

## **ANNEXURE A**

# **EXPLANATION OF BUDGET, ESTIMATES OF EXPENDITURE AND LEVIES PROPOSALS**

## 1. INTRODUCTION AND BACKGROUND

- 1.1 The Ombud Council is established by the Financial Sector Regulation Act, 2017 (Act No. 9 of 2017) (FSR Act), with the objective to assist in ensuring that financial customers have access to, and are able to use, affordable, effective, independent, and fair alternative dispute resolution processes for complaints about financial institutions (section 175 of the FSR Act).
- 1.2 To achieve this objective, the FSR Act stipulates the Ombud Council's functions as including, in summary, granting recognition to financial industry ombud schemes, promoting co-operation and co-ordination among ombuds, promoting public awareness and access to ombud schemes, resolving jurisdictional overlaps between ombud schemes, monitoring the performance of ombud schemes, and supporting financial inclusion (section 177 of the FSR Act). To enable these functions, Chapter 14 of the FSR Act confers a range of supervisory, regulatory and enforcement powers over ombud schemes on the Ombud Council. The Ombud Council currently oversees five financial sector industry ombud schemes, and two statutory schemes.
- 1.3 In terms of section 239(1) of the FSR Act, the Ombud Council must for each financial year prepare and adopt:
- (a) a budget in accordance with section 248 that includes an estimate of its expenditure;
  - (b) a proposal for the fees that will be charged and levies that will be imposed by the Ombud Council; and
  - (c) projected estimates of its expenditure for next 2 financial years.
- 1.4 In terms of section 240 of the FSR Act, Part 1 of Chapter 7 of the FSR Act applies (with the necessary changes) to the adoption of the budget, estimates of expenditure as well as the fees and levies proposals as provided for in section 239.
- 1.5 As such, in adopting the budget and determining levies, the Ombud Council must publish the following documents for public comment:
- (a) The budget, including estimates of expenditure and the levies and fee proposals for the relevant financial year; and
  - (b) An explanation of the budget, estimates of expenditure and fees and levies proposals, and of the variation of such items against those adopted for the previous financial year (section 240(2) of the FSR Act).
- 1.6 The Ombud Council hereby provides the explanation referred to in paragraph 1.3(b) above.

## 2. FUNDING MODEL

- 2.1. For the 2024/25 financial year, the Ombud Council's budgeted revenue comprises levy-based funding (including a special levy), and additional Medium Term Expenditure Framework (MTEF) reprioritised funds transferred by the fiscus, as discussed below.

**Levy-based funding**

- 2.2. Chapter 16 of the FSR Act governs the Ombud Council's fees, levies, and finances. In particular, in terms of section 237(1)(b) of the FSR Act, the Ombud Council's operations are funded through the imposition of levies, payable by supervised entities (financial institutions).
- 2.3. These provisions of the FSR Act must be read with the Financial Sector and Deposit Insurance Levies Act, 2022 (Act No.11 of 2022) (Levies Act), which provides for the imposition of levies on supervised entities to fund the operations of the Ombud Council and other entities. Schedule 4 of the Levies Act provides the calculation basis for levies to fund the Ombud Council.
- 2.4. As indicated in Annexure C, Schedule 4 of the Levies Act provides that all entities who are required to pay levies to the Financial Sector Conduct Authority (FSCA) are also required to pay levies to the Ombud Council. The amount of the levy payable to the Ombud Council is equal to a fixed percentage (2.5%) of the levy amounts payable to the FSCA. The levy amounts payable to the FSCA are calculated in accordance with Schedule 2 of the Levies Act.
- 2.5. In accordance with Schedule 2, the FSCA charges different supervised entities based on different levy methods and formulae and invoices are issued annually or quarterly, depending on the financial sector concerned.
- 2.6. Accordingly, for further detail on the underlying calculation basis for the Ombud Council's levies, please refer to the levy proposals of the FSCA, published on the FSCA website at <https://www.fsca.co.za/Regulatory%20Frameworks/Pages/Draft-FSCA-Levies.aspx>, read with Schedule 2 of the Levies Act.

**Special levy**

- 2.7. In addition to the levy income which it will receive in terms of Schedule 4 of the Levies Act, the Levies Act also provides that the Ombud Council will receive a special levy for each of the financial years 2023/24 and 2024/25. The special levy amounts to 7.5% of the levy amount payable to the Ombud Council in terms of Schedule 4 of the Levies Act (see section 8(2)(a) of the Levies Act).

