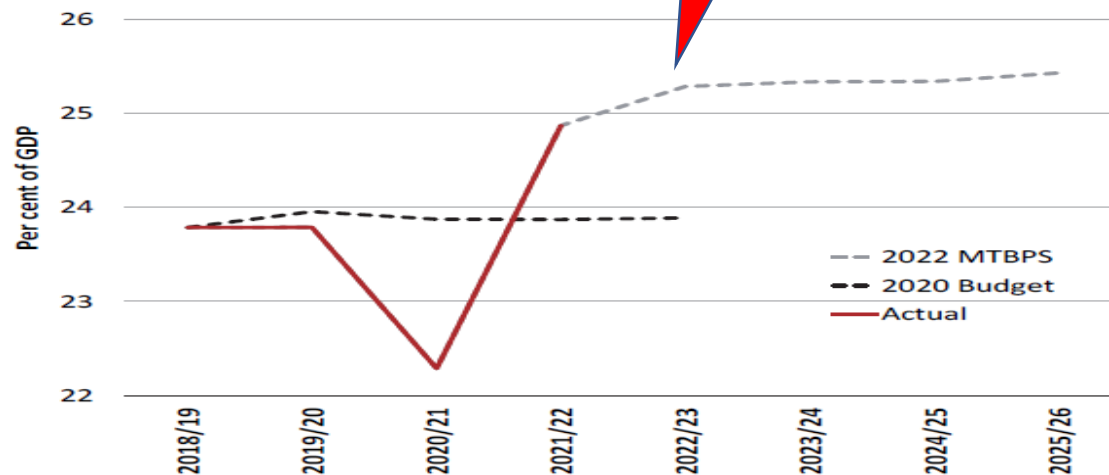
## ESTIMATES OF REVENUE

### TAX TO GDP RATIO - Ceiling

How well the government controls a country's economic resources. Good gauge of extraction of tax from economy for Gvt use.

Tax revenue growing despite weak economic growth

Figure 3.8 Tax-to-GDP ratio



Source: National Treasury and South African Revenue Service

Katz Commission Report into Taxation

25% limit

JSCoF recommendation

Investigate 25% or lesser limit



## Breaching 25% limit – what are the consequences?

1. Possibly detrimental to economy.
2. Needs to be factored in the impact of future GDP shocks on the revenue-GDP ratio.
3. JSCoF needs to conduct research that breaching this limit will not be detrimental.



## FUNDING FOR SARS



## R9bn needed



- Extra funds allocated – welcomed!
- SARS using staff vacancy budget for increases – **Is this sustainable?**
- **Is it enough?**

## GRAP

- 15 years and counting to implement accounting change – why?
- **How far in the process is SARS?**

## Governance

- MTBPS states Nugent Commission recommendations largely implemented
- Zondo Commission findings under consideration
- **When will the public consultation document be issued by NT?**

# ESTIMATES OF EXPENDITURE



- 01 Expenditure ceilings**
- 02 Contingency & unallocated reserves**
- 03 Public sector wages**
- 04 SoEs & municipalities**
- 05 Infrastructure spend**

# ESTIMATES OF EXPENDITURE

## Expenditure ceilings

**Table C.3 Main budget expenditure ceiling<sup>1</sup>**

R million	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
2020 MTBPS	1 418 408	1 502 867	1 479 709	1 516 052	1 529 585		
2021 Budget Review	1 418 399	1 504 656	1 514 934	1 521 721	1 530 664		
2021 MTBPS	1 418 456	1 487 388	1 570 890	1 552 268	1 558 725	1 627 154	
2022 Budget Review		1 487 399	1 575 002	1 630 905	1 613 671	1 686 932	
<b>2022 MTBPS</b>	<b>1 487 385</b>	<b>1 566 490</b>	<b>1 566 490</b>	<b>1 667 118</b>	<b>1 665 349</b>	<b>1 744 762</b>	1 832 678

1. The expenditure ceiling differs from main budget non-interest expenditure

Source: National Treasury

Effectiveness of ceilings and credibility of budget process?

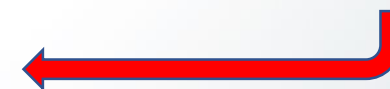


R51.7 bn (2023/24)

R57.8 bn (2024/25)



Debt to be taken over (+/- R200bn) - NOT INCLUDED!



Wage increase 2023/24 (min. R31 bn) - NOT INCLUDED!



