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 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 2027/28 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 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 levies payable to the FSCA. The levy amounts payable to the FSCA are calculated in accordance with Schedule 2 of the Levies Act. In terms of the Financial Sector and Deposit Insurance Levies (Administration) and Deposit Insurance Premiums Act, 2022 (Act No.12 of 2022), levies payable to the Ombud Council are collected by the FSCA and transferred to the Ombud Council.

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 details 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, published on the FSCA website www.fsca.co.za.

2.7 The Ombud Council raises sufficient levies to cover its operational requirements and does not budget for a surplus/deficit for the financial year 2027/28. The Ombud Council is budgeting for gross revenue of R31.51 million (Budget 2026/27: R29.92 million).

2.8 The gross revenue budget of R31.51 million comprises mainly levies, accounting for 95% of budgeted revenue (Budget 2026/27: 95%).

Interest income

2.9 The remaining 5% of the gross revenue budget for the 2027/28 and 2026/27 financial years relates to interest earned on the CPD account held at the SARB.

No special levy

2.10 Section 239(2) of the FSR Act allows a proposal for levies to include a proposal for one or more special levies. The Ombud Council does not propose any special levies in respect of financial year 2027/28 or the subsequent two years.

No 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 paragraphs 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 2027/28 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 R30,034,000 for the 2027/28 financial year, as reflected in Annexure B.

ANNEXURE B

OMBUD COUNCIL BUDGET FOR 2026/27 AND ESTIMATES OF EXPENDITURE FOR 2027/28 AND 2028/29

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 2026/27 and estimates of expenditure for 2027/28 and 2028/29.

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.

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.

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.

2 OMBUD COUNCIL BUDGET 2026/27

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 3.2% (2027/28), 3.1% (2028/29) and 3% (2029/30), as set out in the National Treasury MTEF guidelines.
Interest on Investment	The current yield on Corporation of Public Deposits (CPD) is 7.5%.

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2.2 Revenue and Expenditure Budget

BUDGET ESTIMATES					
Account Description	2026/27	2027/28	2028/29	2029/30	Diff between 2026/27 & 2027/28
REVENUE					
Levies	28 531 068	30 034 000	32 836 000	34 858 000	5,3%
Interest income	1 390 150	1 476 900	1 512 000	1 602 720	6,2%
	29 921 218	**31 510 900**	**34 348 000**	**36 460 720**	**5,3%**
EXPENDITURE					
Employee cost	13 295 355	14 073 745	14 847 266	15 663 229	5,9%
Consumer education and awareness	7 932 688	8 024 009	9 795 780	10 801 389	1,2%
Board and Committee remuneration	977 380	595 856	614 328	632 758	-39,0%
Audit fees	1 142 779	886 488	913 969	941 388	-22,4%
Professional and consulting fees	1 633 223	1 685 487	1 737 737	1 789 869	3,2%
Office lease expense	989 207	2 038 200	2 101 384	2 164 426	106,0%
IT services	1 662 366	1 715 562	1 768 744	1 821 806	3,2%
Other operating expense	1 963 087	2 156 016	2 222 853	2 289 538	9,8%
Depreciation	321 133	331 409	341 683	351 933	3,2%
Finance costs	4 000	4 128	4 256	4 384	3,2%
	29 921 218	**31 510 900**	**34 348 000**	**36 460 720**	**5,3%**
SURPLUS/(DEFICIT)	-	-	-	-	-

2.3 Explanation of budget items and variances of 2027/28 compared to 2026/27

2.3.1. Levies R30.03 million (Budget 2026/27: R28.53 million)

The levy budget increased by 5.3% from 2026/27 to 2027/28. As explained in Annexure A, the Levies Act stipulates that levy amounts payable to the Ombud Council are equal to a fixed percentage (2.5%) of the levy amounts payable to the FSCA. The increase is therefore aligned to a corresponding increase proposed by the FSCA. Please refer to the levy proposals of the FSCA, published on the FSCA website www.fsca.co.za for information regarding the basis of the FSCA levy proposals.

2.3.2. Interest income R1.48 million (Budget 2026/27: R1.39 million)

The interest income budget increased by 6.2% from 2026/27 to 2027/28. The increase is due to interest earned on retained cash surpluses which are invested for the purpose of contingency reserves to provide for cash flow during the year until levy payments are received. Interest income is calculated based on the average capital balance of investments at an average interest rate of 7.5% and expected future cash balances. The Ombud Council does not budget for interest on outstanding levies.

