**4. Report of the Standing Committee on Finance on Budget Vote 7: National Treasury, Dated 17 May 2017**

The Standing Committee on Finance (SCOF/ the Committee), having considered the National Treasury’s (NT) 2017/18 budget and Annual Performance Plan as presented to the Committee on 09 May 2017, reports as follows:

1. **INTRODUCTION**
   1. The Minister of Finance tabled in the National Assembly, the Annual Performance Plan (APP) of the National Treasury in line with section 10(1)(c) of the Money Bills Amendment Procedures and Related Matters Act (No. 9 of 2009), for consideration and reporting on.
   2. The documents were tabled in March 2017 and the Committee was briefed on the plans by the new Minister of Finance, Mr. Malusi Gigaba, who was accompanied by the new Deputy Minister, Mr. Sfiso Buthelezi, the Director General Mr. Lungisa Fuzile and senior officials from the National Treasury. The Committee also received a detailed briefing on Programme 9: Revenue Administration from the Commissioner of the South African Revenue Service (SARS), Mr. Tom Moyane, who was accompanied by senior officials from SARS.
   3. The overall legislative mandate of NT is based on section 216 (1) of the Constitution which establishes it to ensure transparency and accountability and sound financial controls in the management of the country’s finances and the Public Finance Management Act (1999).
   4. The planning documents are located in terms of the Medium-Term Strategic Framework (MTSF), the government’s 2014-2019 framework to implement the National Development Plan: Vision 2030 (NDP).
2. **POLITICAL OVERVIEW BY THE MINISTER OF FINANCE**

2.1 The Minister of Finance said that his main priorities are to avoid a further credit ratings downgrade, reverse the existing downgrades and accelerate inclusive growth. Despite the downgrades, the Minister was confident that the country would achieve its growth targets.

2.2 He welcomed the victory of Emmanuel Macron in the French Presidential elections, which he saw as helping to calm the global markets and as important in rejecting nationalist and protectionist policies in favour of open markets and trade. He said Africa had much to lose through protectionist policies.

2.3 The Minister pointed out that 8 people owned half the world’s wealth. He also referred to the “unsustainable inequalities” in South Africa that had to be addressed, including through ensuring economic growth and creating jobs. He said it was unsustainable to continue to provide social grants to 17 million people, which reinforced the need for growth and jobs.

2.4 The Minister said that it crucial that there is economic growth and transformation, whatever terms people wanted to use to describe how to achieve these tasks, whether it is “radical economic transformation”, “inclusive growth,” “accelerated transformation” or any other term. The Minister said there should be extensive discussion on what is meant by “radical economic transformation”, stressing that people should not be afraid of the term.

2.5 The Minister in effect stressed key aspects of the 9-Point Plan President Zuma presented at his 2015 State of the Nation Address. He also emphasized the need to industrialise the economy and create more Black industrialists.

2.6 The Minister said that he recognised the importance of encouraging the private sector to contribute to growing the economy and that he was having discussions with the business sector to work closely with the government.

2.7 He said there was also a need to raise more revenues and SARS has a major role to play in this regard.

2.8 The Minister explained that National Treasury will continue to ensure that public finances are managed in a prudent manner, macro-economic stability will be maintained and that the national fiscus continues to play its re-distributive role.

2.9 He said that nuclear energy will be introduced according to the scale and pace that both the economy and fiscus could afford.

2.10 He said that there has to be a strong National Treasury to fulfill the government’s goals.

2.11 The Minister said that the NT’s Annual Performance Plan was aligned to the National Development Plan.

2.12 The Minister said that the National Treasury is determined to do more with less, given the country’s fiscal consolidation path. It will also continue to be the ‘government enforcer’ of fiscal consolidation.

2.13 The Minister stressed that it was he and not his advisor, Professor Chris Malekane, who accounted for National Treasury and he has discussed with Professor Malekane the government protocols that apply to a Ministerial Advisor.