**Fees**

- 2.8. The Ombud Council is empowered by section 237(1)(a) to collect fees for the performance of any functions but does not envisage charging such fees over the MTEF period.

**Contingency fiscal transfer funding**

- 2.9. In terms of the Financial Sector and Deposit Insurance Levies (Administration) Act, 2022 (Act 12 of 2022), the FSCA is responsible for the collection and administration of levies payable to the Ombud Council. Accordingly, the FSCA will invoice and collect the Ombud Council's levies at a similar frequency to the collection of its own levy income, and transfer the Ombud Council's levy income to the Ombud Council's bank account in accordance with payment arrangements to be agreed with the FSCA.
- 2.10. The 2023/24 financial year is the first year in respect of which the Ombud Council will receive levy income, coinciding with the Ombud Council having become listed as a Schedule 3A entity under the Public Finance Management Act, 1999 (Act 1 of 1999) (PFMA), effective 1 April 2023. In line with the FSCA levy invoicing and collection process described above, the Ombud Council's levy income is earned as and when invoiced by the FSCA and there is a time lag between incurring of operational expenses and receipt of levy income
- 2.11. In addition to the levy funding described above, the National Treasury has approved a fiscal transfer of R13 million to the Ombud Council for each of the 2023/24, 2024/25, and 2025/26 financial years. This arrangement was made prior to the start of the 2023/24 financial year, at a time when it was unclear when the Levies Act would come into operation, resulting in the Ombud Council's source of funding being uncertain. These fiscal transfers were therefore intended to provide contingency bridging funding and cash flow for the Ombud Council until its levy funding stabilised, at which point they would no longer be required.
- 2.12. As indicated in Annexure B, the Ombud Council's revenue budgets for 2023/24 to 2024/25 therefore still reflect a fiscal transfer of R13 million for each of those years. The Council is however engaging with the National Treasury to determine whether or to what extent the 2024/25 transfer will be required. If not, appropriate budget adjustments will be made. For budget purposes we have also assumed that the approved R13 million transfer for 2025/26 will not be required.
- 2.13. Considering that the fiscal transfers are only intended as contingency funding, it should be noted that the Ombud Council's budgeted expenditure is based only on its levy income and does not take the fiscal transfer amounts into account. This results in the budget for 2024/25 reflecting a substantial surplus. As indicated above, however, this anomaly is intended to be resolved once it is determined that the transferred funds are no longer required for cash flow purposes.

**3. EXPLANATION OF BUDGET AND VARIANCES AGAINST 2023/24 FINANCIAL YEAR**

- 3.1. It is important to note that the Ombud Council is a new organisation in the early stages of developing its staff establishment, operations, and systems. Although the Council commenced basic statutory functions in May 2021, after the appointment of an interim Chief Ombud, no infrastructure or sustainable funding model was in place at that time. A permanent Chief Ombud was appointed in November 2022, and the Ombud Council

