ORGANISATION UNDOING TAX ABUSE

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OUTA Submission to the Standing & Select Committees on Finance on the 2020 Medium Term Budget Policy Statement (MTBPS)

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Executive summary

Service delivery does not match spending. We spend significant amounts on the public service but instead of improved productivity, we see the increased entrenchment of corruption and maladministration, knee-jerk solutions for failing state-owned entities, economic recovery plans which are not properly implemented, and ever-increasing debt. The government is significantly failing to do more with less and blaming the problems on the pandemic effects ignores the problems of more than a decade of systemic corruption.

The 2020 MTBPS is arguably the most important moment in South Africa's fiscal history, both because of the effects of the Covid-19 pandemic and the failure to curtail systematic looting of public resources over the past decade. Corruption is no longer an exception but an entrenched, systemic problem. This was illustrated by the extraordinary looting of the Covid-19 funds. Effective tools which already exist – such as the Auditor-General's reports – are not adequately employed.

The current situation demands a **robust fiscal policy** that will eliminate any and all expenditure items that have not had a measurable and satisfactory impact on the lives of ordinary South Africans. OUTA recommends the establishment of a committee which focuses on inclusive fiscal policy and develops a **fiscal policy paper** promoting private sector growth and focusing on more productive categories of spending.

Greater transparency on spending at all levels is a crucial weapon against corruption.

Spending is dominated by the wage bill, which is about 36% of spending, but productivity remains low. It is necessary to reduce remuneration in the public service to what can be justified in terms of labour productivity and performance outcomes. Dubious appointments which aided state capture must be investigated and remedied.

Planning needs far better implementation. 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 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 a fiscal policy that prioritizes capital expenditure and infrastructure in particular, when increased spending is promised it is not delivered, and we do not see sufficient value for money. We see incompetence in key positions, remuneration unrelated to performance, administrative negligence and systemic financial crime in the public service.

State-owned enterprises continue to be a drain. 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.

Cutting costs is crucial but has not been sufficiently successful to date. Allocative efficiency needs improving, applying cuts that eliminate waste, reduce the resources needed to achieve essential outputs, but preserve social spending: this balance has yet to be achieved.

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.

Spending priorities may need reassessing. We were disappointed that there was no increase in funding for the NPA and SARS, as these are crucial in ending corruption and securing the safety of our limited resources. Reforming the NPA and SARS remains urgent, and aggressively pursuing errant taxpayers – especially the industrial-scale evaders – should be a government priority, with sufficient funding. This is an investment which will pay for itself many times over.

Local government needs urgent attention. 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. 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.

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 for 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.

On revenue, we question whether the current tax regime promotes growth, as we see the gradual increase in rates of taxation on consumption and income counterbalanced by the steady decline of productivity and ongoing non-compliance with public finance management legislation. This exacerbates the negative trend of productive economic activity.

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Introduction

The 2020 MTBPS is arguably the most important moment in South Africa's fiscal history. The combined effects of restrictive measures taken to contain the Covid-19 pandemic, the failure to curtail systematic looting of public resources over the past decade (and beyond), and redirection of funding away from basic needs towards large bungled projects are now being felt. The current situation demands a robust fiscal policy that will eliminate any and all expenditure items that have not had a measurable and satisfactory impact on the lives of ordinary South Africans.

Cabinet has resolved to "*break the cycle of low economic performance, weakness in production and poor labour market outcomes by using infrastructure, localisation, re-industrialisation as levers to stimulate economic activity and to raise the standard of living in marginalized communities.*" These high-level development goals have been provided for in ordinary annual appropriations, with no positive change in economic performance and labour market outcomes. The objectives set out by NEDLAC's EISEID Cluster in their presentation dated 7 October 2020 are trite. This demonstrates a macroeconomic decision-making process that is not open to fundamental change and innovation, despite the looming fiscal crisis we face today.

Due to political weakness there has, to date, never been a robust fiscal rule in South Africa. The conflation of archaic ideological struggles and inept management to exercise sound financial management and frugal targeted public expenditure has served to sustain maladministration, corruption and wasteful spending more generally. The current situation demands robust fiscal policy to eliminate expenditure items that have not had a measurable impact on the lives of ordinary South Africans and also to attract foreign investment. In the same vein, a shift towards increasing tax revenue by means of increased economic activity instead of increases current tax rates and the uptake of unskilled and skilled labour in the private sector is needed.

This submission critically analyses (1) fiscal policy, (2) the economic outlook, (3) government's economic recovery plan, (4) tax policy proposals, (5) implementation of zero-based budgeting, as well as (6) audit outcomes and public governance improvements.

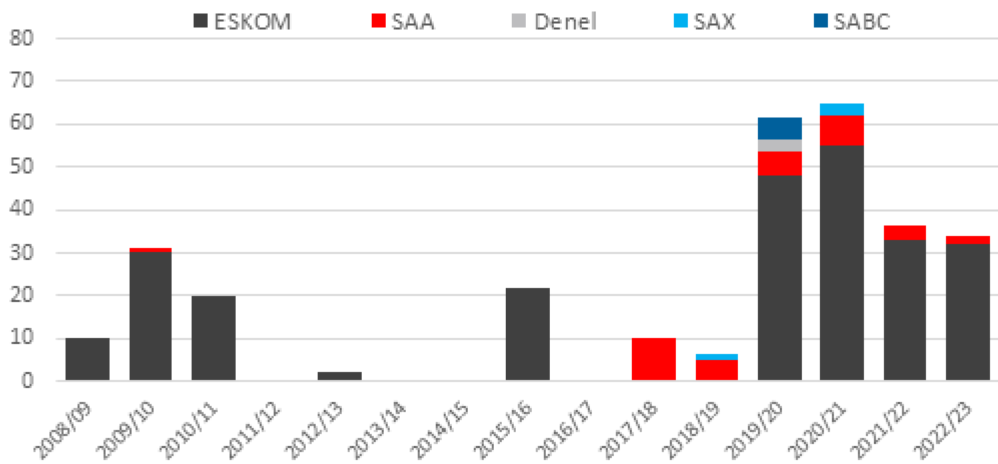
Fiscal policy

Fiscal policy determines how a government adjusts its spending levels and tax rates to monitor and support an economy. Fiscal policy consists of deliberate changes in government spending, taxes, or some combination of both to promote full employment, price-level stability and economic growth.

Fiscal policy in South Africa was expansionary in the 1990s. Expansionary fiscal policy is when there are increases in government spending or tax cuts to stimulate economic growth. In the 2000s South Africa experienced economic growth and enjoyed a fiscal surplus in 2007 and 2008, which helped the country during the 2008/9 financial crisis. The period after the financial crisis has seen South Africa struggle to attain a fiscal surplus. Instead, the slowdown in private investment and an increase in government spending has led to a growing fiscal deficit. In 2012 South Africa's debt levels averaged about 42% of GDP, a level higher than its emerging market peers. The rise in debt led to the introduction of the spending ceiling, which targets a nominal limit on the main budget non-interest expenditure – the core spending over which government has direct legislative authority. The National Treasury reduced the spending ceiling every year to contain the ineffective growth in expenditure. The introduction of the spending ceiling substantially reduced expenditure growth but estimates of expenditure in the outer years remained higher than initial estimates.