1. **STRATEGIC GOALS FOR 2017/18: NATIONAL TREASURY** 
   1. The Department’s strategic focus over the MTEF period will continue to be to: manage the future spending, growth and fiscal risk; review tax policy; support sustainable employment; support infrastructure development and economically integrated cities and communities; and maintain government assets and liabilities.
   2. Over the 2017/18 financial year, National Treasury will focus on the following priorities linked to their Annual Performance Plan: Supply chain management reforms; improving cost controls; strengthening budgetary procedures; implementation of the new Municipal Standard Chart of Accounts; implementation of cost containment measures; and legislation to be passed giving effect to the “twin” peaks regulatory reforms
2. **STRATEGIC GOALS FOR 2017/18: PROGRAMME 9- REVENUE ADMINISTRATION- SOUTH AFRICAN REVENUE SERVICE**
   1. SARS current Strategic Plan 2016/17 to 2020/21 broadly focuses on the following broad institutional priorities: Base Erosion and Profit Shifting: Finalisation of the implementation of the OECD Common Reporting Standards (CRS), the Automatic Exchange of Information (AECI); Implementation of new corporate real estate strategy (the reduction in rental costs and renewal of high value procurement contracts); Implementation of the Trade Facilitation Agreement (TFA) and roll out of additional baggage and cargo scanners at key ports
3. **OVERVIEW OF THE NATIONAL TREASURY BUDGET**

5.1 National Treasury’s budget allocation increases by R2 318.6 million or 8.9 percent in nominal terms from R28.4 billion in 2016/17 to R30.7 billion in 2017/18.

5.2 With regard to the economic classification of expenditure, the ceiling of the Department’s spending on compensation of employees is projected at R2.5 billion over the medium term, with R799.3 million in 2017/18, R807.8 in 2018/19 and R869.3 million in 2019/20. Goods and services amount to R1 536.8 million in 2017/18, down by R104.6 million from the R1 641.4 million allocated in the previous financial year.

5.3 The allocation for transfers and subsidies’ increases by R32.8 million or 2.5 percent in nominal terms from R443.8 million in 2016/17 to R476.6 million in 2017/18. The allocation for capital assets decreases by R55.0 million from R70.9 million in 2016/17 to R15.7 million in 2017/18.

Table 1: Financial Resource Plan 2017/18 – 2019/20



Source: National Treasury SCOF presentation (2017)’

1. **OVERVIEW OF ALLOCATIONS PER PROGRAMME**

**6.1 Programme 1: Administration**

6.1.1 The Administration programme provides strategic leadership, management and administrative support and capacity building to the Department. A budget of R414.3 million is allocated for 2017/18, down by R32.7 million or 7.25 percent in real terms from R436 million in 2016/17

**6.2 Programme 2: Economic Policy, Tax, Financial Regulation and Research**

6.2.1 This programme provides economic research, maintains economic models and draft appropriate economic policies and legislation through its internal capacity and where necessary though consultancy services. The 2017/18 budget allocation is R139.6 million

**6.3 Programme 3: Public Finance and Budget Management**

6.3.1 This programme provides analysis and advice on fiscal policy and public finances and intergovernmental financial relations and manages the annual budget process and public finance management support. A total of R286.0 million is allocated for 2017/18.

**6.4 Programme 4: Asset and Liability Management**

6.4.1 The Asset and Liability Management programme manages financial assets, national debt and liquidity requirements of the fiscus to facilitate national expenditure and maintain favourable sovereign debt ratings. Over the medium term, the strategic focus of this programme is to continue its oversight of state owned entities (SOEs) by enabling the SOEs to meet government’s policy objectives in a financially and fiscally sustainable manner, as well as promote sound corporate governance in SOEs. The programme’s budget allocation for 2016/17 declines R102.4 million or 14.98 percent in real terms from R110.1 billion in 2016/17 to R102.4 million.

**6.5 Programme 5: Financial Accounting and Supply Chain Management System**

6.5.1 The Financial Accounting and Supply Chain Management programme is allocated R1 087.9 million for 2017/18 to promote effective and efficient government financial management and accountability across the three spheres of government

**6.6 Programme 6: International Financial Relations**

6.6.1 This programme will receive R5 836.8 million in 2017/18, up by R859 million or 10.32 per cent in real terms from R4 955.8 million in 2016/17. This allocation is aligned to the programme’s mandate, which is to manage South Africa’s interests in shaping regional and global policies that advance the economic, financial and development objectives of the country and the African continent.

**6.7 Programme 7: Civil and Military Pensions, Contribution to Funds and Other Benefits**

6.7.1 The mandate of this programme is to ensure that government’s pension and post-retirement medical benefit obligations to former employees of the state and retired military members are fulfilled. Its allocation amounts to R4.835 million in 2017/18, up by R372.4 million.

**6.8 Programme 8: Technical Support and Development Finance**

6.8.1 The programme is responsible for providing advisory services, programme management and development finance support to improve public finance management, as well as support high-impact government initiatives. It is also responsible for facilitating employment creation and strengthening infrastructure planning and delivery across the three spheres of government. The programme is allocated R2 873.3 million for 2017/18, up by R274.8 million or 10.5 percent in nominal terms from R2 478.4 million in 2016/17.

