

15 WAYS TO PAY FOR DECENT SCHOOLS

The norms and standards for school infrastructure are affordable if government collects sufficient revenue and does not waste it.

A REPORT BY EQUAL EDUCATION¹

Introduction

On Friday 29 November 2013, the Minister of Basic Education published legally binding Norms and Standards for School Infrastructure. South African law now states that every public school must have — within a 3- to 7-year timeframe — water, electricity, internet, working toilets, safe classrooms with a maximum of 40 learners, and security. Over time, all public schools must also have libraries, laboratories and sports facilities. There are, however, a large number of schools that do not yet have the basic mandated infrastructure.

The main current sources of funding for school infrastructure are the Education Infrastructure Grant and the School Infrastructure Backlogs Grant. The latter is implemented through the Accelerated School Infrastructure Delivery Initiative (ASIDI). The table below shows that for 2014/15, a little less than R10 billion was allocated for the two grants combined. This money is not nearly enough to bring all public schools in line with the Norms and Standards.

School infrastructure grants (R million)

Grants	2014/15	2015/16	2016/17
Education Infrastructure	R6 929	R9 469	R10 038
School Infrastructure Backlogs	R2 939	R2 433	R2 611
Total	R9 868	R11 902	R12 649

A senior provincial government official recently told EE that the new Norms and Standards for School Infrastructure are unaffordable. This official claimed that attempting to achieve the norms and standards will interfere with achieving other educational priorities.

Equal Education disagrees with this claim. This short document provides some examples of where government is currently spending unnecessary money that could, instead, be allocated for school infrastructure. The examples are drawn from a range of government departments and agencies, including national, provincial and municipal, where there has been wasted expenditure. The examples present only the tip of the iceberg, and exclude a range of well-known other large expenditures that have attracted media attention. For example, we do not discuss the **R246 million** spent on so-called security upgrades at the President's private residence in Nkandla, the **R46,6 billion** which National Treasury has reported was spent on

¹ With special thanks to Debbie Budlender.

the arms deal between 2000/01 and 2013/14², the **R13,6 billion** spent on stadiums for the 2010 FIFA World Cup³, and the as yet unknown massive expenditures that will be required for the planned nuclear energy plants provided for under the agreement between the governments of South Africa and Russia. We have also not dealt with the serious over-expenditure that sometimes arises relating to teaching posts that are surplus to requirement, which in some provincial departments of education pushes the proportion of their total expenditure allocated to teacher salaries to an unsustainably high level.

The focus in choosing examples was mainly on expenditure that could and should have been avoided entirely, as well as on expenditure that serves middle-class interests rather than meeting the needs of the poor. We include several examples from the Eastern Cape provincial government, because school infrastructure shortfalls are most severe in this province. We also include many examples from social services, although there is no reason why money currently allocated to other sectors should not be reprioritised to the social sector. We do not believe that our examples are the only examples, and we invite the public to send their own examples and suggestions to us.

Lastly, this document also provides examples of how additional revenue could be collected to pay for this national necessity.

Our examples

1. Fruitless and wasteful expenditure

The Public Finance Management Act (PFMA) defines “fruitless and wasteful expenditure” as “expenditure which was made in vain and would have been avoided had reasonable care been exercised”. Expressed differently, fruitless and wasteful expenditure is money that is wasted because of negligence or poor financial planning.

Fruitless and wasteful expenditure is different from “irregular expenditure” (spending which is illegal, including corruption) and “unauthorised expenditure” (spending which has not gone through the proper approval processes). The three categories together constitute “improper” expenditure. Here we focus on fruitless and wasteful expenditure because it is, literally, money that is totally wasted.

The amounts reported for the various types of improper expenditure also exclude amounts relating to contract awards “with limitations”⁴. For 2012/13 the Auditor General was unable to audit contracts worth **R1,18 billion** in Eastern Cape municipalities because there were limitations in the documentation that made it impossible for the Auditor General to check whether the tender award complied with supply chain management laws.

² <http://www.iol.co.za/news/politics/arms-deal-cost-r46bn-treasury-reveals-1.1673974#.VOLw-mz9nIV>

Flanagan L. 20 April 2014. Arms deal cost R46bn, Treasury reveals. <http://www.iol.co.za/news/politics/arms-deal-cost-r46bn-treasury-reveals-1.1673974#.VOLw-mz9nIV>.