## Consistent breaches of expenditure ceilings - why?

1. NT must provide regular feedback on its research on the most appropriate model/policy to protect budget credibility & fiscal stability.
2. Should government have ceilings that just create broken promise expectations?

# ESTIMATES OF EXPENDITURE

## Contingency & unallocated reserves

The spending increases are funded by the improved revenue estimates and an expected drawdown of the 2022 Budget unallocated reserve in 2023/24. The unallocated and contingency reserves cushion the framework from fiscal risks that may materialise over the medium term. The unallocated reserve is increased by R11.3 billion to R41.3 billion in 2024/25. The contingency reserve has also been increased by R2 billion over the next two years.

Table 1.3 Consolidated government expenditure

	2022/23 Revised	2023/24 Medium-term estimates	2024/25 Medium-term estimates	2025/26 Medium-term estimates	Average annual growth 2022/23 – 2025/26
<b>R billion</b>					
Learning and culture	447.4	455.6	473.4	496.5	3.5%
Health	258.4	256.1	267.5	279.4	2.6%
Social development	365.6	370.9	350.2	340.3	-2.4%
Community development	236.7	258.7	274.9	291.7	7.2%
Economic development	222.9	237.6	262.4	280.8	8.0%
Peace and security	227.6	226.4	235.4	246.5	2.7%
General public services	71.4	73.1	74.8	78.0	3.0%
Payments for financial assets	62.6	25.2	25.4	26.5	–
<b>Total expenditure by function</b>	<b>1 892.6</b>	<b>1 903.5</b>	<b>1 963.9</b>	<b>2 039.7</b>	<b>2.5%</b>
Debt-service costs	307.7	332.2	352.9	380.7	7.3%
<u>Unallocated reserve</u>	–	–	41.3	47.3	–
<u>Contingency reserve</u>	5.0	6.0	6.0	10.0	–
<b>Total expenditure</b>	<b>2 205.3</b>	<b>2 241.7</b>	<b>2 364.1</b>	<b>2 477.7</b>	<b>4.0%</b>

Source: National Treasury



Are these amounts really to “cushion” for unrealized anticipated fiscal risks?

1. Seems more like amounts earmarked for known losses?
2. R80bn = conditional rather than outright allocations to enable proper planning & spending.

# ESTIMATES OF EXPENDITURE

## Public sector wages

Figure B.2 Public-sector wage bill as a percentage of GDP, 2021

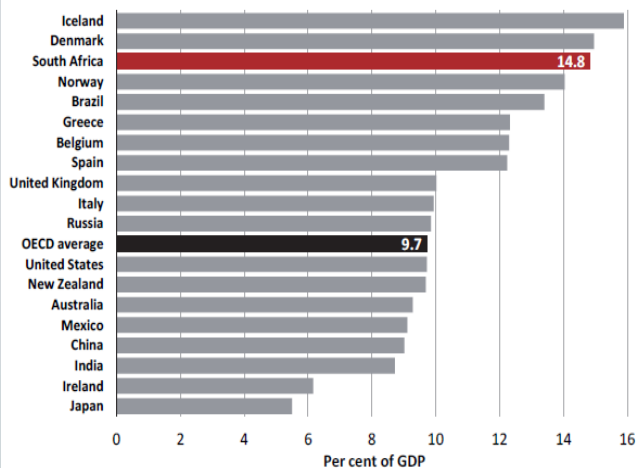
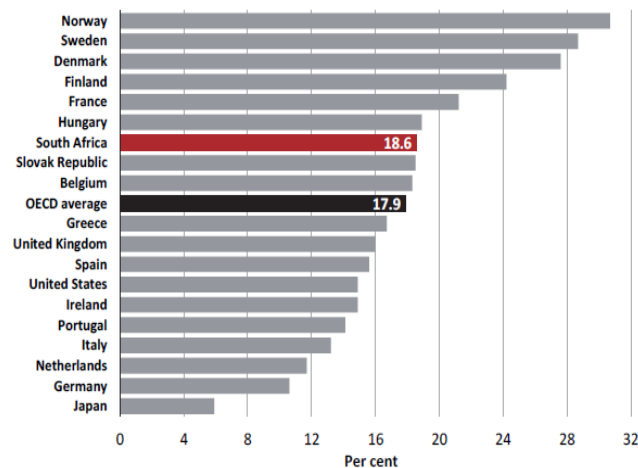


Figure B.3 Public-sector employment as a percentage of total employment, 2021



Source: OECD Data Library, 2021

Reason: Above inflation increases

Table B.5 Public-service wage bill projections<sup>1</sup> over the 2023 MTEF period by sector