**6.9 Programme 9: Revenue Administration**

6.9.1 The Revenue Administration programme receives an allocation of R10.2 billion in 2017/18, up by R854.5 million or 2.6 percent in real terms from R9.3 billion in 2016/17. The budget allocation is a transfer payment to the South African Revenue Service, which is responsible for administering the tax system

**6.10 Programme 10: Financial Intelligence and State Security**

6.10.1 Financial Intelligence and State Security essentially comprises transfers made to the Financial Intelligence Centre to combat financial crimes, including money laundering and terror financing activities

1. **OBSERVATIONS AND RECOMMENDATIONS**
   1. The Committee wishes the new Minister and Deputy Minister well in their new roles.
   2. The Committee also expresses its appreciation for the good work done by the former Minister, Mr. Pravin Gordhan and former Deputy Minister Mr. Mcebiso Jonas and wishes them well.
   3. The Committee expresses it regret that DG Lungisa Fuzile will be leaving the Department and wishes him well.
   4. The Committee wishes the Acting Director General, Mr. Dondo Mogajane., well.
   5. The Committee welcomes the Minister’s commitment to seek to avoid a further credit ratings downgrade and reverse the existing downgrades. The Committee notes that the annual budget and performance plans were presented under changed economic circumstances. When these plans and budgets were prepared, South Africa had not been downgraded to sub-investment grade by Fitch Ratings and Standard and Poor’s. The Committee requires NT to brief it on how exactly the Minister is going to address the downgrades at the Quarterly meetings.
   6. The Committee notes the Minister’s efforts to reach out to business and urges the Minister to continue to do this. The Minister also needs to reach out to the trade unions. The Committee believes that government, business and labour need to work far more effectively together and requires NT to brief it at its Quarterly meetings in this regard.
   7. The Committee requires NT to report quarterly to it on all contingent liabilities, including the status of SOE guarantees, the extent of the exposure against guarantees and the data on the portfolio of SOE assets.
   8. In its Fiscal Framework and Revenue Proposals Report early this year, the majority in the Committee welcomed government’s commitment to radical economic transformation which was defined in the 2017 State of the Nation Address as a “fundamental change in the structure, systems, institutions and patterns of ownership, management and control of the economy in favour of all South Africans, especially the poor, the majority of whom are African and female.” The majority in the Committee believe that NT’s formulation of the relationship between growth and transformation is correct. It was said that we need to transform in order to grow and we need to grow in order to transform. Without transformation, growth will reinforce inequality and without growth, transformation will be distorted by patronage. The Committee will monitor NT’s programmes in terms of this framework.
   9. The Committee explained to the Minister that it has had major public hearings on the “Transformation of the Financial Sector” and is busy processing its report. However, it is clear that the financial sector has to be transformed and the Committee will be keenly monitoring the responses of NT to the recommendations in its report and will do this through the Quarterly Briefings it considers from NT and in other ways. The Committee notes the polarised nature of the debates on the transformation of the financial sector and requests the Minister to play a role in seeking consensus on the nature, terms and pace of the transformation.
   10. The Committee has also had major hearings on the Independent Regulatory Board of Auditors (IRBA) proposals on the “Mandatory Rotation of Auditors” and will finalise its report by mid-June. While the majority in the Committee is committed to transformation of the auditing profession, including through its deracialisation and addressing the extent of monopolisation, the Committee has found the issues complex and challenging. It urges the Minister to meet with IRBA and consider engaging with it to postpone the implementation of the proposals until it consults more effectively with all the stakeholders.
   11. The Committee notes that about R500 billion has been allocated, across government, for goods and services in the 2017/18 budget. The Committee agrees with the Deputy Minister that government has to “walk the talk” by procuring from black-owned businesses and small and medium enterprises, also because it requires private sector to do this anyway. This must be done in line with the government’s revised preferential procurement policies, incorporating supply chain management reforms that are meant to unlock the effective participation of black businesses, professionals and the marginalised in the economy. The Committee further recommends that NT report to it on the implementation of the revised preferential procurement regulations. NT should update the Committee at its next Quarterly meeting about the implementation of these regulations, which were to have come into effect on 1 April 2017.
   12. As has been raised several times previously, the Committee believes that NT needs to be more active in ensuring that government departments adhere to Treasury Regulations which require the payment of legitimate invoices to service providers and suppliers within 30 days. The Committee requires a further report in this regard at the next Quarterly Briefing with NT.