³ Equal Education. 2011. We can't afford not to: Costing the provision of functional school libraries in South African public schools. Second Edition. Khayelitsha: 41.

⁴ “Why the AG couldn't audit R2.7bn in municipal contracts” <http://www.enca.com/why-ag-couldnt-audit-r27bn-municipal-contracts>. 1 August 2014.

The Auditor-General's report on national and provincial audits for 2013/14⁵ recorded a total of R2,6 million in unauthorised expenditure and R62,7 billion in irregular expenditure. Most (93%) of the irregular expenditure resulted from failure to comply with "supply chain management laws", such as problems with tenders. **In addition, R1,1 billion of fruitless and wasteful expenditure was reported for national and provincial government agencies.** A total of 245 different government agencies had at least one example of fruitless and wasteful expenditure. The biggest culprit was the Department of Defence, with R304 million in wasted expenditure. Next biggest were the Department of Education in Limpopo (R168 million), Department of Health in Gauteng (R161 million), Department of Education in Eastern Cape (R69 million), and Department of Health in Gauteng (R161 million). More than half (57%) of the wasted expenditure related to litigation and claims. Nearly half of the wasted expenditure involved spending in respect of irregular contracts or non-performance of contractors so as to avoid wasting further money.

In addition to the wastage in national and provincial government, the Auditor General's report on **local government audits for 2012/13**⁶ records a total of **R815 million's** worth of fruitless and wasteful expenditure. This is substantially larger than the R623 million of wasted expenditure found for 2011/12, and nearly four times the R273 million of wasted expenditure for 2010/11.

2. Feeding parliamentarians and government departments

In 2013/14 Parliament budgeted **R18 million** for refreshments.⁷ This includes tea, coffee, beverages and finger food for meetings of committees as well as food for some public events such as Take Parliament to the People. The Democratic Alliance calculated that the R16 million spent the previous year could have provided food for eight million children per day for the full year. In mid-2013, a journalist calculated that the money spent by the Departments of Higher Education and Training (**R5,471 million**), and Agriculture Forestry and Fisheries (**R3,093 million**)⁸ on catering could buy 216 810 Big Mac burgers. Alternatively, it could buy 42 841 Kentucky Fried Chicken 21-piece buckets.

In reaction to these and other similarly large expenditures in other agencies, in his medium term budget speech of October 2013 then Minister of Finance Pravin Gordhan announced cutbacks on expenditure items such as catering and expensive accommodation, transport and travel, and consultants.⁹ A similar messages were given by Minister of Finance Nene in the 2014 budget.

However, in 2014, instead of reducing its catering budget, the Mpumalanga legislature voted to increase it to **R11,5 million** for 2014/15 compared to the already large R4,5 million

⁵ Auditor-General. 2014. Consolidated general report on the national and provincial audit outcomes PFMA 2013-14.

⁶ Auditor General. 2014. Consolidated general report on the audit outcomes of local government. MFMA 2012-13.

⁷ Food and Alcohol expenditure in Parliament and other spheres of government. <http://www.citypress.co.za/news/parliament-spends-r16m-on-catering/>. 10 May 2013

⁸ <http://www.iol.co.za/news/politics/catering-bill-is-not-small-fry-1.1525810>

⁹ "No more excessive public spending, says Gordhan" 24 October 2013.

<http://www.corruptionwatch.org.za/content/no-more-excessive-public-spending-says-gordhan>

allocated in 2013/14.¹⁰ Members of the Mpumalanga legislature get free full English breakfast and lunches, and finger food if meetings do not end by 4pm. The amount spent by the legislature on food for itself could pay for 30 million food parcels and feed 10 million children every day for a month.

The problem is not confined to legislatures or Mpumalanga. The Eastern Cape Education Department allocated **R53,7 million** for catering in 2013/14 – substantially more than the R39,4 million the previous year¹¹, and equal to a full 6% for the R949,2 million allocated for the National School Nutrition Programme in Eastern Cape in the same year.¹² The amount for all 12 Eastern Cape departments combined was **R87,4 million**. In KwaZulu-Natal the Office of the Premier spent R130 000 on catering, venue and equipment for a single breakfast event.

The National Treasury's Estimates of National Expenditure 2014 show the Office of the Presidency's allocations for catering increasing from R2,3 million in 2010/11 to **R4,4 million** for 2014/15, and predicted to increase to R5,1 million in 2016/17. Allocations for travel and subsistence increase from R59,6 million in 2010/11 to **R94,4 million** in 2014/15. For 2016/17, the amount is predicted to be **R118,3 million**.