R million	2022/23	2023/24	2024/25	2025/26	Average annual growth	
	Revised baseline	Medium-term estimates			2022/23 – 2023/24	2022/23 – 2025/26
Education	218 047	224 888	232 119	243 375	3.1%	3.7%
Health	149 566	148 421	154 990	162 085	-0.8%	2.7%
Police	79 137	78 431	84 352	89 158	-0.9%	4.1%
Defence	30 984	29 839	30 918	32 303	-3.7%	1.4%
Correctional services	17 855	16 929	17 689	18 481	-5.2%	1.2%
Other	110 121	109 608	114 065	119 123	-0.5%	2.7%
<b>Total</b>	<b>605 711</b>	<b>608 116</b>	<b>634 132</b>	<b>664 525</b>	<b>0.4%</b>	<b>3.1%</b>

1. Excludes provisional wage negotiation adjustment allocations

Source: National Treasury

**No provisions have been made for wage increases in 2023/24. Budget should include provision for anticipated amount of liability which is not 3.1%.**





## Is the budget being used as a negotiation tool?



1. Move to single remuneration framework & approval of Framework for professionalizing public sector is welcomed BUT:
2. Structural mix needs to be addressed
3. Need to link remuneration to individual performance!!

# ESTIMATES OF EXPENDITURE

## Stated-owned enterprises (SoEs)



R30 bn

R5 bn



R479 bn



R3 bn



SOUTH AFRICAN AIRWAYS



?

2024/25

Contingent liabilities

R1 trillion



Welcome funding framework  
& enforcement of minimum criteria  
for state guarantees  
BUT  
old guarantees becoming state debt



## What is the actual exposure?

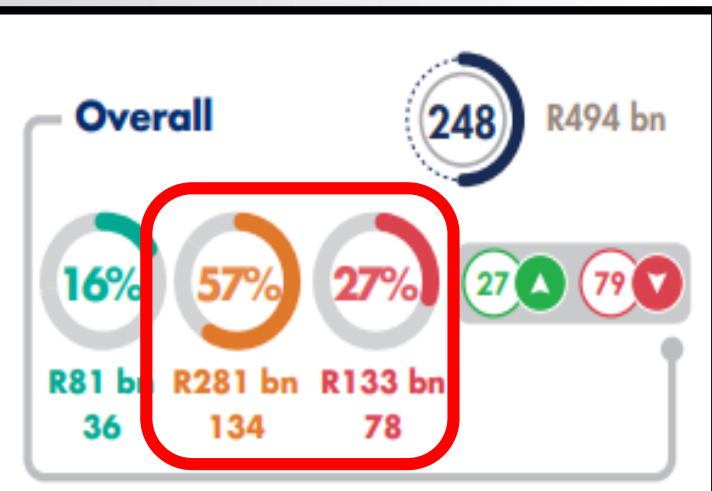
1. SCoF should request NT o prepare a risk-based schedule of all guarantees with a reasonable estimate of risk realization in medium term.
2. PPP's should be escalated!



# ESTIMATES OF EXPENDITURE

## Municipalities

### Status of financial health – overall



National Treasury is strengthening its **early warning system** to improve oversight and **timely assistance**



Is enough being done?

1. No further allocations to municipalities with consistent budget breaches.
2. Disciplinary action starting at the top with Accounting Officers that don't comply with their duties (s60-79 of MFMA; s38-42 of PFMA)