   13. The Committee urges the Minister to ensure that the position of Director-General is filled by a suitable person reasonably soon.
   14. The Committee notes that SAA has appointed a new Chief Financial Officer Ms Phumeza Nhantsi and wishes her well. It urges the Minister to ensure the appointment of a suitable Chief Executive Officer reasonably soon.
   15. The Committee recognises the sterling work done by the outgoing Chief Procurement Officer, Mr Kenneth Brown, and urges the Minister to appoint a suitable new Chief Procurement Officer reasonably soon. The Committee will meet with the new Chief Procurement Officer once s/he is settled into the office. The Committee also requires the Chief Procurement Officer to submit a report on all reviewed transactions twice a year.
   16. The Committee welcomes SARS achieving its target in a very difficult economic climate. SARS collected a total of R1.367 trillion and paid out R222.4 billion in refunds resulting in the revenue of R1.144 trillion.
   17. The Committee believes that a balance has to be found between the need for a Sweetened Sugary Beverages (SSB) tax with the need to avoid job losses and the stifling of emerging African sugar cane growers. The Committee welcomes the decision to process the SSB tax through NEDLAC and urges that this process be expeditiously attended to. Before the Committee votes on the Rates and Monetary Amounts and Amendments of the Revenue Laws Bill, it will take into consideration progress in the NEDLAC process.
   18. The Committee will continue to play an active oversight role over Illicit Financial Flows (IFFs) and Base Erosion and Profit Shifting (BEPS). The Committee is aware of the staggeringly high amounts of money that are leaving this country illegally and believes that not just NT and SARS but government as a whole must do far more to combat IFFs and BEPS. The Committee finds the low level of prosecutions for IFFs utterly unacceptable. It is also unacceptable that though the Panama Papers, it is believed, refer to about 1700 South Africans and while many of them may have acted within the law there is not a single prosecution of a South African offender yet. The Committee urges the NT, the FIC and SARS to ensure that they strengthen their human resource and technical capacity to manage IFFs and BEPS. These institutions should also work closely with the Department of Trade and Industry, the Department of Mineral Resources, the South Africa Police Services, the National Prosecuting Authority, the Asset Forfeiture Unit and the Reserve Bank’s Exchange Control Division to develop a coordinated strategy to deal with key aspects of IFFs and BEPS. The Committee requests the Minister to consider looking into the possibilities of an Inter-Ministerial Committee being established to effectively tackle IFFs and BEPS. The Committee also requires SARS to provide it with a comprehensive report on what staff it has to address these challenges, their level of experience and expertise, and their strategic plans, programmes and targets on tackling IFFs and BEPS. This must be done at the next Quarterly Briefing.
   19. The Committee is concerned about constant claims of the departure of senior experienced staff from SARS and requires an appropriate report on staff that have resigned to be presented at the next Quarterly Briefing.
   20. The Committee is concerned about the delays in the finalisation of the suspended Chief Officer of Business and Individual Tax, Mr Jonas Makwakwa’s case. It is now a year since the matter was brought to the attention of the SARS Commissioner, and the Commissioner needs to ensure that the law firm instructed to investigate this case completes its investigations expeditiously and fairly, and a report needs to be provided at the next Quarterly Briefing with the Committee.
   21. The Committee welcomes the completion of the report on the SARS investigation into the “Symington matter” and recommends that it be processed soon and the public be appropriately informed of the outcomes.
   22. The Committee recommends that the Minister considers the appointment of a Specialist Advisory Committees in terms of the South African Revenue Service Act (1997) to advise the Minister and the Commissioner on any matter concerning the management of SARS resources
   23. The Committee notes that there are still some uncertainties regarding the role of SARS in the Border Management Authority and believes that these matters need to be ironed out between the Ministers of Home Affairs and Finance.
   24. The Committee welcomes the inquiry by the Tax Ombud, Judge Bernard Ngoepe, into claims that VAT refunds are held back by SARS to boost its revenue-raising targets. The Committee recommends that the inquiry be completed reasonably expeditiously.
   25. In 2014/15, SARS launched a pilot project with Swaziland and Mozambique to establish an IT network linking regional customs authorities, as the first step in developing an international customs network. It is envisaged that this pilot project will end in 2017/18. At the end of the project, SARS should compile a close-out report detailing the outcome and lessons learnt from the pilot project.
   26. The Committee requires SARS to provide it with a detailed progress report on its outsourced debt collection covering items such as recovery rate of outstanding debt and payments made to the third parties handling its debt book.
   27. The Committee looks forward to the implementation of an inter-agency strategy between SARS and the National Prosecuting Authority by June 2017 to prosecute serious tax offences. The Committee recommends that the inter-agency strategy includes the FIC in order to strengthen investigations.

Report to be considered