For the Department of Basic Education, catering increased from R4,3 million in 2010/11 to **R9,8 million** in 2014/15. By 2016/17, the amount is predicted to be R10,9 million. For travel and subsistence, the comparable estimates are R46,2 million in 2010/11, **R90,6 million** in 2014/15, and **R100,4 million** in 2016/17.

In the October 2014 mini-budget for national departments, allocations for venues and catering were reduced by R150 million.¹³ There is a lot more fat to cut.

3. Paying non-working officials

In mid-2014, the Department of Public Service and Administration reported that 238 employees who were at the time suspended from national departments had already received approximately **R27 million** in terms of salaries and benefits, while 163 suspended from provincial departments had received **R20 million**.¹⁴ The most common reasons for suspension were misconduct, including assault, dishonesty, corruption and fraud. Suspensions are meant to be reviewed within 30 days, but some officials had been on suspension for years. There is a clear need to prioritise the review and finalisation of suspensions.

In addition to suspensions, many officials receive regular salary payments while on sick leave and waiting for their cases to be considered in terms of the Policy and Procedure on

¹⁰ Dlamini P & Hosken G. "Our time to eat". 20 November, 2014.

<http://www.timeslive.co.za/thetimes/2014/11/20/our-time-to-eat>

¹¹ "Suppliers may lose out after State cuts costs". <http://www.smallbusinessconnect.co.za/news/suppliers-may-lose-state-cuts-costs.html#.VMzJK2z9nIU>, 22 January 2014. (Note: The figure in the published budget vote is R52.4m rather than R53.7m.)

¹² Estimates of Provincial Revenue and Expenditure – 2013/14.

¹³ Steyn L. 22 October 2014. "Nene targets government cutbacks" <http://mg.co.za/article/2014-10-22-nene-tightens-the-purse-strings-in-his-maiden-budget>

¹⁴ "Nearly R50m paid out to suspended public servants" <http://mg.co.za/article/2014-07-27-nearly-r50m-paid-out-to-suspended-public-servants/>. 27 July 2014; "R50 million for public servants to sit at home".

<http://www.citypress.co.za/news/r50%E2%80%89million-public-servants-sit-home/>. City Press. 27 July 2014.

Incapacity Leave and Ill-Health Retirement (PILIR). Many officials spend years waiting to have their cases finalised while remaining at home on their full salary. In March 2013 the National Council of Provinces heard that the Eastern Cape Department of Education had approximately 8 200 employees, mainly teachers, who had been on extended sick leave for a long time without their cases having been finalised.¹⁵ A few months later, the Daily Dispatch reported that the Eastern Cape had nearly 5 000 teachers who were on lengthy sick leave, “costing taxpayers billions”.¹⁶

The Eastern Cape appointed a company to investigate and sort out the problem. Subsequently, the Department’s 2014 budget vote recorded that more than 9 000 PILIR applications that had been conditionally approved had eventually been finalised.¹⁷ In January 2015, the Eastern Cape Department of Education wrote letters to 204 employees asking them to report back for duty.¹⁸ More than half (105) did not report back for duty, 63 were “terminated”, and 25 reported back. If we assume – conservatively – that the average monthly salary of the 105 officials who did not report back was R20 000 per month, each month the Department is still paying more than **R2,1 million per month** for people who are not working.

4. Paying rent for unused property

In 2014 the Department of Public Works was paying R5 million per month (**R60 million per year**) for 108 properties that it was not using.¹⁹

5. Firearm control system

In 2004 government signed a contract with Waymark Infotech to develop a firearms control system.²⁰ The system consisted of a database and document processing mechanism that would allow police to track firearms and identify the owner, identity and “history” of each and every firearm. The contract also provided for ensuring that police would have the skills and knowledge to manage the system.

The original estimate in the tender was R42 million. However, when the contract was signed, the amount had already more than doubled to R93 million. The deadline for handover of the completed system was July 2006. Ten years later various addenda had increased the total contract amount to R412 million, of which **R343 million** had already been paid. The system is still not operating as promised.

¹⁵ National Council of Provinces. 1 March 2013. Written Reply Question 46. International Question Paper 03/2013.

