**1. REPORT OF THE STANDING COMMITTEE ON FINANCE ON BUDGET VOTE 7: NATIONAL TREASURY, DATED 15 MAY 2018**

The Standing Committee on Finance (SCOF/ the Committee), having considered the National Treasury’s (NT) 2018/19 budget and Annual Performance Plan 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 Committee was briefed on 08 May on the plans by the Minister of Finance, Mr. Nhlanhla Nene, who was accompanied by the Director General, Mr. Dondo Magajane and senior officials from the National Treasury.
   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 the National Treasury is committed to creating and fostering an environment for growth. He said that the priority for government in 2018 is to create jobs, especially for young people. There are several initiatives planned to facilitate this goal, he said. There is a significant push to create new investments in the economy and there is an investor conference planned for this year, he said.

2.2 The Minister pointed out that there is focus on municipalities and provinces in ensuring that there is service delivery. Issues of financial management failures in municipalities have become a challenge.The Minister noted that there is a local government week meeting-taking place in Parliament- which will address some of the failures taking place in municipalities. While the conference is taking place, NT has completed the first phase of the implementation of the Cities Support Program (CSP) which was initiated in 2012 together with the Department of Planning, Monitoring and Evaluation. The Minister reported that the program has led to significant successes in strengthening city led planning and intergovernmental coordination.

2.3 The Minister said that it is crucial to reinforce ethical behavior and leadership. He emphasized that the National Treasury was committed to fighting corruption. The Minister said that NT is funding and supporting the Commission of Enquiry into State Capture. The Minister said that the National Treasury is determined to rebuild the SARS brand. The Minister stated that it is important to have stable State-Owned Companies (SOCs).

2.5 National Treasury is committed to maintain the expenditure ceiling set by the country’s fiscal framework. Expenditure for 2018/19 to 2020/21 was revised marginally downwards in the current budget. The Minister emphasised that the goal is to maintain the expenditure ceiling over the Medium-Term that includes the public service wage agreement and financial commitments of several SOC’s.

2.6 The Minister further explained that the NT’s budget group had to contend with the demands of the R57 billion of fee-free higher education which was placed on the fiscus at the late stage of the budget process. NT had to manage the baseline reprioritization by making available additional funds while mitigating the impact of service delivery.

2.7 The Minister stated that an additional R2.6 billion was secured over the 2018/19 budget for social grants to offset the likely inflationary impact on poor households given the new tax measures headlined by the 1 percent VAT increase. The Minister said that the National Treasury has also noted with concern the increase in deviations. It was paying particular attention to strengthening oversight, tightening stipulations and addressing gaps in the process. The Minister further highlighted that guidelines were being developed for the management of deviations with a view to reduce them.

2.8 The Minister also made brief comments on the Integrated Financial Management Systems (IFMS) and emphasised that it needed special attention. The Minster said that the National Treasury has put in place measures, which include a steering committee chaired by the Director General of National Treasury and included Directors General of the Department of Public Service and Administration and the State Information Technology Agency. The Minister said that a detailed implementation plan and been developed and approved. The Minister explained that the set-up for the Oracle license had been completed. The first pilot sites will be implemented by November 2018 followed by a national roll-out. The Minister further explained that all the challenges that had been noted in the audit findings have been addressed and he looked forward to the Committee holding the National Treasury to account.

2.9 Adding to the Minister’s overview, the Director-General highlighted the role of National Treasury in terms of Chapter 13 of the Constitution and Chapter 2 of the PFMA.The Director- General said that the Annual Performance Plan for 2018/19 focused on, among others; coordinating inter-governmental fiscal relations and facilitating sound budgetary planning between the national, provincial and local spheres of government; enforcing transparency and effective management on revenue and expenditure, assets and liabilities, public entities and constitutional institutions; promoting national government’s fiscal policy and macroeconomic policy; managing the budget preparation process; ensuring the stability and soundness of the financial system and financial services; monitoring the use of scarce public resources; developing the Twin Peaks regulations; conducting relevant economic research that informs economic policy; preparing and publishing the national budget that ensures alignment of resource allocation and priorities while maintaining the expenditure ceilings.