In recent years, South Africa has struggled to contain debt despite the introduction of the spending ceiling. Fiscal policy is political by nature and political decisions often compromise the country's commitment to shrinking the deficit. For instance, President Zuma announced fee-free higher education before the 2017 ANC Conference. This was a unilateral decision taken by the former President. The decision also went against the Fees Commission which he had set up to investigate the feasibility of free education. After that announcement, government scrambled to find funding for the 2018 first-year university cohort. After the effects of state capture, which resulted in the erosion of the finances of South Africa's state-owned companies, government has had no policy for these entities. Typically, a distressed company is either recapitalised, sold or an equity partner is found. Instead of choosing any of the three, government allowed some of these entities to operate by injecting funding that was insufficient to keep them afloat. Between FY2008/9 and FY2019/20, the major state-owned companies received R162 billion in financial support. Eskom alone accounted for 82% of fiscal support over the past 12 years.

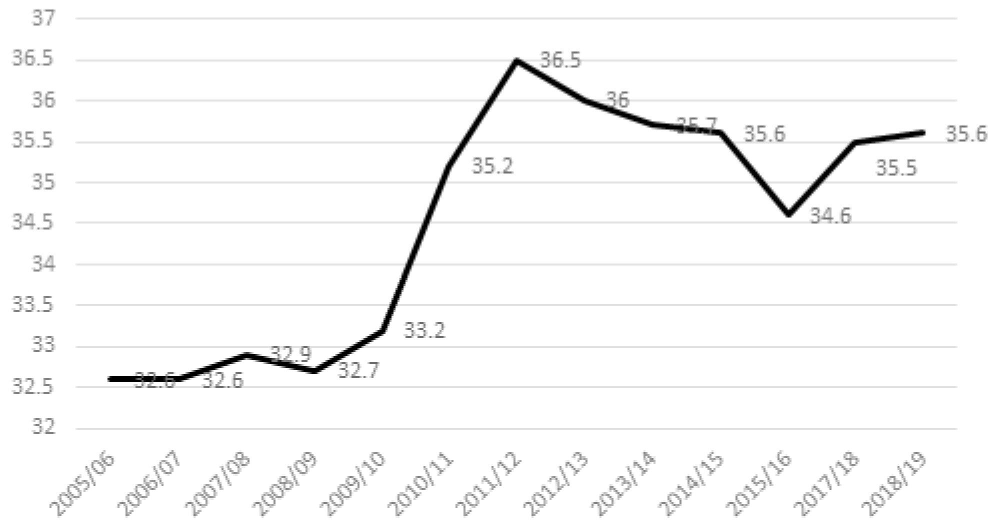
Figure 1. State-Owned Companies



Government budget deficits are mostly structural in nature, with the wage bill accounting for about 36% of spending. By government's own admission, labour productivity in government is low compared to the private sector and 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. According to the February 2020 Budget Review, growth in the wage bill has started crowding out spending on capital projects for future growth and items that are critical for service delivery. When the amount of current investment crowded out is extensive, future generations will inherit an economy with a smaller productive capacity and lower standard of living.

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.

Figure 2. Public sector wages as a percentage of consolidated expenditure



The increase of remuneration in the public service beyond what is necessary or justified in terms of labour productivity and performance outcomes is a fundamental flaw that must be fixed. It is necessary to reduce remuneration in the public service to what can be justified in terms of labour productivity and performance outcomes.

OUTA would like to see hiring practices and appointments that aided state capture being investigated. The hiring practices that resulted in inappropriate appointees occupying key positions must be probed and these appointments set aside. Where public officials have conducted themselves in a dubious manner, these allegations and grievances need to be taken seriously. For example, civil society organisations that are part of the State Capture Working Group, of which OUTA is a part, are concerned that there are long-standing and serious allegations that place in question the integrity and professionalism of several senior prosecutors in the employ of the NPA. These allegations have come to light at the Mokgoro Enquiry and through litigation relating to the Johan Booysen and Richard Mdluli matters. There is no doubt that the NPA cannot restore its credibility while errant prosecutors continue to occupy its most senior positions. It will constantly frustrate efforts to move forward if these issues which have manifested themselves not only at the NPA, but also across the state are ignored.

South Africa's fiscal credibility is eroding with every year of missed targets set out by the National Treasury. If this is not addressed, markets and credit ratings agencies will not trust the credibility of Treasury's growth forecasts.

OUTA supports improvements to allocative efficiency to enable allocations to areas of the budget that will stimulate the economy. To restore fiscal balance, cost reduction strategies need to be utilized – and applied in a manner that preserves social spending to support the most vulnerable and protects human rights realization. Across the board cuts have not been achieving that, which is why OUTA is in support of the Zero-Based Budgeting approach that Treasury has indicated will be implemented.

All cost reduction strategies are based on two main principles: the first is the elimination of activities that are unnecessary; and the second is the reduction in the resources needed to achieve essential outputs. The first is called "Allocative efficiency" and the second is called "Productive efficiency". Priority should be given to the first on the basis that doing the wrong thing, even if done well, is always inferior to doing the right thing, even if done badly. Also, substantive results can sooner and more easily be achieved through the elimination of entire activities than they can through efficiency improvement initiatives that are often slow and arduous exercises.

OUTA recommends the establishment of a committee which focuses on inclusive fiscal policy. South Africa's lack of a robust fiscal policy has made us a second-rate destination for foreign direct investment in Africa. We need a non-negotiable fiscal policy that promotes private sector growth for South Africa to become the gateway and hub of trade and investments in Africa. We would like to see the Fiscal Policy committee being tasked with developing a fiscal policy paper.

OUTA supports the following measures to restore fiscal balance:

1. Zero-based budgeting
2. Sort out the Wage Bill
3. Close or sell off SoEs that are not needed
4. Introduce a Fiscal Rule
5. Stop bailing out municipalities unless there are stringent oversight mechanisms. Provinces must be held more accountable to the broken state of local government.

Economic Outlook

The South African economy has been underperforming for more than a decade. Our permanent fiscal commitments have increased from roughly 19% of GDP in 2000 to over 26% of GDP in 2018. Despite this significant and arguably necessary increase in expenditure - we have not seen equivalent increases in public service delivery. 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 has found itself downgraded and in a technical recession in the beginning of 2020. To rub salt in the wound, Covid-19 prompted government to restrict human movement and thus economic activity was further constrained. Unemployment figures have worsened significantly.

Since 2009, the percentage of GDP spent on public infrastructure has decreased from about 3.5% to just above 2% in 2018. Speeches from Ministers of Finance and the President have often promised increased expenditure on public infrastructure, without subsequent implementation. Whilst we welcome a fiscal policy that prioritizes capital expenditure and infrastructure in particular, value for money is a problem in this regard. There is a plethora of hurdles for the translation of tax revenue into high quality infrastructure and services in South Africa's public sector. Fiscal multipliers have collapsed over recent years. Barriers include incompetence in key positions, remuneration that is unrelated to performance, administrative negligence, and systemic financial crime in the public service.