¹⁶ Fengu M. April 5 2013. “Mixed response to sick leave probe” in Daily Dispatch. <http://www.dispatchlive.co.za/news/mixed-response-to-sick-leave-probe/>

¹⁷ Estimates of Provincial Revenue and Expenditure 2014-2015.

¹⁸ Report of PTT Meeting, 26 January 2015.

¹⁹ Taxpayers' millions wasted on vacant properties. 16 July 2014

<http://www.news24.com/SouthAfrica/Politics/Taxpayers-millions-wasted-on-vacant-properties-20140716> 16 July 2014.

²⁰ R400 million firearms control system in shambles. http://groundup.org.za/article/r400-million-firearms-control-system-shambles_2359. 17 October 2014.

6. Expensive duplication of existing services

In March 2014 the Department of Social Development launched a 24-hour “command centre” for victims of gender-based violence.²¹ The centre consisted of a 24-hour telephone hotline staffed by 75 social workers who provide counselling and referrals. In the first six months the centre was piloted in two areas in KwaZulu-Natal (Edendale and Inanda) and five in Gauteng (Hillbrow, Alexandra, Moroka, Sunnyside and Akasia).

In order to fund the centre, the allocation for the department’s social crime prevention and victim empowerment sub-programme nearly doubled between 2012/13 and 2013/14, with an increase from R27,4 million to **R51,1 million**. Much of the extra money was spent on consultants, with this item increasing from R1,1 million to R13,9 million between the two years. This line item is explained by the department choosing to use a “private” (for profit) partner for implementation of the pilot. However, the expenditure on consultants increases further in the following years, accounting for more than a quarter of current expenditure.

Government’s call centre duplicates the national toll-free helpline for victims of gender-based violence that has been operating since 1999. This older helpline was established by the Soul City Institute in collaboration with the Department of Justice and is now managed by the non-profit organisation Lifeline. In addition, established non-profit organisations such as People Opposing Women Abuse in Hillbrow, Adapt in Alexandra, and the Nisaa institute for Women’s Development and Lungelo have been providing services in the targeted areas of Gauteng for many years. The organisations provide these services much more cheaply, and with only very partial subsidisation – if they are fortunate – from government.

7. Dangerous new anti-protest weapon²²

The South African Police Service (SAPS) has allocated **R1,9 million** for 11 portable and one fixed “long-range acoustic devices”, otherwise described as “sound cannons”. SAPS plans to use the equipment for public order policing – in particular to control service delivery protests. A police document states that the sound cannon is “a non-lethal intervention, which disrupts a person’s balance with high-intensity sound.” While the device may be non-lethal, in that it does not kill, professor Jane Duncan warns that it can cause people to become deaf through rupturing eardrums. The device can, according to Duncan, also result in death. The cannon will harm everyone in the vicinity, not only those who might be protesting. University of South Africa criminologist Rudolph Zinn said that the cannon had not been tested internationally. So South Africans are, in effect, becoming guinea pigs. Professor Anthony Minnaar said that the US army had used the sound cannon in Iraq and Afghanistan, but it had not been properly tested for policing.

8. Bloated cabinet

In 2009, there were 34 votes in the main budget document, the Estimates of National Expenditure, tabled in parliament. This was the same number as in 2004, although some departments had been added and subtracted, merged or unmerged. In 2014, there were 38

²¹ Vetten L. 2014. Post-rape services and their funding: A review of the national Department of Social Development’s budgets between 2009/10 and 2013/14. Shukumisa

²² <http://www.timeslive.co.za/thetimes/2015/01/22/ghetto-blaster> Mabuza K & Hosken G. 22 January 2015. “Ghetto blaster”.

votes in the main budget document. The increase was concentrated in the Central Government and Administration cluster, where the number of votes increased from five to eight. With each increase in votes, there is added unnecessary expenditure.²³

The Department of Women, Children and People with Disabilities was one of the new votes. Its budget included an amount of **R23,1 million** for the ministry in 2014/15. The Department of Economic Development was another of the new votes. Its budget included an amount for **R19,2 million** in 2014/15. Both these amounts would not have been needed if a new department and ministry had not been created. In addition to approximately R20 million for each new department, there would be further relatively substantial costs related to an additional director general and other senior officials responsible for finance, human resources and the like.