2.10 The Director- General said that the APP also focusses on tightening oversight over state-owned companies and enabling them to achieve better government policy objectives. In this regard, National Treasury was focused in optimally managing public debt and borrowing requirements and cash resources, building capacity to improve financial management, governance and compliance across all spheres and entities of government; modernizing and automating government supply chain processes; administering and optimizing the Jobs Fund to facilitate employment creation and the municipal finance improvement programme (MFIP) and the Cities Support Programme

2.11 The Director- Generalsaid that the National Treasury will further focus on developing of new policies and reviewing existing ones. In that regard, the National Treasury intended to bring the following new legislation to Parliament for processing; the Public Procurement Bill, the Financial Matters Laws Amendment Bill, the Financial Services Laws General Amendment Bill, the Municipal and Fiscal Powers and Functions Amendment Bill, the Conduct of Financial Institutions Bill, the National Payment System Amendment Bill, and other annually recurring laws on appropriation, division of revenue, rates and monetary amounts, tax administration and taxation laws.

1. **OVERVIEW OF THE NATIONAL TREASURY BUDGET**
   1. A total of R29 billion was allocated to National Treasury. The allocation for transfers and subsidies’ decreases by R1.1 billion from R23.5 billion to R22.4 billion. The allocation for capital assets increases by R415 million from R2.1 billion in 2017/18 to R2.5 billion in 2018/19. The table below summarises the budget for the National Treasury over the medium-term.

**Table 1: National Treasury Budget Summary 2018/19 MTEF**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **2018/19** | | | |  | **2019/20** | **2020/21** |
| R million | **Total** | **Current  payments** | **Transfers and  subsidies** | **Payments for  capital assets** | **Payments for  financial assets** | **Total** | **Total** |
| **MTEF allocation** |  |  |  |  |  |  |  |
| Administration | 484.7 | 445.5 | 3.9 | 35.3 | – | 555.8 | 590.7 |
| Economic Policy, Tax, Financial Regulation and Research | 141.0 | 106.9 | 33.2 | 0.9 | – | 148.0 | 158.1 |
| Public Finance and Budget Management | 290.1 | 236.1 | 51.8 | 2.2 | – | 308.9 | 330.5 |
| Asset and Liability Management | 110.4 | 109.9 | – | 0.5 | – | 111.5 | 119.4 |
| Financial Accounting and Supply Chain Management Systems | 1,196.6 | 1,085.9 | 104.3 | 6.4 | – | 1,080.7 | 1,144.3 |
| International Financial Relations | 5,402.1 | 51.5 | 972.8 | 0.5 | 4,377.3 | 5,745.1 | 6,061.4 |
| Civil and Military Pensions, Contributions to Funds and Other Benefits | 5,163.8 | 68.9 | 5,094.9 | – | – | 5,574.5 | 5,881.2 |
| Technical Support and Development Finance | 2,798.8 | 407.8 | 2,391.1 | – | – | 2,987.8 | 3,726.9 |
| Revenue Administration | 9,007.2 | – | 9,007.2 | – | – | 9,130.3 | 9,630.9 |
| Financial Intelligence and State Security | 4,763.5 | – | 4,763.5 | – | – | 4,951.1 | 5,223.2 |
| **Subtotal** | **29,358.4** | **2,512.5** | **22,422.8** | **45.8** | **4,377.3** | **30,593.7** | **32,866.5** |

Source: National Treasury 2018 Annual Perfomance Plan, page 8.