To understand whether our taxation regime currently promotes economic growth, we should consider what types of tax have constituted what portion of the total tax base over time - and compare that with real economic growth rates over the same period. Between 2000 and 2008, taxes on capital, wealth and corporate income increased from just above 6% to over 9% of GDP, overtaking the percentage of GDP Personal Income Tax (PIT) constituted over the same period. Also, since 2000, taxes on consumption have consistently been higher as a percentage of GDP than either PIT or taxes on capital, wealth, and corporate income. In the three years following 2000, both taxation on consumption and taxation on personal income decreased, whilst taxes on capital, wealth and corporate income increased. South Africa's economic growth rate increased from 0.5% per annum in 1998 to 5.6% in 2006. Since then, the steady decline of our productivity has been counterbalanced by gradual increases in the rates of taxation on consumption and income. This has exacerbated the negative trend of productive economic activity in South Africa.

In addition to external events like the 2008 financial crisis and the more recent Covid-19 pandemic, consistent misspending of scarce tax revenue due to non-compliance with public finance management legislation and a lack of consequences for politicians and public officials who are responsible for this has made matters worse. The lack of a fiscal policy prioritizing more productive categories of expenditure, again, has eroded our fiscal multipliers and the real impact of targeted public sector spend. The most acute effect of this problem is disproportionate growth in the cost of servicing our sovereign debt - which is further crowding out targeted social spend and capital expenditure in infrastructure and other public investments.

To illustrate the problematic economic context outlined above, we juxtapose the bailouts, special appropriations, capital transfers, current transfers and government guarantees received by state-owned entities and -companies despite their dismal operational failures. PRASA and SAA are good examples. 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. Despite welcomed upper limits that will apply to growth in the Wage Bill, the budget deficit is expected to be R707.8bn for this year alone. This adds further pressure to the shrinking fiscus because of concomitant debt servicing costs.

Economic Recovery Plan

President Ramaphosa’s reconstruction and recovery plan provides a useful direction for South Africa; however, it requires government to prove it can implement these crucial reforms.

We have seen many plans and, as is the case in the past, the problem lies in the inability of the government to implement. Many aspects of this plan have been promised before but failed to materialize. The President has shown he has united key social partners with his plan but must now ensure that government – including the lackluster public service – plays its part in delivery. As a country, we now have our backs to the wall, and implementation can no longer be delayed.

We hope to see the scarce funds we have being put to effective use for meaningful recovery. An unavoidable aspect of this involves reducing the bloated public sector workforce and wage bill.

As with any state spending, particularly urgent spending, we know the corruption vultures will circling, as was witnessed during the Covid-19 relief funds, much of which remains unresolved.

We welcome the plan’s focus on tackling corruption, but talk is cheap. We had hoped to see increased funding for the NPA and SARS in the mid-term budget, as these are crucial in ending corruption: the big prosecutions of state capture and blocking of industrial-scale tax evaders are still ahead. But we were disappointed in this regard. We also need to see government introduce greater civil oversight and transparency in all procurement processes.

Strong, effective, and rapid action against corruption is essential to build business confidence and encourage investment and government should embrace the input from civil society in this regard.

On state-owned entities, we welcome the promise (again) that these will be rationalized. It is time to let go of failed SOEs like SAA and Denel and for the state to become an enabler of competitive industries, rather than a participant. We need to see the most talented CEOs and boards appointed to watch over our country’s assets, mentor upcoming leaders and execute the President’s plans.

The huge infrastructure investment sounds attractive, but projects need to be bankable for investors to pursue these. Business needs a clear regulatory framework, policy stability, transparency and zero political interference. We would like to see banks contributing by restructuring existing government and SOE debt, lowering interest rates and providing better terms for the infrastructure programme.

The mass public employment programmes are welcomed as they will do much towards alleviating the misery of poverty. But these are programmes subject to corruption and must be watched, particularly at local government level. Support for SMMEs, including cutting red tape, will do more to create sustainable jobs in the medium term.

The Department of Trade, Industry and Competition and the Department of Mineral Resources and Energy need to engage with civil society and business to remove the blockages that make it difficult to do business in South Africa. Here we refer to the National Regulator for Compulsory Specifications and other areas that have become archaic and cumbersome. The use of technology and digital processes is now urgently required in all sectors of the state to improve efficiency and block out corruption and maladministration.

We welcome the linking of deliverables to deadlines in the plan and would like to see this in greater detail. Will there be consequences for non-action?

The state needs to pick an economic vision and stick to it. If the National Development Plan is the plan, then government needs to get everyone on board – the public service, labour, business and civil society – so that we can work together as a country to achieve that vision through proper implementation and execution. Government has struggled for years to achieve laudable goals and cannot do this without the committed involvement of all sectors.

The National Economic Development and Labour Council (NEDLAC) is not geared to develop economic recovery plans. South Africa's economic reform should be planned and implemented inclusively. In a presentation to Parliament's Portfolio Committee on Employment and Labour in November 2019, NEDLAC officials conceded that exclusivity is one of its most pressing issues. NEDLAC fails to recognize civil society as a full partner. It is not readily apparent how NEDLAC representatives are chosen and when they are rotated. The proceedings at NEDLAC are completely opaque to the extent that only a select few know what goes on at NEDLAC and what does not happen there. It appears that issues sit at NEDLAC for years without movement. Civil society have no way of knowing what is happening at NEDLAC and yet very important decisions are being made on behalf of South Africans at NEDLAC.

Stimulating Local Economic Development

One of the areas of the Economic Recovery Plan that OUTA would have liked to see addressed more vigorously is how to stimulate Local Economic Development. The pandemic has put South Africa's economy in a very precarious position. The country was already in a recession having posted two consecutive quarters of negative growth in the third and fourth quarters of 2019. The South African economy is likely to contract by -9.2% in 2020. The pandemic compelled countries to allocate funds to support their economies from plunging even further. Government allocated about R500 billion to help support the economy, the details of which were provided with the tabling of a special supplementary budget in June this year. R145 billion of that amount comes from the reprioritization of the expenditure. Provincial reprioritization was given an extra R7 billion in conditional grants and an amount of R20 billion has been made available for municipalities to provide services such as water and sanitation. An additional R11 billion is also allocated through the local government equitable share, allowing for local governments to respond to local needs.

However, what is the importance of local government and why was it not operating optimally to ensure that there is service delivery prior to the pandemic? Had there been sufficient investment in the local economy, the impact of the pandemic would have been less severe on the poor and vulnerable in South Africa.