The Office of the Presidency budgets for more than one minister. For 2014/15, the Office budgeted **R35,5 million** for the Ministry, plus a further R64,3 million for Support Services to President, R51,6 million Support Services to Deputy President, and R25,2 million to Cabinet Services. There is also an amount of **R311,9 million** allocated for “Management” in the Presidency’s budget vote.

9. Consultants paid to do work of officials

Between 2008 and 2011, the Gauteng health department spent R4,6 billion and the national government spent R102 billion on consultants.²⁴ In some cases the consultants do tasks that could instead be done more cheaply by officials if vacant posts were filled. In other cases the consultants do work that should be done by officials who are in filled posts. For example, in Gauteng, Mbongeni Radebe, Gauteng Scopa chairperson, expressed concern that most of the contracts considered by the committee were prepared by the service providers rather than government officials. In addition to expenditure on consultants at national and provincial level, in his 2012/13 audits of local government, the Auditor General found that municipalities spent **R695 million** on external consultants who helped prepare financial statements.²⁵ He questioned why this was necessary when most municipalities employed officials who were responsible for financial management and reporting.

The budget spreadsheets made available on the National Treasury website give further information on the amounts spent by national government agencies in previous years on different types of consultants. We focus on the years 2010/11 to 2012/13 because there are audited figures for these years, rather than estimates which may later change. Across all agencies combined, the expenditure on business and advisory services consultants increased from R1,97 billion to **R3,1 billion** between 2010/11 to 2012/13. This expenditure was incurred despite the large amounts already spent on salaries and related costs of high-level officials who should have done much of the work outsourced to consultants. Expenditure on legal professional consultants increased from R183 million to **R272 million** between 2010/11 and 2012/13.

²³ Estimates of National Expenditure, 2009 and 2014. Available at www.treasury.gov.za.

²⁴ Gauteng uses more consultants despite having skills – Auditor General
<http://www.citypress.co.za/news/gauteng-uses-consultants-despite-skills-auditor-general/> 17 July 2014.

²⁵ “R815m spent in vain, consultants rake in R695m – Kimi Makwetu” <http://www.citypress.co.za/politics/municipal-audits-r815m-spent-vain-consultants-rake-r695m/> 30 July 2014.

10. Legal costs

In 2013, the Health Professions Council of South Africa found Dr Wouter Basson guilty of unethical conduct. Government is currently incurring further expenses in supporting Basson as he argues against a possible ban on his practising medicine. Government has to date spent **R15 million** on the defence of Wouter Basson at his disciplinary hearing before Council.²⁶ The amount spent on the defence in the Council case is in addition to the amounts paid by the Department of Defence to support Basson in his earlier criminal trial and when he appeared before the Truth and Reconciliation Commission. The Department of Defence says it must pay for Basson's defence because he was an employee of the department when he did the acts for which he stands accused.

Government also covered the costs – more than **R17 million** – of defending the late Jackie Selebi. Despite the defence, Selebi was found guilty of corruption. When the state decided to drop corruption charges against President Jacob Zuma, ANC secretary-general Gwede Mantashe said that government had spent **R100 million** on prosecuting the case. Government also paid **R5 million** for Zuma's defence in the same case²⁷, effectively paying for both sides of the legal contest. For 2008/09, the Presidency's annual report reflected legal costs of more than R10 million, compared to less than half a million for the previous year. For 2010/11, 2011/12 and 2012/13, the Estimates of National Expenditure reflect audited amounts for the Presidency of **R6,3 million**, **R6,3 million** and **R4,4 million** respectively for legal consultants and professional services. This was in addition to the costs incurred in employing its own full-time legal professionals.

11. Wasteful litigation

In addition to the money it spends on employing officials with legal skills and contracting its own lawyers, government regularly is ordered by courts to pay the costs of those on the other side of disputes. Courts award such costs only in cases where the judge feels that there was no good reason to pursue the case. There are also many cases in which government goes to court unnecessarily. This was the case in respect of norms and standards for school infrastructure, where government's delay in attending to the matter resulted in both government and Equal Education spending money and wasting time related to prepare for litigation, only for the Minister to accede to Equal Education's demands a few days before the matter was to be heard in court.

One example of a case in which costs were awarded against government was where government appealed an earlier judgment of a full bench of the High Court that government had acted illegally in extraditing or deporting an individual, Mr Tsebe, to Botswana to be tried for murder, without having received a written guarantee from Botswana that they would not impose the death penalty.²⁸ The High Court's judgement went against government and

²⁶ Child K. 2015. "Taxpayer millions for Basson's defence". The Times, 29 January 2015.