● Number of auditees

● Expenditure budget

● Good

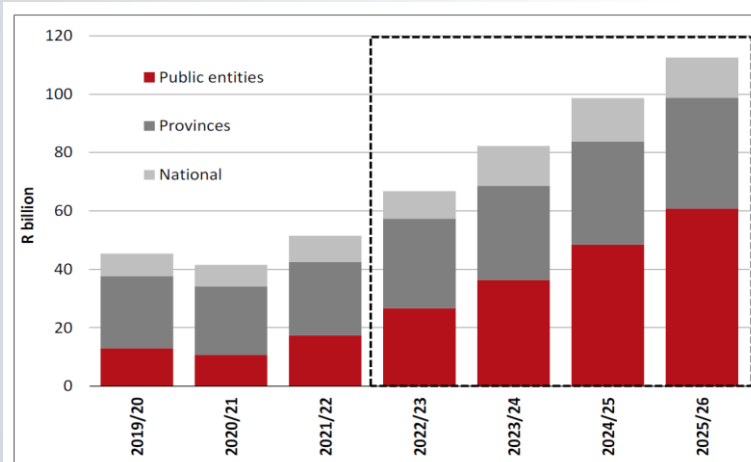
● Of concern

● Intervention required

● Movement over administration

# ESTIMATES OF EXPENDITURE

## Infrastructure



Historical numbers included repairs and finance cost

Rehabilitation vs infrastructure expansion



Public entities plan to invest R145.8 billion in infrastructure over the MTEF period, including R85.3 billion in the transport sector and R33.3 billion in the water sector. The South African National Roads Agency Limited will spend R61.8 billion to build new roads infrastructure and rehabilitate key transport routes serving the economy, mainly on the non-toll network, where over 85 per cent of roads are beyond their design life. The Passenger Rail Agency of South Africa plans to spend R23.6 billion to rehabilitate vandalised and stolen rail infrastructure and to continue the modernisation programme, which includes renewing the fleet of rolling stock.

Is this real infrastructure expansion?



1. Reallocate rehabilitation costs to R&M
2. To see true investment into infrastructure, NT to split CAPEX costs into following categories:
  - a) R&M
  - b) Rehabilitation & replacement
  - c) **NEW infrastructure**

# ESTIMATES OF DEBT

## Debt levels

Look again: Debt increasing – not stabilizing!

Table 3.8 Total national government debt

End of period	2021/22	2022/23	2023/24	2024/25	2025/26
R billion	Outcome	Revised	Medium-term estimates		
Domestic loans <sup>1</sup>	3 865.4	4 192.8	4 474.7	4 763.0	5 043.1
Short-term	448.1	444.9	477.9	513.9	548.9
Long-term	3 417.2	3 747.9	3 996.8	4 249.1	4 494.2
Fixed-rate	2 563.8	2 765.4	3 008.0	3 261.4	3 381.8
Inflation-linked	853.5	982.5	988.8	987.7	1 112.3
Foreign loans <sup>1</sup>	412.1	559.1	527.4	533.1	564.8
Gross loan debt	4 277.5	4 752.0	5 002.2	5 296.1	5 607.8
Less: National Revenue Fund bank balances	-266.4	-243.7	-152.7	-105.2	-94.5
<b>Net loan debt<sup>2</sup></b>	<b>4 011.1</b>	<b>4 508.3</b>	<b>4 849.4</b>	<b>5 190.8</b>	<b>5 513.4</b>
As percentage of GDP:					
Gross loan debt	68.0%	71.4%	70.8%	70.4%	70.0%
Net loan debt	63.8%	67.8%	68.7%	69.0%	68.8%

1. Estimates include revaluations based on National Treasury's projections of inflation and exchange rates

2. Net loan debt is gross loan debt minus the bank balances of the National Revenue Fund

Source: National Treasury

Gross loan debt	4 277.5	4 752.0	5 002.2	5 296.1	5 607.8
Less: National Revenue Fund bank balances	-266.4	-243.7	-152.7	-105.2	-94.5
<b>Net loan debt<sup>2</sup></b>	<b>4 011.1</b>	<b>4 508.3</b>	<b>4 849.4</b>	<b>5 190.8</b>	<b>5 513.4</b>



Do we have sufficient access to cash?

1. Urgent access to cash will be difficult.
2. NT to explain cash flow management plans.

## Estimates of debt service costs

1. Continues to rise
2. Risks not factored in:
  - Eskom debt take over
  - Greylisting
3. Government needs to reduce expenditure to realise budget surpluses in order to reduce debt.

Cash on hand:

2010 =  
R106bn



Decreasing  
rapidly

# UNBUDGETED EXPENDITURE

Unbudgeted expenditure

Public Sector  
Wage Bill  
increases

SOE's  
contingent  
liabilities

Municipalities  
financial  
health

Water &  
sanitation  
infrastructure

Police funding

Legal liability  
provisions

Eskom etc.