1. **OVERVIEW OF PROGRAMMES AND ALLOCATIONS**
   1. **Programme 1: Administration**
      1. The Administration programme provides strategic leadership, management and administrative support and capacity building to the Department. A budget of R484.7 million is allocated for 2018/19, up by R45.6 million from R439.1 million in 2017/18
   2. **Programme 2: Economic Policy, Tax, Financial Regulation and Research**
      1. This programme provides economic research, maintains economic models and draft appropriate economic policies and legislation through its internal capacity and where necessary through consultancy services. The 2018/19 budget allocation is R141 million.
      2. Over the medium term, the department aims to conclude proposals for tax policy amendments. Spending on implementing these tax measures over the medium term is projected to be R30 million in 2018/19, R31 million in 2019/20 and R33.2 million in 2020/21.
   3. **Programme 3: Public Finance and Budget Management**
      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 R290 million is allocated for 2018/19.
   4. **Programme 4: Asset and Liability Management**
      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 2018/19 amounted to R110 million.
   5. **Programme 5: Financial Accounting and Supply Chain Management System**
      1. The Financial Accounting and Supply Chain Management programme is allocated R1,2 billion for 2018/19 to promote effective and efficient government financial management and accountability across the three spheres of government.
      2. Spending on activities related to government procurement processes is projected to be R196.5 million in 2018/19, R143.2 million in 2019/20 and R150.9 million in 2020/21 in the Programme Management for Financial Accounting and Supply Chain Management Systems.
   6. **Programme 6: International Financial** **Relations**
      1. International Financial Relations will receive R5.4 billion in 2018/19, down by R429.3 million from R5.8 billion in 2017/18. 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.
   7. **Programme 7: Civil and Military Pensions, Contribution to Funds and Other Benefits**
      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 R5.2 billion in 2018/19, up by R329 million the previous year.
   8. **Programme 8: Technical Support and Development Finance**
      1. This 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 R2.8 billion for 2018/19, down by R240.3 million from R2 558.5 million in 2017/18.
   9. **Programme 9: Revenue Administration**
      1. The Revenue Administration programme receives an allocation of R9.0 billion in 2018/19, down R1.2billion from R10.2 billion in 2017/18. The budget allocation is a transfer payment to the South African Revenue Service, which is responsible for administering the tax system.
   10. **Programme 10: Financial Intelligence and State Security**
       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. The 2018/19 allocation for the Financial Intelligence Centre and the South African Secret Services is R278.7 million (up by R8.5 million from R270.2 million in 2017/18) and R4.5 billion (down by R20.6 million from R4.7 billion in 2017/18), respectively.
2. **OBSERVATIONS AND RECOMMENDATIONS**
   1. The Committee supports NT’s renewed focus on fostering economic growth through encouraging investment and job creation, particularly for the youth. The Committee expects the upcoming investment conference to be productive and lead to concrete outcomes. In the Fiscal Framework and Revenue Proposals Report (2018), the Committee noted that some progress had been made in implementing the 14 confidence boosting measures that the Minister of Finance started implementing in 2017, The Committee continues to urge NT to rigorously implement the confidence boosting measures to unlock South Africa’s growth potential and report progress quarterly to the Committee, taking into account the President’s 10-point plan announced in the State of the Nation Address this year.
   2. The Committee welcomes the latest economic information which shows that the government did not breach its expenditure ceiling in the 2017/18 financial year. The Committeenotes that the expenditure ceilings have been further reduced over the medium term but risks to them remain, particularly in view of the financial state of some SOCs. The Committee repeats its concern that the reduction of expenditure ceilings should flow mainly from greater efficiencies in government and reduction of corruption, and should not be at the expense of service delivery to the poor and disadvantaged.
   3. The Committee notes that many state-owned companies (SOCs) continue to pose risks on the government’s balance sheet. The Committee notes governance improvements at Eskom which have enabled it to pay back the loan advanced by the PIC early in the year and to access funding from the markets. The Committee however remains concerned with the liquidity challenges at South African Airways. The Committee understands that to stay afloat SAA needs about R4.8 billion immediately and more over the MTEF until it breaks even as it implements its turnaround strategy. We have noted pronouncements from the National Treasury that a private sector participation framework is being considered. The Committee requires more information on this framework. As the Committee stated in our Fiscal Framework and Revenue Proposals Report (2018), the majority in the Committee supports private sector participation in SOCs, including through equity ownership. However the Committee do not support wholesale privatization of SOCs. The Committeereiterates that we support NT’s view that financially stable SOCs can support economic transformation and strengthen the state’s ability to accelerate national development, rather than impede it. The Committee fully support the work of government to root out corruption and maladministration in SOCs and across government and to rekindle ethical leadership and corporate governance. The Committee also welcomes the funding and other forms of support for the Commission of Inquiry into State Capture.