**BUDGET AND LEVIES PROPOSALS**

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- became listed as a public entity under the PFMA with effect from April 2023. Since inception, the Ombud Council has received corporate services support (including financial, supply chain, and human resources management assistance) through a shared services Memorandum of Agreement with the FSCA, which remained in place for the 2023/24 financial year. The Ombud Council is expected to start operating largely independently of the FSCA as from the 2024/25 financial year.
- 3.2. The 2023/ 24 budget, and this 2024/25 budget, have accordingly been prepared with no or very limited baselines for comparative purposes. It should also be noted that the Ombud Council does not have control over the legislated levy formula (being a prescribed fixed percentage of the FSCA's levy income) which drives its revenue. Any changes to that formula, should they be deemed necessary in future, would require formal legislative amendment through Parliament. The Ombud Council's funding model is therefore untested and its future appropriateness for the Ombud Council's functions will be assessed once both the levy cash flow) and the Ombud Council's operating environment stabilise. Against that background, every effort has been made to prepare a 2024/25 expenditure budget that is as realistic as possible, but adjustments may be required based on implementation experience over 2024/25 and the MTEF period.
  - 3.3. The gross revenue budget of R38,430,000 for 2024/25 comprises levy income (66%) and the fiscal transfers described in section 2 above (34%). However, as explained in paragraph 2 above, only the levy income has been taken into account for expenditure budgeting purposes. The levy budget of R25,430,000 represents an 11 % increase in levy income over 2023/24, attributable to the corresponding increase in levy income payable to the FSCA, as per the FSCA's 2024/25 levy proposal. The fiscal transfer amount of R13 million remains constant for 2023/24 and 2024/25 but may be adjusted or fall away in due course as explained above.
  - 3.4. The operations expenditure budget of R21,009,000 (Budget 2023/24: R20,782,000) comprises staff expenditure of R10,820,000 (Budget 2023/24: R8,594 million) and general expenditure of R10,149,000 (Budget 2023/24: R12,188 million). Staff expenses represent 51.6% of the total expenditure budget as the Ombud Council is a service organisation with staff costs being the main cost driver.
  - 3.5. Staff expenditure increases by 21% compared to the previous year. The above CPI increase is mainly due to the results of the completion of the job grading process where some of the positions were graded higher than budgeted for in the previous year and the need to offer market related remuneration for skills urgently needed to capacitate the organisation. One more administrative support position than previously budgeted for has also been added.
  - 3.6. General expenditure decreased when compared to the previous year by 17%. The decrease is mainly due to cost estimates in the previous year having been made without a baseline. The 2024/25 budget we believe presents a more informed expectation of expenditure to be incurred based on plans in place, albeit based on only a partial year's experience to date.

# ANNEXURE B

## OMBUD COUNCIL BUDGET FOR 2024/25 AND ESTIMATES OF EXPENDITURE FOR 2025/26 AND 2026/27

The Ombud Council, in terms of section 239(1)(a) and (c) of the Financial Sector Regulation Act, 2017 (Act No. 9 of 2017), hereby proposes its budget for 2024/25 and estimates of expenditure for 2025/26 and 2026/27.

### 1 INTRODUCTION

The Ombud Council's mandate in terms of the FSR Act, as explained in Annexure A, is to assist in ensuring that financial customers have access to, and are able to use, affordable, effective, independent, and fair alternative dispute resolution processes for complaints about financial institutions (section 175 of the FSR Act).

In its Strategic Plan for 2023/24 to 2024/25, the Ombud Council has identified the following five strategic priorities:

1. Build a well-governed institution sufficiently capacitated to perform its functions efficiently and effectively.
2. Enhance the coverage and effectiveness of the ombud system by addressing jurisdictional gaps and overlaps and promoting co-ordination and alignment of scheme processes.
3. Support financial inclusion initiatives undertaken by ombud schemes and other regulators to create consumer awareness of the services offered by ombud schemes.
4. Contribute to reform of the ombud system through proactive participation in regulatory and policy reform and transition projects.
5. Effectively monitor the performance and compliance of ombud schemes in line with the Ombud Council's statutory objective (s. 176 of FSR Act).

As fully elaborated in the Strategic Plan, these priorities are informed by the evolving regulatory and policy context the Ombud Council operates in, and the fact that it is still in the early stages of its establishment, having first become listed as a Schedule 3A PFMA public at the start of the 2023/24 financial year.

The 2024/25 budget is aimed at ongoing delivery of these strategic priorities.

**BUDGET AND LEVIES PROPOSALS**

**2 OMBUD COUNCIL BUDGET 2024/25**

**2.1 Principal Budget Assumptions**

**2.1.1 General budget assumptions applied– Economic Indicators**

MTEF budgeting guidelines	Where practical budgeting is aligned to MTEF guidelines in reducing costs overall.
CPI	Annual CPI inflation 4.8%.