²⁷ Zuma's legal fees cost SA R5m <http://www.news24.com/SouthAfrica/News/Zumas-legal-fees-cost-SA-R5m-20100323>. 23 March 2010.

²⁸ Minister of Home Affairs and Others v Tsebe and Others, Minister of Justice and Constitutional Development and Another v Tsebe and Others (CCT 110/11, CCT 126/11) [2012] ZACC 16; 2012 (5) SA 467 (CC); 2012 (10) BCLR 1017 (CC) (27 July 2012) <http://www.saflii.org/za/cases/ZACC/2012/16.html>

government was ordered to pay the costs of its opponents. Government nevertheless appealed to the Constitutional Court arguing that the Tsebe case was different from a previous case where the courts had found government could not deport a person in such circumstances. The Constitutional Court dismissed government's appeal. Justice Yacoob wrote a separate judgment which argued that the Constitutional Court should not even have granted government leave to appeal, and should again have awarded costs.

A second example relates to the series of cases around provision of textbooks by the Limpopo Department of Education.²⁹ In one of these cases the judge awarded costs against government. The judge said that if government had responded to the four letters that Section 27 had sent asking for information, the organisation and those it worked with might have been able to assist and delivery of textbooks might have happened more effectively. Instead, government had not responded, and instead incurred financial, time and other expenses involved in court proceedings.

A third example comes from Home Affairs³⁰ and is one of several relating to illegal detention of people in Lindela. In awarding costs, including the costs of two advocates, the judge noted that a judgement that stated that a person could not be detained at Lindela for more than 30 days had been issued more than fourteen years previously, and that since that time many other courts had again found that such detention was unlawful and constitutional. Yet, "[i]n spite of these judicial pronouncements, the respondents still persist in detaining illegal foreigners for more than 30 days and a maximum of 120 days without valid warrants having been issued." The costs awarded in this case alone would have amounted to more than **R1 million**.

The fourth example is again from Home Affairs.³¹ The case involves an asylum seeker from Ethiopia who was refused asylum status without any reasons being given. The judgement was scathing about the claims made in the affidavit of the chairperson of the review board, stating that it was "replete with hearsay evidence, unsubstantiated denials of facts highly personal to the applicant and about which he cannot possibly have knowledge, accusations of untruths on the part of the applicant, and remarks about her allegations concerning sexual abuse that are gratuitous and derogatory." Out of distrust for the board, the judge herself changed the findings in terms of asylum status rather than sending the case back for review. She also awarded costs against government.

The final example is a case in which the judge awarded "punitive" (extra-heavy) costs against the MEC for Health in Gauteng on account of the government's persistence in contesting the case rather than admitting negligence, and the extremely poor performance of the State Attorney in defending the matter. The case involved a claim for compensation by a woman who had waited nearly two hours to be attended to when experiencing an emergency during childbirth. As a result, her child was born with spastic quadriplegic cerebral palsy.³²

²⁹ Section 27 & 2 Others vs Minister of Education & Another. Judgment. Case 24565/12.

³⁰ South African Human Rights Commission and Others v Minister of Home Affairs and Others (41571/12) [2014] ZAGPJHC 198 (28 August 2014). <http://www.saflii.org/za/cases/ZAGPJHC/2014/198.html>

³¹ FAM vs Minister of Home Affairs & Others. Case No: 6871/2013. August 2014.

³² Beamish T. 17 October 2014. "MEC may have to pay legal fees from her own pocket". Special Investigations, Moneyweb. Case number: 17077/2012.

12. Tax expenditures

National Treasury's Budget Review 2014 lists "tax expenditures". These amounts, for tax allowances, subsidies and the like, are called tax expenditures because they are money that should have been paid in tax, but instead government effectively "pays back" the money to the individual or entity concerned.

In 2011/12, the latest year for which there is information, government spent **R24,2 billion** on allowances in respect of pension and retirement fund contributions, and **R16,7 billion** rand on allowances in respect of medical contributions. These tax expenditures mainly benefit the middle class who have sufficient earnings to make these contributions. In respect of medical contributions, less than a fifth of the South African population is covered by the medical aids to which the contributions are paid. Further, only those individuals who are registered for tax - a total of only 5,9 million³³ out of a population of about 50 million in 2010 - are eligible for any allowances. For pension and retirement funds, the 2011/12 amount for the employer companies (R11,0 billion) – is bigger than the amount for employees (R8,6 billion). The combined amount for pension and retirement contributions is larger than the R17,4 billion lost by government through exempting 19 basic food items from value-added tax (VAT). It is about two-thirds of the amount (R37,1 billion) spent on the old age grant in 2011/12, but the pension and retirement allowance benefits a much smaller number of better-off people.