Provinces and municipalities account for most of the public spending. Over the medium-term expenditure framework (MTEF) period, after budgeting for debt-service costs, the contingency reserve and provisional allocations, 48% of nationally raised funds are allocated to national government, 43% to provinces and 8.8% to local government. Building a capable state that can deliver on its developmental mandate requires provinces and municipalities to have the capacity to spend efficiently. Government investment can stimulate demand in the economy and create a foundation for future growth, provided it is well spent. There are many instances in South Africa where wasteful spending and corruption have been shown to undermine the ability of government to translate budgeted resources into delivery of services. One only needs to look at the findings of the Auditor-General's (AG) Report, which reveals gross mismanagement of state resources. This is a yearly phenomenon. In the latest AG Report, only 21 municipalities achieved a clean audit and there was over R32 billion irregular expenditure. The resulting collapse of water reticulation, sewage treatment and safe roads in parts of the country imposes hardship on communities and increases the cost of doing business. For public spending to achieve value for money, the fundamentals of governance need to be fixed at all levels.

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. This will ensure accountability and prevent leakages of resources. Officials that have been corrupt should face the might of the law. By allowing the same officials to continue in their positions year after year is essentially allowing them to continue mismanaging the municipality.

National and local treasuries are not doing enough monitoring of local governments and often residents are left with the difficult task of holding municipalities accountable. Frustration with the decline in services has led to communities approaching the courts so that municipalities are placed under intervention by the provincial government and for the municipal councils to be dissolved, but this does not happen often as there are cost implications, intimidations and killings. Communities often resort to civil protests in the hope of being heard. Monitoring and intervention should be done by national government instead of the responsibility resting on communities.

Local economic development is one of the most important ways of reducing poverty. Local government development has to create jobs to enable economic growth. This requires more business activity and investment. Whilst national policy is tasked to make policy and provide funds, research and other support for local development, municipalities decide on the local economic development strategies. In the context of South Africa, these strategies must prioritize job creation and poverty alleviation. They must also target previously disadvantaged people, marginalized communities and enable SMMEs to participate fully in a conducive environment. Nobody wants to be poor and we believe that this is the area where one can dignify the poor by creating real jobs and opportunities for them to participate in the economy, lift themselves out of poverty and hopefully become independent, tax contributing citizens.

Municipalities should focus on:

- Developing infrastructure that will make it easier for businesses to operate. These include housing, transport, roads, water, electricity etc.
- Promote tourism, which is one of the biggest growth industries in South Africa. Local tourism sites and facilities need to be developed.
- Municipal tenders and procurement policies must favour competent small contractors and emerging businesses, NOT politically connected companies, and individuals.

Short-term strategies geared to alleviate poverty by creating immediate jobs soon are most often not sustainable. What is required is vision to promote long-term processes that emphasize the gradual elimination of poverty through sustained growth in employment, productivity, and income. This process often relies heavily on the role of local government in stimulating and sustaining the rural SMME economy, especially through policy interventions that enhance a community's capacity for initiating local economic development.

Although tourism, specifically eco-tourism, is often heralded as the epitome of sustainable development, there is often a vast difference between the needs of the tourist industry and those of the local people – especially in third world countries. Keeping this in mind, it is possible to design tourist initiatives that enhance the development of rural areas such that the local people experience the benefits.

Problems associated with tourism-led local economic development are:

- Huge disparities in employment levels during the on-season compared with the off-season. Many employees cannot rely on a constant income.
- Employment growth in menial and/or poorly paid jobs. This is especially evident when external people are brought in to occupy the higher paid managerial and administrative positions.
- Economic leakages to larger, external tourism markets; and
- Mobilization of the private sector investment which has the potential to exclude or reduce local participation and decision-making processes.

The stark reality faced by most small towns and rural areas in South Africa is one of economic decline and stagnancy, absent private sector support and investment, a declining local tax base, population fluctuations due to migrant labour and a critical shortage of professional and accountable staff members.

Accountability should be the very essence of democracy. Essential to accountability is transparency. Democratic local governance needs to be open to scrutiny and criticism, accessible, and informative. For this to be genuine and effective, local governments require a participatory system – an integrated system that facilitates ongoing participation between government and communities. The democratization of local government is only genuine when community participation in municipal decision-making and implementation is a reality.

Local governments need to use their access to rates, their control of the use and development of land and their ability to set the agenda for local politics to influence local economies. It is therefore essential that local governments have a clear vision for their local economy and work in partnership with local business to maximize job creation and investment.

Economic enablers

To address the economic stagnation, it is critical that economic enablers like electricity, transport and digital technology are supporting, not stifling growth. It is a matter of priority that the institutions that deliver these services be turned around to be well-functioning. OUTA is cognizant that the Economic Recovery Plan does address these areas. We elaborate below on the key issues we believe need to be addressed and urge that the consistent bailout and guarantees of state-owned entities that were operationally and financially unsustainable due to skills deficits and systemic corruption must stop.

Electricity

The key strategic priority, the buzzword of the moment, is the just energy transition (JET). JET would take the country forward from a reliance on outdated and climate impacting fossil fuels towards achieving energy security through a diverse range of sustainable energy sources. Such a transition must ensure that those who work in the coal mining sector and fossil fuel industry are accommodated in a fair way.

According to the South African Presidential Economic Advisory Council (PEAC)[1]:

"The electricity sector faces an almost perfect storm that has fundamentally disrupted its legacy technologies, strategies and business model. These forces include:

• the technical and financial failure of the centralised megaproject business model;

• a fundamental revolution in the sector's technological paradigm driven by:

> *(a) the emergence of low cost renewable energy and storage technologies; and*
>
> *(b) the fourth industrial revolution including digital information and artificial intelligence technologies;*

• the extreme economic risk and vulnerability created by our excessive dependence on coal in the context of the climate crisis and growing global pressures for rapid decarbonisation; and

• the declining inclination of many municipalities to pay their Eskom bulk accounts.

[1] PEAC, briefing notes on key policy questions for SA's economic recovery - October 2020

The impact of these challenges ultimately manifests as a failure by the sector to achieve its primary objectives: supplying citizens and the economy with energy security in the form of clean, reliable and affordable electricity, and to do so without placing a burden on the fiscus.

President Ramaphosa, when briefing Parliament[2] on South Africa's economic reconstruction and recovery plan (15th October 2020), emphasized the aim of achieving "sufficient, secure and reliable energy supply within two years". The new energy vision would see a decentralized state-owned transmission system which buys from a variety of generation power producers, some Eskom, some independent. A core priority of the country is to address energy poverty and electrification has been identified as one of those means to reduce energy poverty. Electricity needs to become an economic enabler.

In the past, the economy has been held hostage by Eskom's decisions including decisions to invest in mega-plants often associated with corruption. This has resulted in large amounts of money wasted in mega-plant construction. The costs of such mega projects cannot be recovered through tariff increases, as this would make electricity unaffordable.

OUTA's position is that the country should stay away from nuclear energy and give every incentive possible to stimulate the green economy and transition to cheaper, greener energy generation. Nuclear and fossil fuel subsidization must be halted. Large infrastructure plans for oil refineries should be stopped and investment attracted into growing the renewable energy subsector.

Certain aspects and institutions can be repurposed towards renewable and energy efficiency technologies, but the taxpayer is left with the burden of previous energy legacies. This includes derelict mines, nuclear waste and decommissioning, and pollution (e.g. acid mine water).

While these are long-term costs that society must bear, long-term energy planning must strive to ensure that the burden on future generations is minimized through not investing in additional fossil and nuclear resources. A shift from extractives to recycling and recovery in the mining sector should also yield socio-ecological and economic efficiencies.