   4. The Committee requires NT to report quarterly to it on all contingent liabilities, the status of SOCs guarantees, the extent of the exposure against guarantees and the data on the portfolio of SOCs assets.
   5. In the Fiscal Framework and Revenue Proposal Report, the Commitee requested the National Treasury to provide a detailed analysis in respect of the 2018/19 budgeted annual increases in compensation of employees including the structural remuneration changes, notch adjustments, promotions, seniority increases, performance bonuses and annual general adjustments. The Committee requires NT to do this at its quarterly briefings to the Committee.
   6. The Committee believes that in a “give-and-take” approach both the government and the unions should seek compromises on the public sector wage negotiations that take into account both the need for an increase in the wages of public sector workers and the constraints on the budget.
   7. The Committee welcomes measures to address major challenges in the SARS. In our 2018 Fiscal Framework and Revenue Proposals Report, the Committee said: “We urge the President to establish the Commission on SARS as soon as possible. Part of its mandate should include investigation into how SARS has managed the allegations against Mr Jonas Makwakwa and Ms Kerry-Ann Elskie. It should also investigate the legitimacy of SARS disbandment of the High Risk Investigation Unit - the so-called “rogue” intelligence unit – including through considering the significance of KPMG’s withdrawal of its recommendations on this unit. While the Committee fully support representivity in the senior management and SARS more generally, and have been constantly focusing on the need for this, the Committee thinks the Commission should also look into the exodus of senior staff in recent years.” The Committee reiterates this, and in particular call for the Commission to be established as soon as possible; given the importance of SARS and the gravity of the issues to be addressed, the Committee strongly believe that it is taking far too long to establish the Commission.
   8. In our 2017 Report the Committee noted that in respect of Illicit Financial Flows (IFFs): “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.” Within our constraints, the Committee has been pursuing IFF issues at our quarterly briefings with NT and SARS, and we believe there has been very little progress since last year, and express our very serious concern about this. Given the VAT and fuel levy increases in this year’s budget and the urgent need to raise revenue for fee-free higher education and other pro-poor programmes, it is more unacceptable than ever that such staggering amounts of money leave our shores illegally, and we insist that NT and SARS do far more than they are to reduce IFFs. Of course, the Committee recognises that it is the President that decides on Inter-Ministerial Committees, but believes that the Minister needs to actively pursue the possibility of this and report in writing to the Committee by the end of June on progress in this regard.
   9. The Committee recently received a briefing on the huge loss of revenue to the fiscus through the Illicit Tobacco Trade (ITT). Participants included the Tobacco institute of South Africa, the Fair Trade Independent Tobacco, NT, SARS, FIC, Hawks and the National Prosecution Authority (NPA). The Committee is acutely aware of the health hazards of smoking but since smoking is not legally proscribed, feels very strongly that SARS should raise the full revenue it is entitled to from the tobacco industry, now more than ever! Every cent due to SARS has to be raised, especially in view of the revenue shortfalls in recent years and the need to fund major pro-poor programmes. The Committee notes that in 2017, revenue from tobacco sales decreased by 26% from the estimated R15 billion to R11 billion due to illicit trade. By their very nature, the loss of revenue through illegal activities like in the ITTs is difficult to quantify, but it is estimated that a minimum of R5 billion is lost to the fiscus annually. This is completely unacceptable. South Africa ranks among the top 5 countries in the world with the highest incidence of trade in illicit cigarettes. The increase in the illicit tobacco trade makes cigarettes easily accessible even to children and defeats the health promotion regime of the country. The Committee believes that there should be far more effective coordination between SARS, the Hawks, the FIC, NPA and NT in more decisively tackling the ITTs. The Committeealso urges the Ministers under which these institutions fall to work in a coordinated structure towards this goal.
   10. The Committee once again expresses its serious concern about the 1% increase in VAT. In the 2018 Fiscal Framework the Committee noted: “If there are sufficient measures to offset the negative consequences of the VAT increase, the Committees believe that it might be reasonable to accept the VAT increase provided it is reviewed within 2 years.” Following recent hearings on the the Rates and Monetary Amounts and Amendment of Revenue Laws Bill (the “VAT Increase” Bill)**,** the Committee urges NT to vigourously engage with the stakeholders and ensure that the Independent Panel into VAT increase does so too and seeks to make appropriate compromises. The Committee also notes and welcomes that NT plans to refer the draft Bill to Nedlac for more consultation and consensus.The Committee has decided not to proceed with the Bill until these processes are finalised.