13. The 25% tax: GDP rule

A Western Cape provincial cabinet member recently informed Equal Education that: "The rich are being taxed into oblivion!" The evidence suggests otherwise. Some people complain that 10% of adults pay more than half of all personal income tax. This happens not because taxes are high, but because the wealthiest 10% of the population receive more than half of all individual income.³⁴

The Growth, Employment and Redistribution (GEAR) policy of 1996 stated that government would continue to obey a rule that said that total taxes should not be more than 25% of gross domestic product (GDP). This rule sets a "ceiling" on tax that automatically, in turn, puts a "ceiling" on the amount of money that government can spend.

Each year National Treasury adjusts the tax brackets. Government says that it does this to compensate for the "bracket creep" that happens because of inflation. However, since 2000 the adjustments to tax brackets have been bigger than needed to compensate for inflation. In addition, the rate of tax on high income earners has been lowered. These changes have kept the tax: GDP ratio at 25%.

If government had since 1990 adjusted the tax brackets only for inflation, government would have collected **R125 billion** more than the R757 billion that it actually collected in 2010/11. The tax: GDP ratio would have been 29%. The extra money would have been collected both because there were more people who were paying personal income tax and because the incomes of the highest income earners were increasing faster than inflation.

³³ National Treasury and South African Revenue Service. 2013. 2011 Tax Statistics. Pretoria : 27.

³⁴ Alternative Information Development Centre. 2013. Personal Income Taxation and the struggle against inequality and poverty. Cape Town.

14. Tax evasion by the super rich

In March 2012 the Minister of Finance reported to Parliament that the South African Revenue Service (SARS) suspected that there were about 9 300 South Africans with annual incomes of more than R7 million each, or wealth of more than R75 million each, evading payment of personal income tax. About 7 000 of these people were not even registered for tax.³⁵ The Minister said that SARS was losing **R19 billion or more** each year because these rich people were not paying their tax.

In addition, banks and other institutions had records of nearly 30 000 people with incomes of more than R5 million, but only about 2 000 people declared taxable income this high. If all the 30 000 people paid similar tax to those who admitted that they had incomes of more than R5 million, SARS would have received **R100 billion** more in tax in 2012/13.

15. Youth wage subsidy

In his recent State of the Nation Address, President Zuma said that government had spent **R2 billion** on payments to firms under the Employment Tax Incentive (ETI) Act, the legislation that provides for the youth wage subsidy. He said that the R2bn had been paid to 29 000 employers in respect of 275,000 young people.

However, research³⁶ by the Southern Africa Labour and Development Research Unit at the University of Cape Town found a “fairly precisely estimated ‘zero effect’” of the subsidy in terms of creation of new jobs. Businesses can claim the subsidy in the form of a tax deduction for every new person between the ages of 18 and 29 years whom they employ at a salary of R6 000 a month or less. The researchers found that the jobs claimed for were either new employees in existing positions that were vacant because of staff turnover, or new employees in jobs that would have been created even if there were no subsidy.

The ETI provides tax relief to the business, not to the individual young worker. The researchers therefore suggest that the ETI “represents a pure transfer from taxpayers to a subset of firms who are not doing anything differently. These transfers have opportunity costs, and it is difficult to believe that this is desirable from a policy perspective.” Government therefore appears to have spent R2bn subsidising business without creating new jobs.

³⁵ Alternative Information Development Centre. 2013. Personal Income Taxation and the struggle against inequality and poverty. Cape Town.

³⁶ Ranchod V & Finn A. 2015. Estimating the short run effects of South Africa’s Employment Tax Incentive on youth employment probabilities using a difference-in-differences approach. Southern Africa Labour and Development Research Unit Working Paper Number 134. Cape Town: SALDRU, University of Cape Town. See also Doron Isaacs ‘Love is Blind: The youth wage subsidy and the South African media’ 19 February 2015 <http://groundup.org.za/article/love-blind-youth-wage-subsidy-and-south-african-media> 2690.