[2] https://www.gov.za/speeches/president-cyril-ramaphosa-south-africa%E2%80%99s-economic-reconstruction-and-recovery-plan-15-oct

The emphasis on equity and inclusivity in the national discourse should find expression in the Department of Mineral Resources and Energy through the increased roll out of energy efficiency technologies such as lighting and solar water heating as well as the accelerated electrification of all households, including making up the backlog lost to Covid-19.

How to deal with Eskom's debt is a key challenge that needs to be resolved. Lenders who took up Eskom bonds should have known the revaluation of Eskom's ageing assets was unreasonable and unrealizable. The state must place pressure on all providers of those bonds to renegotiate terms (payback period and interest rates). This debt is the biggest issue behind Eskom tariff hikes and the state should do more to address this.

Using a Zero-Based Budgeting approach, the Mineral Resources and Energy Budget should be overhauled to ensure it is fit for purpose, redirecting it towards building an inclusive society, taking into account modern technology, climate change with an emphasis on a just energy transition.

One of the most important areas to focus on is to fix electricity losses. There is reason to believe that more innovative business models should be introduced to fix the electricity grid losses through local and national interventions. It should be cheaper to save energy through a well-maintained grid in comparison to newly built capital projects.

Transport

Roads

The South African National Roads Agency is a schedule 3A public entity[3]. Whereas Schedule 2 entities are the major public entities that are meant to generate profits, Schedule 3A entities are entities that have a mandate which entails a specific economic or social responsibility of government. As is outlined in Treasury's Annual Report Guide for Schedule 3A and 3C Public Entities[4], Schedule 3A entities rely on government funding and public money, either by means of a transfer from the Revenue Fund or through statutory money.

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[3] Public Institutions listed in PFMA Schedule 1, 2, 3A, 3B, 3C AND 3D as at 29 March 2018. Available at: http://www.treasury.gov.za/legislation/pfma/public%20entities/2018-03-29%20Schedules%201%20to%203D.pdf

[4] National Treasury Annual Report Guide for Schedule 3A and 3C Public Entities. Available at: https://www.westerncape.gov.za/sites/www.westerncape.gov.za/files/public_entity_ar_guide.pdf

In respect of SANRAL's revenue generation, its Annual Performance Plan notes that "in line with Horizon 2030 SANRAL has started to pursue an integrated funding strategy that includes fiscal allocations from National Treasury, own revenue generation and capital raised from domestic and international bond markets namely private finance. Own revenue generation will be driven through the Business Development Strategy and SANRAL is in discussion with certain African countries to provide engineering advisory services". Amongst its funding sources, SANRAL also lists the application of the 'user-pay' principle for toll roads.

SANRAL's mandate includes responsibility for both toll and non-toll roads. During 2018/19, the road network under SANRAL's jurisdiction is 22 214 km of roads throughout South Africa. SANRAL builds and maintains national (and some provincial) roads. To enable economic activity, there is a need for well-maintained roads. SANRAL receives transfers from the fiscus for this. The allocations over the past 13 years have gone up three-fold. The state receives around R80bn from road users through the fuel levy. Treasury only gives SANRAL around R15bn of this fuel levy, however they also allocate some of these funds to provincial and local government for road building and maintenance. OUTA remains steadfast in the position that it is time that government scrap e-tolls once and for all.

The R2bn per annum requirement for the Gauteng Freeway Improvement Project bonds was double what it should have been due to corruption. We call for Treasury to call out the PIC for taking up the GFIP bond at lucrative interest rates knowing that this requirement was well over what SANRAL should have borrowed. If a bank finances a R2 million house for R4 million and the client can't pay it back, the bank was remiss in the first place. PIC funded the overpriced GFIP and if they did their due diligence, they ought not to have given these bonds. But the state guaranteed them (at a time of peak state capture). OUTA calls for the Finance Minister to renegotiate the terms and payback period of the PIC's SANRAL bonds.

Rail

Passenger rail transport is in serious trouble. Western Cape central line has not been running for long periods with no clear indication when the line will be fully operational. Only three out of 17 rail lines in Gauteng are operational.

There is widespread looting of the rail network, infrastructure vandalism, and theft ranging from overhead electrical lines, electrical substations as well as vandalism of station and depot buildings. Vandalism and theft include critical infrastructure components and illicit trading of copper and steel.

PRASA is overstretched in its scope of operations and has busted some illicit trading rings. Overhead cables are missing on several train routes, underground cables have been dug up and train stations gutted. Rolling stock, coaches and locomotives have also been targeted, distribution boxes at many stations have been torn and copper cables have been removed. This is especially relevant during lockdown when security personnel were not active.

PRASA had to resort to diesel locomotives because of the extent of theft and vandalism of infrastructure.

PRASA is in serious financial distress and funding for rail is diverted towards projects like SAA, which provides a product to higher income groups at a loss in competition to private sector airlines, whilst rail transport is neglected. Rail is used by many more citizens, who cannot really afford the use of private transportation for their daily commuting needs.

The solutions and especially the funding, would not be forthcoming from PRASA. As a result, alternatives must be considered like granting franchises for the operation of sub-regional elements of the total system in which such smaller focused units can be funded and operated by regional entities.