   11. The Committee expresses its strongest concern at the spate of allegations of errant behaviour by audting companies involving, among others, auditors of Steinhoff, Linkway Trading, Venda Building Society Mutual Bank and those used by the AG’s office.The Committee strongly believes that the Independent Regulatory Board of Auditors (IRBA) needs to be more effectively resourced and strengthened in other ways. The Committee also support amendments to the Auditing Professions Act (2005) to give IRBA the power to apply far more effective sanctions, including suspending auditors who are found guilty. It should also be allowed to take immediate action against auditors who do not cooperate with the regulator. Consideration also needs to be given to IRBA having search and seizure powers to deal with companies and auditors who do not cooperate or seek to tamper with information. IRBA needs to simplify its investigative and decision-making processes. There is also a need for regulation of the accounting profession in line with international standards as, currently, only the auditing profession is regulated.
   12. Together with the Trade and Industry Committee, our Committee organised major hearings last year on Financial Sector Transformation (FST) and the National Assembly adopted the 131-page report of the Committees, including several recommendations, on this. It was the most extensive hearings on FST ever held since 1994 and the Committees are very clear that NT and the Department of Trade and Industry have to give concerted attention to the recommendations in the report in the lead up to the Financial Sector Summit, as has been communicated to both the Ministers of Finance, and Trade and Industry verbally and in writing by the two Committees’ chairpersons. Our Committee mandates the chairperson to raise this matter again in writing with the Minister of Finance and requires him to respond within 14 days of the adoption of this report.
   13. The Committee notes the poor financial management of many municipalities. The Committee supports the government-wide work to address this, including NT’s efforts in coordinating fiscal relations and promoting sound and transparent budgetary planning across national, provincial and local spheres. There needs to be far more coordination of support to municipalities between various national and provincial departments. This includes the coordination of NT’s programmes on strengthening financial management capacity and the implementation of financial management legislation through the Municipal Finance Improvement Programme (MFIP).
   14. The Committee urges NT to expedite its work on revising the policy framework and modernisation of approvals for expenditure deviations.
   15. The Committee notes the Minister’s comments and brief update to the Committee on the Integrated Financial Management System (IFMS). The Committee notes the work done by the Standing Committee on Public Accounts on this matter, particularly on the audit findings of the Auditor-General. The Committee requires to be updated at the next quarterly briefing on the outcomes of the ongoing forensic investigation into the IFMS and the actions taken against anyone found to have violated the law. We also require more details into the implementation of the IFMS to be provided by then.
   16. The Committee urges NT to expedite the appointment of the Chief Procurement Officer and other senior DDG positions within Treasury in order to ensure leadership stability.
   17. The Committee requires NT to expedite the review process of the revenue sharing model employed by the South African Customs Union as this has been ongoing since 2016. The Committee requires NT to report to it on this process and progress in the next quarterly briefing.
   18. The Bills currently being processed by our Committee are the Rates and Monetary Amounts and Amendment of Revenue Laws Bill (the “VAT Increase” Bill), Carbon Tax Bill, Public Investment Corporation Bill and the Money Bills Amendment Procedure and Related Mattters Bill. The Committee will also have to process the Taxation Laws Amendment Bill, Tax Administration Laws Amendment Bill, and an EFF private members Bill on a state-owned bank. This is apart of the Committees extensive oversight work, including on SAA, SARS, Steinhoff, Capitec and VBS Mutual Bank. The Committee understands that Ministers and Departments are usually under pressure to finish their legislative programmes before the end of a five-year term, and they often flood parliament with Bills in the final year of the term. Often these Bills are very rushed, without proper consultation with stakeholders and poorly drafted and submitted in a tick-box, compliance-driven manner. While the executive has every right to introduce Bills, even close to the end of a term, the Committee, as has been raised before, believes that the legislative programme of parliament is too executive-driven, and parliamentary committees should have a much bigger say in determining which Bills should be prioritised. Given the many Bills the Committee must process, the Committee extensive oversight work and the reduction of the parliamentary terms in the year ahead, the Committee strongly believes that, apart from the Bills mentioned here, the Committee should only seek to process a Bill dealing with the Postbank, a Bill dealing with amendments to the Auditing Professions Act giving IRBA more powers, as explained above and the Financial Sector Levies Bill.Following a discussion in the Committee, the Chairperson communicated this to the Minister, Chief Whip of the Majority Party, the office of the Leader of Government Business and the DG. The Committee notes that NT insists on introducing several other Bills. The Committee simply will not be able to process them.
   19. The Committee stresses that NT’s programmes and activities should serve overall to contribute to radical socio-economic transformation and expresses concern that there was not sufficient attention paid to this in NT’s briefing to the Committee on its budget. The Committee requires NT to be more explicit on this in future quarterly briefings.

The Democratic Alliance (DA) reserves their position on the report

Report to be considered