**2.1.2 Revenue and Expenditure Budget**

	2023/24	2024/25	2025/26	2026/27
<b>Rand thousand</b>				
2.5% of FSCA Levies	22 926	25 430	22 708	23 161
National Treasury Transfer	13 000	13 000	-	-
	-	-	-	-
<b>Total</b>	<b>35 926</b>	<b>38 430</b>	<b>22 708</b>	<b>23 161</b>
-				
<b>Current payments</b>	<b>20 782</b>	<b>21 009</b>	<b>21 889</b>	<b>22 845</b>
Compensation of employees	8 594	10 820	11 308	11 818
Salaries and wages	8 594	10 820	11 308	11 818
Goods and services	12 188	10 189	10 581	11 027
Administrative fees	1 510	218	107	113
Advertising	2 350	2 181	2 100	1 905
Audit costs: External	818	619	668	722
Bursaries: Employees	-	500	500	500
Catering: Internal activities	50	58	62	67
Communication (G&S)	251	206	222	240
Computer services	500	972	1 049	1 113
Consultants: Business and advisory services	4 399	2 724	2 860	3 003
Legal services (G&S)	500	800	1 000	1 200
Consumables: Stationery, printing and office supplies	60	65	70	76
Operating leases	1 010	570	616	665
Travel and subsistence	290	368	357	389
Training and development	300	315	331	347
Operating payments	50	551	592	637
Venues and facilities	100	45	47	50
<b>Total Expenditure</b>	<b>20 782</b>	<b>21 009</b>	<b>21 889</b>	<b>22 845</b>
Surplus/Deficit	<b>15 144</b>	<b>17 421</b>	<b>819</b>	<b>316</b>

**2.1.2.1 Levy Budget**

The gross revenue budget of R38,430,000 for 2024/25 comprises mainly levy income (66%) and the fiscal transfers described in section 2 above (34%). This represents an increase in levy income of 11%. The expenditure budget only takes the levy income into account, as explained above.

**2.1.2.2 Staff Expenses**

Staff expenses increase by 21% and this includes the 4.8% CPI from 1 April 2024. Salaries and wages comprise full Cost to Employer (CTE) as the Ombud Council is in the process of developing its employee benefits policies.

**2.1.2.3 Advertising**

The Ombud Council is mandated to promote the services and create awareness of ombuds and the ombud system. Most of the cost will be spent on awareness and consumer education initiatives for financial customers. In accordance with the Ombud Council's strategy, this is intended to be achieved through partnering with and support to the awareness and outreach initiatives of ombud schemes, the FSCA and other relevant stakeholders.

**2.1.2.4 Computer Services**

The Council will procure Computer systems and software licenses and the estimates are based on the Original Equipment Manufacturer (OEM) pricing.

**2.1.2.5 Consultants**

The Council will contract service providers to assist in the establishment phase of developing processes and systems. As explained in the Strategic Plan, the Ombud Council aims to maintain a lean permanent staff establishment over the MTEF period to ensure flexibility in light of pending regulatory and policy reforms.

**2.1.2.6 Legal services**

The Council will seek advice from legal firms as and when required and this has been budgeted based on experience from 2023/24.

**2.1.2.7 Operating Leases**

The Council will lease offices and enter into a lease agreement and also an operating lease agreement for shared printers based on the National Treasury RT3 contract.

**2.1.2.8 Traveling**

The traveling cost of employees on official business based on the planned and expected travels to achieve the mandate of the Council including one international visit.



**BUDGET AND LEVIES PROPOSALS**

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**2.1.3 Capital Expenditure**

<b>Capital Expenditure</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
Computer Hardware & Systems	120 000	80 000	80 000	40 000
Software & Licences	80 000	1 000 000	400 000	420 000
<b>Total</b>	<b>200 000</b>	<b>1 080 000</b>	<b>480 000</b>	<b>460 000</b>

# ANNEXURE C

## LEVIES PROPOSAL IN TERMS OF SECTION 239(1)(b) OF THE FINANCIAL SECTOR REGULATION ACT

The Ombud Council, in terms of section 239(1)(b) of the Financial Sector Regulation Act, 2017 (Act No. 9 of 2017), hereby proposes a financial sector levy as reflected below in accordance with section 2(1) and Schedule 4; and a special levy of 7.5% of such financial sector levy, in accordance with sections 2(2), 8(1) and 8(2)(a) of the Financial Sector and Deposit Insurance Levies Act, 2022 (Act No. 11 of 2022).

Schedule 4 provides as follows:

### SCHEDULE 4

#### FINANCIAL SECTOR LEVY CALCULATION FOR SUPERVISED ENTITIES IN RESPECT OF OMBUD COUNCIL

*(Section 4(1)(a))*

#### Application

Table D must be applied to calculate the levy payable by a supervised entity that is liable to pay an amount in terms of Schedule 2.

**TABLE D**

Type of supervised entity	Number of payments per levy year	Variable Amount (Rands)	Description of Variable	Formula
All supervised entities that are liable to pay levies referred to in Schedule 2	One	2.5% x Z	Z = amount of levy payable by the supervised entity in terms of Schedule 2	Levy = Variable amount