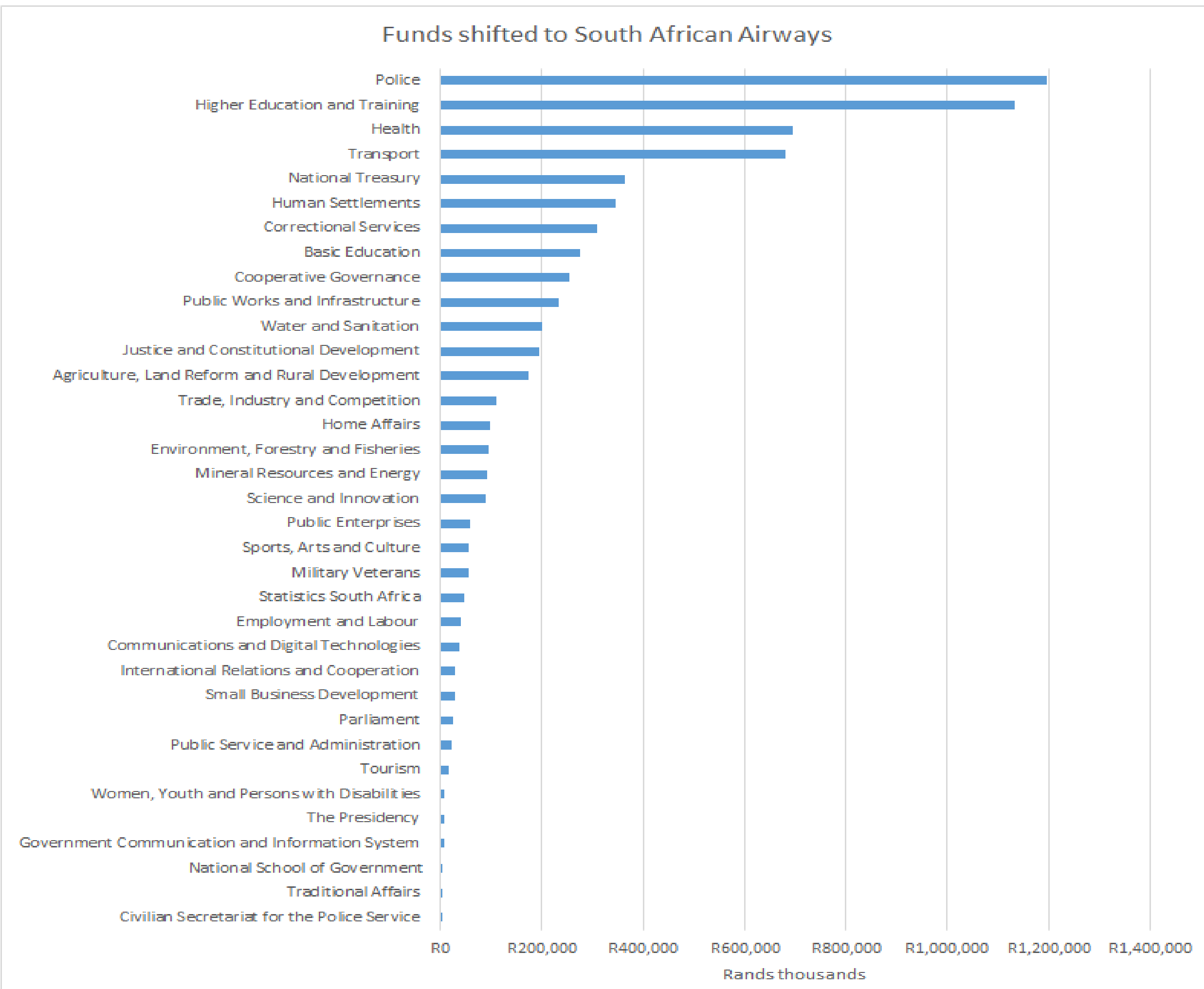
The current institutional structure whereby the ownership of rail assets vest in the largest freight operator needs to be reconsidered to assure competitive rail services. Recent rail accidents demonstrate that more preventative measures are required.

A Presidential Task Team to sort out the whole rail system would provide the impetus to resolve the fundamental structural problems within this important sector.

Aviation

The conflict of interest between Government’s role as enabler and regulator of the industry and its shareholding in a market participant has been problematic, especially since 2012 when Government decided to increase its operational role in the economy. The State financial aid provided to SAA was wasted in losses and distorted competitive conditions for private sector airlines. Since 2007, SAA has cost the taxpayer more than R72 billion in bailouts (R54bn in treasury grants and R19n in government guarantees). This money could have been used instead to stimulate the economy by creating real and sustainable jobs through SMME's, building and staffing more schools, clinics and law-enforcement entities, and addressing housing, water, sanitation and electricity needs to uplift our country's people from the tentacles of poverty.

Funding of the entire aviation industry is more important than concentrating all such financial resources on SAA. From a restructuring perspective, SAA does not represent a going concern, it does not have resources available to continue operations (e.g. suppliers that would support it with normal credit terms), it does not have the management and broad base of skills to operate on a commercial basis and there is just not enough funding available to see a successful restart. Efficient and effective monitoring and reporting mechanisms should be activated and prioritized. The table below highlights where the R10.5 billion bailout for SAA was found - by raiding the budget allocations of 41 government departments.



Source: National Treasury, table, own analysis.

The wrong priorities are still in place: Higher Education, the National Prosecuting Authority, policing, housing, and others are not receiving the necessary attention, while enormous bailouts are made to keep the defunct SAA flying. The newly allocated R10.5bn bailout is allocated as follows:

a) R2bn for operating startup costs for an airline with a staff of 1 000.
b) R2.2bn retrenchment packages.
c) R800mil for post commencement creditors
d) R3bn for unflown ticket liabilities
e) R1,7bn for aircraft lessors (6-month rental fees)
f) R600mil for concurrent creditors payment.

Aside from the above, approximately R16.4 billion is to be repaid over three years (mentioned in the 2020 Annual Budget to settle guaranteed debt over the next three years: R10.3bn in 2020/21, R4.3bn in 2021/22 and R1.8 bn in 2022/23). However, a further estimated R2.15 billion that is required for SAA's subsidiaries (Mango, SAA Technical and Air Chefs) and an estimated R6.4 billion to cover the projected losses of the resurrected SAA over the first three years of operation (2021/22 to 2023/25), is not mentioned at all by government.

This means that the cost to rescue SAA will require another R8.5bn, taking the number to over R19bn (excluding the R16.4bn bond repayment figure). However, OUTA estimates the real cost of the rescue plan is somewhat higher and closer to R22bn, if not more, compared to government's idea of R19bn, as our calculations show the airline will not be profitable in the first five years of operation. IATA has revised aviation industry projections downwards, and new competitive forces have come into play which will undermine SAA's local and regional growth plans. In our calculated opinion, more taxes will be wasted on future bailouts.

We want to emphasize the need to be mindful and cognizant of the employees who have been hard done-by through the state's meddling and poor management of the airline. Accordingly, their severance packages should be catered for more generously. Even if the liquidation costs increase to R20bn, this will still be cheaper than trying to get SAA flying again and brings certainty to taxpayers about a future that will require no more bailouts for the airline.

Digital technology

Investment in digital technologies is essential. We note the Minister's announcement that the Independent Communications Authority of South Africa (ICASA) has issued an invitation to apply for the auction of additional spectrum. This is a long-awaited, overdue development. Spectrum release will enable improved ICT services. The pandemic has led to increased use of digital point of sale and provision of services supported by online interfaces. Broadband and wireless services are economic enablers, and it has been frustrating to the business community and to households that there has been a delay with the release of spectrum. Those responsible for frustrating the process and who have underperformed should be held accountable. The impediments to economic activity and daily life have had far reaching consequences on society. OUTA would like to see the cost to communicate and the cost of data coming down and being more easily accessible by all communities in South Africa.

Tax policy

In July 2020, National Treasury and SARS introduced the draft Taxation Laws Amendment Bill (TLAB), and the 2020 Draft Tax Administration Laws Amendment Bill (TALAB) to tighten up on tax provisions. Some commentators have drawn attention to the issue of willful conduct where the burden of proof related to intent shifts away from SARS and onto the non-compliant taxpayer. OUTA sees this tax reform as a move to ensure that taxpayers know their tax obligations better and do not hide behind the 'ignorance' element of paying taxes. Auditors and their clients will need to ensure their disclosures are clearer and to the letter of the law.

At the same time, SARS needs to fix their broken structures and capacity. They must ensure no delays on refunds and rulings. The repercussions of delays in tax returns to both individuals and businesses result in severe cash flow issues in some instances which can create a make-or-break scenario for businesses in the current economy. The more businesses close, the smaller the tax pool becomes. SARS needs to seriously improve in this area.

