

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 two financial sector industry ombud schemes (the National Financial Ombud Scheme SA and the JSE Ombud Scheme), and two statutory schemes (the Ombud for Financial Services Providers, generally known as the FAIS Ombud, and the Pension Funds Adjudicator).
- 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).

2. FUNDING MODEL

- 2.1. For the 2025/26 financial year, the Ombud Council's budgeted revenue comprises levy-based funding and interest income earned on investment of funds in the Corporation of Public Deposits (CPD) account at the South African Reserve Bank (SARB).

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 Schedule 2 of the Levies Act, together with the levy proposals of the FSCA, to be published in due course on the FSCA website www.fsc.co.za.
- 2.7. The Ombud Council raises sufficient levies to cover its operational requirements and does not, as a rule, budget for a surplus/deficit unless necessary. For the financial year 2025/26 the Ombud Council is budgeting for gross revenue of R26.87 million (Budget 2024/25: R26.99 million).
- 2.8. The gross revenue budget of R26.87 million comprises mainly levies, accounting for 95% of budgeted revenue (Budget 2024/25: 94%).

Interest income

- 2.9. The remaining 5% of the gross revenue budget for the 2025/26 financial year (Budget 2024/25: 6%) relates to interest earned on the CPD account held at the SARB.

Special levy no longer applicable

2.10 In the 2023/24 and 2024/25 financial years, in addition to the levy income received in terms of Schedule 4 of the Levies Act, the Levies Act also provided for the Ombud Council to receive a special levy. The special levy amounted 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). No special levy is provided for in respect of financial year 2025/26 or the subsequent two years.

Fees

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

3. LEVY PROPOSAL

As explained in more detail in paragraph 2.2 to 2.8 above, the Ombud Council's levy-based funding is determined using a fixed formula set out in the Levies Act, being total levy income equal to 2.5% of the levies payable by financial institutions to the FSCA. The Ombud Council's levy proposal for 2025/26 is therefore derived from the FSCA's levy proposal for the financial year, as per the calculation set out in Annexure C. Based on information provided to the Ombud Council by the FSCA, this results in budgeted levies of R25,356,618 for the 2025/26 financial year, as reflected in Annexure B.

ANNEXURE B

OMBUD COUNCIL BUDGET FOR 2025/26 AND ESTIMATES OF EXPENDITURE FOR 2026/27 AND 2027/28

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 2025/26 and estimates of expenditure for 2026/27 and 2027/28.

1 INTRODUCTION AND CONTEXT

As explained in Annexure A, the Ombud Council's mandate in terms of the FSR Act 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), and the FSR Act confers several supervisory, regulatory and enforcement functions and powers on the Council to deliver this mandate.

The Ombud Council's responsibility to promote public awareness of and publicise ombuds and their services, and support financial inclusion (section 175(d), (f) and (i) of the FSR Act), is a particular focus area.

It is important to note that the Ombud Council is called on to perform its functions against a background of far-reaching planned regulatory reform of the ombud system and the broader financial market conduct framework. These changes are articulated in the National Treasury's policy paper "*A simpler, stronger financial sector ombud system*" (February 2024) and the pending over-arching Conduct of Financial Institutions Bill. The Ombud Council's expenditure budget is therefore aimed at maintaining an appropriately lean and flexible structure to respond to these reforms, while ensuring that the Council is well governed and adequately capacitated to deliver its mandate.

BUDGET AND LEVIES PROPOSALS

2 OMBUD COUNCIL BUDGET 2025/26

2.1 Principal Budget Assumptions

2.1.1 General budget assumptions applied– Economic Indicators

MTEF budgeting guidelines	Where practical, budgeting is aligned to the National Treasury MTEF guidelines in reducing costs overall.
CPI	Annual CPI inflation of 4.6%, as set out in the National Treasury MTEF guidelines.

2.2 Revenue and Expenditure Budget

BUDGET					
Account Description	<u>2024/25</u>	<u>2025/26</u>	<u>2026/27</u>	<u>2027/28</u>	<u>% diff between 2024/25 & 2025/26</u>
REVENUE					
Levies	- 25,473,232	- 25,356,618	- 26,960,492	- 28,642,911	-0.5%
Interest income	- 1,512,000	- 1,307,451	- 1,390,150	- 1,476,900	-13.5%
	- 26,985,232	- 26,664,069	- 28,350,643	- 30,119,811	-1.2%
EXPENDITURE					
Employee cost	11,935,776	12,723,417	13,593,267	14,523,043	6.6%
Consumer education and awareness	5,463,258	5,715,114	5,975,152	6,245,229	4.6%
Board and Committee remuneration	419,200	438,525	458,478	479,201	4.6%
Audit fees	1,240,177	1,297,349	1,356,379	1,340,693	4.6%
Professional and consulting fees	2,953,555	1,168,297	1,284,117	1,609,908	-60.4%
Office lease expense	791,402	949,882	993,101	1,002,889	20.0%
IT services	1,621,528	1,696,280	1,773,461	1,853,622	4.6%
Other operating expense	2,369,535	2,478,771	2,591,555	2,708,693	4.6%
Depreciation	187,000	194,333	327,667	354,333	3.9%
Finance costs	3,800	2,100	4,000	2,200	-44.7%
	26,985,231	26,664,069	28,350,643	30,119,811	-1.2%
SURPLUS/DEFICIT	-	-	-	-	-

2.3 Explanation of budget items and variances against 2024/25**2.3.1. Levies R25.36 million (Budget 2024/25: R25.47 million)**

The levy budget decreased by 0.5% from 2024/25 to 2025/26. The main reason for the decrease is that unlike prior years no special levy is budgeted for in 2025/26 and subsequent years.