GEPF  
underfunding

Eg. Medico-legal  
claims = R109 bn

Need National W&S Master Plan

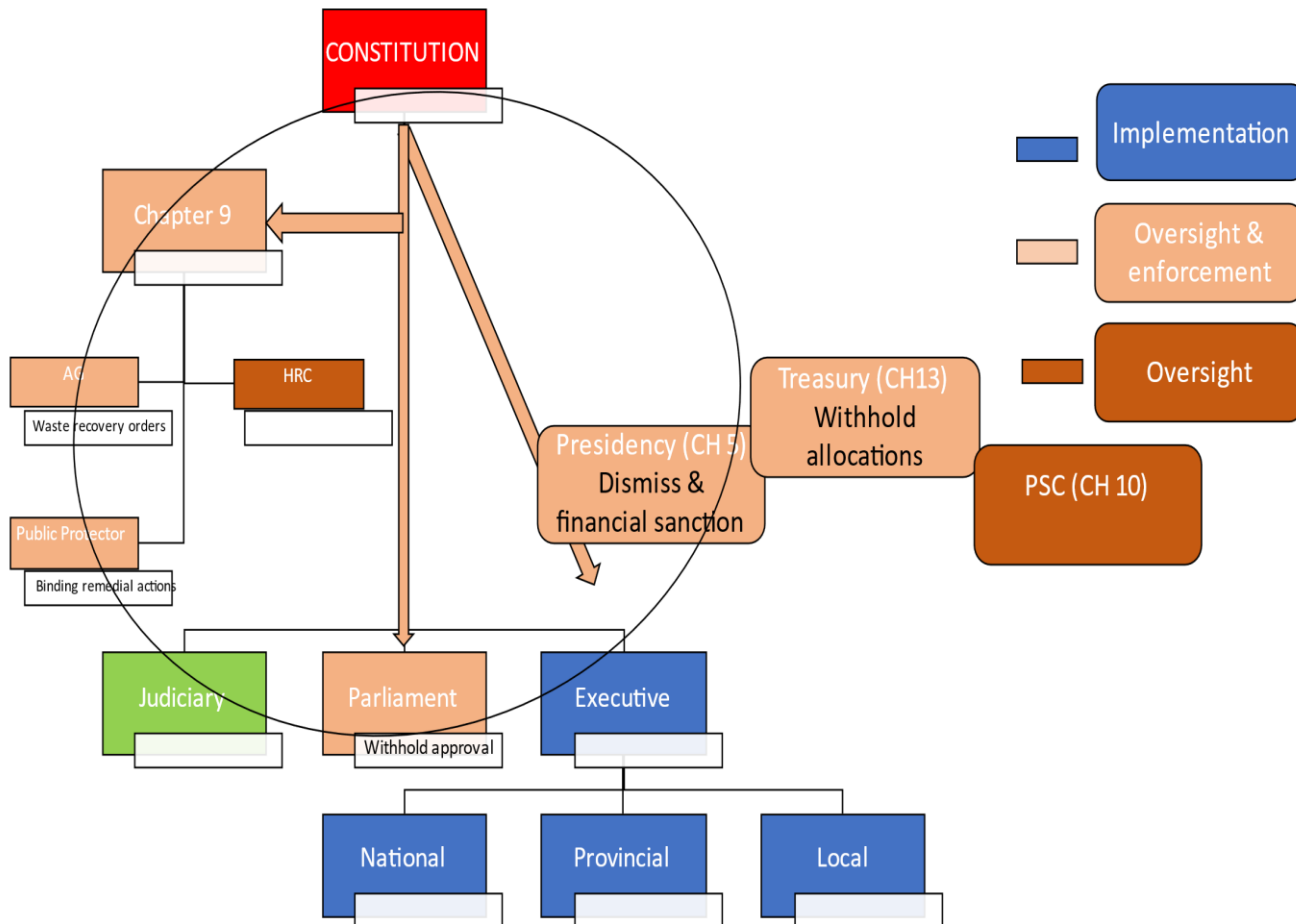


Fiscal sustainability  
without completeness?

1. Have we done enough  
in last 6 months?

# IMPLEMENTATION ACCOUNTABILITY (Still lacking)

## Who is responsible for implementation of fiscal sustainability?



## FATF Grey listing: Who should have known?

- SA joined FATF in 2003, Parliament knew.
- SA received 1<sup>st</sup> negative review in 2009, only fixed in 2017, Parliament knew.
- FATF started current evaluation in **October 2019 and reported in October 2021**, Parliament should have known?

## What do we need?

1. Annual reporting on Minister's performance contracts + accountability if not met.
2. Rapid implementation of “Framework for professionalizing the public sector”.
3. Productivity pact. **NB!!** **NB!!**
4. Need collective 360 oversight – SCoF, SoCA, SCoPA  
*Is Parliamentary institutional knowledge and oversight sufficient for international obligations?*





**MTBPS**  
26 OCT **2022**

**ACCOUNTING FOR  
IMPLEMENTATION**

**THANK YOU**