OUTA would like to see stringent action against perpetrators of tax evasion. Better mechanisms and teams within SARS are needed to detect and tackle tax evasion, as was the case in the past. An investment in such task teams will pay for itself many times over. The fact that the illicit cigarette trade and poaching takes place so brazenly under the state's nose and little is done to curb these crimes is a crime against the taxpayer.

Two of SA's neighbours - Botswana and Zimbabwe - are on the Financial Action Task Force's watchlist ('grey list') as jurisdictions under increased monitoring due to having weak measures to combat money laundering and terrorist financing (AML/CFT)[5]. South Africa's tax and revenue authorities should be alert to potential risks arising from these deficiencies beyond our borders.

The notion that tax brackets and levies should be pushed and stretched to raise more revenue at the top end is a problem and ultimately sends people looking for countries that will accommodate them and their portfolios or gets them to divert their revenues / earnings and income offshore as much as possible, to avoid paying taxes. The state should be looking to encourage the wealthy to stay, keep earnings here and pay taxes, even if at a lower rate. Lowering taxes at the higher end creates the ability for states to enhance investment and development. Government should rather focus on making it attractive for the rich and successful to expand their businesses to create more jobs that can contribute to the tax pool.

Digital taxes will set us back at this juncture - we need to lessen taxation of the digitally driven industries to make the market and investment attractive to more investment in this space. Policy development is not keeping up with the pace of digital transformation and we believe that the government should rather focus on giving more people access to the internet in order for them to create their own wealth and participate in the digital economy. Again, this may result in more tax contributing citizens.

Tax revenue is expected to fall shorter than it has in over a century. This reality is a growing concern, driven by less company tax (profits were dwindling before Covid) and less turnover (equals less VAT, PAYE etc.) because the economy is unattractive to invest in. Big businesses here will sit on their reserves and not invest in South Africa, if they are not encouraged to do so through tax breaks, policy certainty, corruption eradication etc. The state must introduce investment friendly policy and labour must also come to the party.

We want to see expenditure side reforms - meaning no tax hikes to compensate for corrupt, irrational, and irregular, fruitless and wasteful expenditure. Government must now bite the bullet

[5] https://www.fatf-gafi.org/publications/high-risk-and-other-monitored-jurisdictions/documents/increased-monitoring-june-2020.html

and cut the political fat. It must do more with less - i.e. cut the cloth according to the size of the revenue received.

A credit guarantee scheme was introduced as part of the Supplementary Budget measures to aid economic recovery. With the credit guarantee scheme, government agreed that if a business was unable to repay the loan to support them to stay afloat during lockdown that government would repay the bank. OUTA notes that the credit guarantee scheme has not proceeded to the extent envisaged, with less businesses than planned receiving support. The reluctance of banks to advance loans to businesses is due to how banks assess the risk. In a highly risky environment like South Africa this is understandable. But then again, banks have been part of the problem in the past, lending where they should not have, just because government backed State Owned Entity bonds. They now need to come to the party.

Zero-based budgeting

In our post supplementary budget analysis, OUTA welcomed the implementation of Zero-Based Budgeting. We reiterate that Zero-Based Budgeting is an approach that we welcome and that we would like to see Zero-Based Budgeting implemented at the local government level too.

The concept of Zero- Based Budgeting “ZBB” which supports building a budget up from ground zero is not new in the budgeting literature. The first record of ZBB application in the public sector occurred in 1964 at the “Department of the Agriculture” in America, mainly because of Secretary Orville Freeman’s interest in budgeting. This budgeting process requires each manager to justify his/her entire budget request in detail from scratch each year and thoroughly analyze existing project objectives.

With the ZBB approach, every line item in the budget must be approved with no preferences to previous expenses but based on the priorities of this budget year. This budgeting approach encourages management to focus more attention on the analysis and justification of budget requests, and to relate costs and benefits with discrete activities. With ZBB, each program, product, or service is looked at each year to determine its benefit. If an activity or program cannot be supported as having value, it is not funded.

OUTA acknowledges that ZBB is not a panacea for curing management ills, but it is a useful tool to increase the efficacy of the budgeting processes. The benefits of adopting this budgeting approach include:

1. Expanding lower level management participation in the budget process,

2. Providing better coordination between planning, programming, and budgeting,

3. Causing managers at all levels to evaluate in greater detail the effectiveness and efficiency of their operations - both old and new,

4. Identifying tradeoffs between and within programs and departments, and

5. Providing managers with better information of the relative priority associated with budget requests and decisions.

With the tabling of the MTBPS, Treasury has indicated more of the details of how Zero-Based Budgeting will be implemented. OUTA has been anticipating these details.

While OUTA is a proponent of Zero-Based Budgeting being implemented at a local government level, we do not believe that the spending reviews required to create a budget from the ground up can be entrusted to dysfunctional municipalities where the municipality does not even have a CFO and financial management capacity.

The AGSA 2018/2019 audit outcomes concluded that the local government’s poor performance and fiscal problems are a result of poor financial management. Examples include excessive spending on inflated salaries, luxury vehicles, vanity infrastructure projects, as well as widespread corruption and irregular expenditure. The report also indicated that 79 percent of all municipalities' financial health status was either concerning or requiring urgent intervention, and 31 percent of municipalities were considered to be in a vulnerable financial position with just over a third of municipalities ending the year with a deficit. Furthermore, remuneration and bulk water and electricity supply expenditure have increased above inflation over the past five years. The cost of rendering public basic services has also increased at an average rate that exceeds inflation over the past five years.

As the title of the Auditor General's most recent MFMA report highlights, what would likely happen is that the work would be contracted out to consultants, whose recommendations under the direction of officials may well end up being to retain wasteful spending programmes. Hence, OUTA supports Treasury's phased ZBB spending review approach, where the spending reviews are being done by officials with longstanding experience.

We are however concerned that National Treasury itself has lost capacity due to state capture purges that affected their staffing, and which has taken some time to rebuild. However, OUTA believes that the capacity that exists within Treasury remains stronger than at the local government level. Whilst we acknowledge differentiation across municipalities with some municipalities that maintain good governance standards, broadly we are of the view that it is better for the spending reviews to be done by National Treasury. We do also note that there are ways in which Treasury stands by while things regress and does not always exercise the requisite oversight and particularly not in a real time enough manner.

It is not Treasury alone that is tasked with oversight - this role also resides in COGTA, the provincial treasuries, in Parliament, and in a range of other institutions tasked with a watch keeping role. Our watch keeping institutions have been subject to the ravages of state capture and many have quite simply been sleeping on the job. we need political will to confront the challenges that have undermined the governance and service delivery capacity at local government level, but also at all spheres of government. We emphasize that the dire fiscal circumstances necessitate that these challenges are addressed urgently.

OUTA supports the ZBB approach because it enforces better planning, objective-setting, programming, and budgeting in local government. For instance, if municipal personnel did their jobs right (planning and budgeting) in the first place, there would be no need for ZBB or any other similar system. As a starting point, zero-based budgeting will help us determine the real limits of local government's financial resources and improve prioritization of projects against its objectives. Therefore, ZBB requires effective "planning" by identifying the output desired; and effective "budgeting" by identifying the input required. This budgeting approach reinforces Planning, Programming and Budgeting "PPB" efforts because it provides a solid foundation of information about functions and operations which needs to be added on the budget.