2.3.3. Employee costs R14.07 million (Budget 2026/27: R13.30 million)

The employee cost budget increased by 5.9% from 2026/27 to 2027/28. 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 and one additional junior position. Employee cost represents 48% of total expenditure in both years. The Ombud Council is a service organization with employee costs being the main cost driver. The budgeted costs include all the costs required to fully fund the approved organizational structure, which is 9 full-time employees (2026/27: 8 full-time employees).

2.3.4. Consumer awareness and education R8.02 million (Budget 2026/27: R7.93 million)

The consumer awareness and education budget increased by 1.2% from 2026/27 to 2027/28. The Ombud Council is mandated to promote public awareness of and publicize ombuds and their services and support financial inclusion (section 175(d), (f) and (i) of the FSR Act). The cost will be spent on awareness and consumer education initiatives for financial customers as per performance targets for the year. In accordance with the Ombud Council's strategy, this is intended to be achieved primarily 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 R0.60 million (Budget 2026/27: R0.98 million)

The Board and Committee remuneration budget decreased by 39% from 2026/27 to 2027/28 due to Board and Committee training and workshop costs previously being

included in the remuneration budget. This cost has been moved to other operating expenses.

2.3.6. Audit fees R0.89 million (Budget 2026/27: R1.14 million)

The audit fees budget decreased by 22.4% from 2026/27 to 2027/28 due to adjusted estimates based on the actual signed contract values and in line with the increase in annual CPI inflation. Audit costs include annual internal and external audit costs for the respective financial years.

2.3.7. Professional and Consultants fees R1.69 million (Budget 2026/27: R1.63 million)

The professional and consultants' fees budget increased by 3.2% from 2026/27 to 2027/28 in line with the increase in annual CPI inflation. Services budgeted for include Board Secretariat support, risk and compliance management support, legal services, and specialist HR support services. 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. The size and scale of the Council's operations do not justify the appointment of full-time internal resources for these support functions, which are necessary to meet our statutory governance objective (section 178 of the FSR Act). Outsourcing on an as-needed basis is therefore considered more cost efficient.

2.3.8. Office lease expense R2.04 million (Budget 2026/27: R0.99 million)

The office lease expense budget increased by 106% from 2026/27 to 2027/28 due to the Council obtaining larger office space. A significant adjustment is required to meet operational needs and accommodate increased headcount since the previous limited space was secured. The increased space includes meeting and storage spaces, and adequate space to accommodate interns, consultants, auditors, etc. when required.

2.3.9. IT services R1.72 million (Budget 2026/27: R1.66 million)

The IT services budget increased by 3.2% from 2026/27 to 2027/28 in line with the increase in annual CPI inflation. The Council has budgeted for software license renewals, outsourced IT maintenance and support services and other required IT costs.

2.3.10. Other operating expenses R2.16 million (Budget 2026/27: R1.96 million)

The other operating expenses budget increased by 9.8% from 2026/27 to 2027/28 in line with the increase in annual CPI inflation and an increase in training and workshop costs relating to employees and the board. The other expenses relate to all expenses required for the day-to-day running of the entity, i.e. printing and stationery, travel expenses, insurance, consumables, etc.

2.3.11. Depreciation R0.33 million (Budget 2026/27: R0.32 million)

The depreciation budget increased by 3.2% from 2026/27 to 2027/28 in line with the increase in annual CPI inflation and plans to replace some assets reaching the end of their useful life.

2.3.12. Finance cost R0.004 million (Budget 2026/27: R0.004 million)

The finance costs budget increased by 3.2% from 2026/27 to 2027/28 in line with the increase in annual CPI inflation. The budget includes finance charges for the existing finance lease for office equipment and interest is calculated in accordance with GRAP 13 requirements.

2.4. Capital Expenditure

The capital expenditure is based on long-term computer hardware requirements (mainly personal laptop computers), assets to be replaced as they reach the end of their useful lives, replacement due to assets being redundant, and the purchase of new assets required for the new office space to be acquired in the 2027/28 financial year.

	BUDGET			
Capital Expenditure	**2026/27**	**2027/28**	**2028/29**	**2029/2030**
REVENUE				
Computer equipment	100 000	100 000	100 000	100 000
Computer software	-	-	-	-
Furniture and equipment	20 000	20 000	20 000	20 000
Leased assets	70 000	-	-	-
Total	**190 000**	**120 000**	**120 000**	**120 000**

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