2.3.2. Interest income R1.31 million (Budget 2024/25: R1.51 million)

The interest income budget decreased by 13.5% from 2024/25 to 2025/26. The decrease is due to interest earned on surpluses invested in the 2024/2025 financial year. Interest income is calculated based on the average capital balance of investments at an average interest rate of 8.3% and expected future cash balances. The Ombud Council does not budget for interest on outstanding levies.

2.3.3. Employee costs R12.72 million (Budget 2024/25: R11.94 million)

The employee cost budget increased by 6.6% from 2024/25 to 2025/26. This relates mainly to annual increases comprising a combination of cost-of-living adjustments and performance-based increases in accordance with the Ombud Council's policies. Employee cost represents 47% of total expenditure in 2025/2026. The Ombud Council is a service organisation with employee costs being the main cost driver. The budgeted costs include all the costs required to fully fund the approved organisational structure which is 8 full time employees.

2.3.4. Consumer awareness and education R5.71 million (Budget 2024/25: R5.46 million)

The consumer awareness and education budget increased by 4.6% from 2024/25 to 2025/26 based on annual CPI inflation. The Ombud Council is mandated to promote public awareness of and publicise ombuds and their services and support financial inclusion. 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.

2.3.5. Board and Committee remuneration R0.44 million (Budget 2024/25: R0.42 million)

The Board and Committee remuneration budget increased by 4.6% from 2024/25 to 2025/26. This cost relates to all Board and Committee fees and related expenses over the period. The Board and Committee fees are calculated using published National Treasury rates. The increase assumes that the published rates will increase by annual CPI inflation.

2.3.6. Audit fees R1.30 million (Budget 2024/25: R1.24 million)

The audit fees budget increased by 4.6% from 2024/25 to 2025/26 due to annual CPI inflation. Audit costs include annual internal and external audit costs for the respective financial years.

BUDGET AND LEVIES PROPOSALS

- 2.3.7. Professional and Consultants fees R1.17 million (Budget 2024/25: R2.95 million)**
The professional and consultants' fees budget decreased by 60.4% from 2024/25 to 2025/26. 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. In prior years, as a newly established entity, the Ombud Council was relatively more reliant on contracted service providers to assist in the establishment phase of developing its processes and systems. Since becoming a Schedule 3A PFMA listed public entity at the start of the 2023/24 financial year, the Council has focused on becoming operationally independent and has adopted its own policies and processes on its own software systems from the start of the 2024/2025 financial year. Consulting support was required during 2024/25 in implementing these systems, but the level of reliance on outsourced services going forward has now been reduced, which is the reason for the significant decrease from 2024/25 to 2025/26.
- 2.3.8. Office lease expense R0.95 million (Budget 2024/25: R0.79 million)**
The office lease expense budget increased by 20% from 2024/25 to 2025/26 due to additional space contracted during the 2024/2025 financial year. The Council entered into a 2-year lease agreement for office space starting 1 April 2024.
- 2.3.9. IT services R1.70 million (Budget 2024/25: R1.62 million)**
The IT services budget increased by 4.6% from 2024/25 to 2025/26 due to annual CPI inflation. The Council has budgeted for software licenses renewals, IT maintenance and support services and other required IT costs.
- 2.3.10. Other operating expenses R2.48 million (Budget 2024/25: R2.37 million)**
The other operating expenses budget increased by 4.6% from 2024/25 to 2025/26 due to annual CPI inflation. The expenses relate to all expenses required for the day-to-day running of the entity i.e. printing and stationery, travel expenses, training and development, consumables, etc.
- 2.3.11. Depreciation R0.19 million (Budget 2024/25: R0.19 million)**
The depreciation budget increased by 3.9% from 2024/25 to 2025/26. The budget includes depreciation for the existing assets and acquisitions as detailed per the capital expenditure budget.
- 2.3.12. Finance cost R0.002 million (Budget 2024/25: R0.004 million)**
The finance costs budget is insignificant and decreased by 44.7% from 2024/25 to 2025/26. The budget includes finance charges for the existing finance lease for office equipment leased and interest is calculated in accordance with GRAP 13 requirements.

2.4. Capital Expenditure

The capital expenditure is based on long-term software requirements, assets to be replaced as they reach the end of their useful lives, or replacement due to assets being redundant.

BUDGET				
Capital Expenditure	<u>2024/25</u>	<u>2025/26</u>	<u>2026/27</u>	<u>2027/28</u>
REVENUE				
Computer equipment	120,000	100,000	280,000	50,000
Computer software	250,000	400,000	100,000	100,000
Furniture and equipment	130,000	150,000	150,000	
Leased assets	-	-	70,000	-
Total	500,000	650,000	600,000	150,000

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 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	Quarterly	2.5% x Z	Z = amount of levy payable by the supervised entity in terms of Schedule 2	Levy = Variable amount