In contrast, the ZBB system has been criticized by many stating that it is time consuming and requires additional training for staff and managers to execute this budgeting system. It is also stated that it may result in the loss of continuity of action and short-term planning. However, OUTA believes that this budgeting approach will enforce efficient allocation of resources and detect inflated budgets. Furthermore, it will encourage managers in local government to reduce operational costs and find cost effective ways to improve operations in local government.

Political interference must be avoided as it is critical that a ZBB approach should focus on the mandate of the relevant institution and prioritize the execution of the core mandate before any other matter is tabled and budgeted for.

Audit observations and public governance improvements

Neither the auditor general's reports, nor existing institutional and management structures have been sufficient to assure good record keeping and financial management. This is apparent in the some of the Auditor-General's (AG) observations in the first Covid-19 Special Report, For example, it states that "*We are concerned about the indicators of high risk of fraud and abuse we observed –not only in the areas that we were able to audit, but also where information for auditing was not forthcoming, which could be a deliberate tactic to frustrate our audit efforts*".

Additional measures are necessary to prevent future misappropriation of funds. The AG's reports repeatedly address 'root causes' that hinder auditees' progress towards clean administration. In other words, the problems are well understood and, in many instances, get worse each year and that is also reported, understood, and lamented about in the media each year. OUTA wants to see tangible actions which address these root causes.

Coupled with ZBB-approaches discussed above, efficient, and effective monitoring and reporting mechanisms should be activated and prioritized. Based on the 2018/2019 financial audit reports, there is severe under-performance across the spectrum of State-Owned Enterprises, national and provincial departments, and municipalities (metro-, district and local). A total of 86 departments and public entities received financially qualified (bad) audits in 2018-19. The following SoE's 2018/2019 audit outcomes were particularly bad:

- Denel – disclaimed with findings (the worst audit outcome) for the past two years.
- South African Airways (SAA) – no audit outcome for the past two years as SAA did not submit its financial statements for auditing.
- South African Express Airways (SAX) – disclaimed with findings for three years in a row.

- South African Nuclear Energy Corporation (Necsa) – no audit outcome for 2018-19 as Necsa did not submit financial statements on time; the previous year, it received the worst audit outcome, a disclaimer.
- South African Post Office (Sapo) – slipped back into a qualified with findings audit opinion, after the previous year's outcome of unqualified with findings.
- Trans-Caledon Tunnel Authority (TCTA) – no audit outcome as it submitted its financial statements late.

During the 2018/19 financial year, the Auditor General piloted the new material irregularities audit category and reported the following:

- Twelve of the 16 material irregularity audits were completed according to schedule.
- During these audits, the AGSA identified a total of 28 material irregularities at eight of the auditees.
- The most material irregularities (10) were identified at the Free State department of human settlements.
- This was followed by the nine material irregularities at the passenger Rail Agency of South Africa (PRASA).
- Two irregularities each were identified at the Department of Water and Sanitation, the Gauteng health department, and the Northern Cape health department.
- One material irregularity was found at the KwaZulu-Natal health department, one at the Department of Basic Education and one at the Limpopo education department.
- The 28 material irregularities identified had resulted in a total combined loss of R2,81 billion.
- R2,2 billion was the amount expected to be lost because of irregularities in the purchase of locomotives by PRASA.

The SIU should be granted a Presidential Proclamation to investigate material irregularities, working with the 'fusion centre'. Appropriate action needs to be taken against perpetrators.

It is critical that competent and suitable staff are appointed into key positions. 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 believe 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.

OUTA also believes that civil society must be part of the onboarding process of all Chapter 9 Institution leaders and Board appointments of SOEs. After all, the public is the biggest stakeholder in all these institutions and therefore should be part of choosing who gets the top positions to be the custodians of the resources and mandates entrusted to such institutions.

Recommendations

OUTA’s key recommendations are as follows:

1. OUTA supports improvements to allocative efficiency to enable allocations to areas of the budget that will stimulate the economy.
2. OUTA calls on the Finance Committees to encourage National Treasury to adopt credible forecasts and fiscal targets.
3. Establishment of a committee which focuses on inclusive Fiscal Policy and is tasked with developing a fiscal policy paper.
4. Ensure that NPA and SARS are funded sufficiently.
5. There is a need for proactive financial intervention in broken municipalities.
6. We call on the Finance Committees to emphasize the importance, to National Treasury and all departments, of introducing greater civil oversight and transparency in all procurement processes.
7. Efficient and effective financial management monitoring and reporting mechanisms should be activated and prioritized to prevent audit findings before they happen.
8. OUTA would like to see the stimulation of local economic development. Support for SMMEs, including cutting red tape and building infrastructure that supports businesses to operate, will do more to create sustainable jobs than public employment in the medium term.
9. Dealing with Eskom’s debt is a challenge that needs to be resolved. Lenders who took up Eskom bonds should have known the revaluation of Eskom’s ageing assets was unreasonable and unrealizable. The state must place pressure on all providers of those bonds to renegotiate terms (payback period and interest rates).

10. The economy has been held hostage by Eskom's decisions including decisions to invest in mega-plants often associated with corruption. Nuclear and fossil fuel subsidization should be halted. Large infrastructure plans for oil refineries should be stopped and investment attracted into growing the renewable energy sector.
11. OUTA calls for the Finance Minister to renegotiate the terms and payback period of PIC's SANRAL bonds.
12. OUTA remains steadfast in the position that it is time that government scrap e-Tolls once and for all.
13. OUTA calls for a Presidential Task Team to be constituted to address the challenges beleaguering the country's rail system.
14. Zero-Based Budgeting is an approach that we welcome. It must be implemented at ALL levels of government.
15. The SIU working with the fusion centre should be granted a Presidential Proclamation to investigate material irregularities identified during audits. Appropriate action needs to be taken against perpetrators.
16. Transparency on the funding allocation and its performance.

Conclusion

In conclusion, OUTA's submission has analyzed fiscal policy, the economic outlook and economic recovery plan, tax policy, zero-based budgeting and has provided comment on audit observations and public governance.

We highlight that government budget deficits are mostly structural in nature. The Wage Bill accounts for about 36% of spending. In recent years, South Africa has struggled to contain debt despite the introduction of the spending ceiling. For economic recovery to occur, we believe that fiscal consolidation will need to proceed at a somewhat gradual pace with specific measures that stimulate the economy. Supporting restored economic activity will boost tax revenue without the need for rate increases to tax types.

In order to restore fiscal balance, cost reduction strategies need to be utilised. We would like to see government improve allocative efficiency considerably. We support the implementation of Zero-Based Budgeting as a mechanism to achieve improved allocative efficiency, ensuring that scarce resources are being spent as effectively as possible. The Auditor-General has repeatedly highlighted the ‘root causes’ are resulting in auditees’ progress towards clean administration being hampered. Based on the Auditor-General’s reports, additional measures are necessary to prevent future misappropriation of funds.