**6. Report of the Standing Committee on Finance on Budget Vote 7: National Treasury, Dated 09 July 2019**

The Standing Committee on Finance (SCOF/ the Committee), having considered the National Treasury’s budget and annual performance plan, reports as follows:

1. **INTRODUCTION**
   1. The Minister of Finance tabled the revised strategic and annual performance plans of the National Treasury, the South African Revenue Services and other entities reporting to the Minister of Finance in line with section 10(1)(c) of the Money Bills Amendment Procedure and Related Matters Act (No. 9 of 2009), for consideration and report.
   2. The Deputy Minister, Dr David Masondo, and senior officials of the National Treasury and the South African Revenue Service (SARS) led by the Director General, Mr. Dondo Magajane and the newly appointed Commissioner of SARS, Mr Edward Kieswetter, briefed the Committee on 04 July. The Minister of Finance, Mr Tito Mboweni, sent an apology.
   3. The overall mandate of NT is based on section 216 (1) of the Constitution which establishes it to ensure transparency, accountability and sound financial controls in the management of the country’s finances and the Public Finance Management Act (1999).
   4. Its mandate is to coordinate intergovernmental financial and fiscal relations, promote national government’s fiscal policy and coordination of macroeconomic policy, enforce transparency and effective management of revenue and expenditure, assets and liabilities, public entities and constitutional institutions, manage the budget preparation process and, ensure the stability and soundness of the financial system and financial services.
   5. SARS aims to contribute to the economic and social development of the country by collecting all taxes, duties and levies due to fund the South African government’s public service programs and priorities.
2. **POLITICAL OVERVIEW BY THE DEPUTY MINISTER OF FINANCE**
   1. The Deputy Minister of Finance told the Committee that the National Treasury’s strategic and annual performance plans were transitional, following the recent elections and transition from the fifth to the sixth democratic administration. While the plans wrapped-up the work of the fifth administration, they also incorporated the seven priority areas that have been identified by the sixth administration.
   2. The Deputy Minister stated that government was in the process of finalizing its five-year plan, the Medium-Term Strategic Framework, for the sixth administration. He then handed over to the DG of National Treasury and the Commissioner of SARS to take the Committee through the National Treasury and SARS’ plans, respectively.
   3. The DG of National Treasury told the Committee that the strategic plan of National Treasury has been extended by a year in order to align it with the electoral terms of administrations as there had always been a mismatch between the plan and the terms of office.
   4. Mr Mogajane said that the National Treasury will focus on the development 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 and, other annually recurring Money Bills (appropriation, division of revenue, rates and monetary amounts, tax administration and taxation laws).
   5. He said that the focus areas for the 2019/20 financial year included the further development and implementation of comprehensive prudential and market conduct framework for new authorities, the development of retirement reform policies, conducting research into key areas of the economy such as energy and tourism to better inform the implementation of economic policy, coordination of the national budgeting process, monitoring and analysis of public expenditure, coordination of fiscal relations across government, managing government’s annual funding programme through managing public debt, ensuring liquidity and overseeing state owned companies, improving financial management and compliance across all spheres, overseeing and improving government’s supply chain management, advancing the country’s national economic interests and those of Africa and, administering programmes in partnership with stakeholders through such initiatives as the Jobs Fund, Municipal Finance Improvement Programme (MFIP) and the Cities Support Programme (CSP) to respectively enhance employment creation, improve municipal finances and ensure economic growth and a reduction in poverty.
   6. SARS Commissioner, Mr. Kieswetter, briefed the Committee on SARS’ plans, taking Committee members through the environment he found at SARS when he took over two months ago and highlighting the changes being implemented to rebuild the revenue collector. Among others, the Commissioner said that he found a climate of fear, intimidation, high levels of trauma and stress among staff and, high levels of distrust in leadership. He said that he has been responding to these challenges with both short and long term plans of rebuilding trust and foster a new culture.
   7. Mr Kieswetter said that SARS’ priorities included the implementation of the recommendations of the Nugent Commission of Inquiry into Tax Administration and Governance at SARS (Nugent Commission), which have been endorsed by the Cabinet, and ensuring revenue recovery. On revenue recovery, he said that SARS was identifying revenue leakages, identifying and pursuing delinquent taxpayers and practitioners, addressing compliance and outreach campaigns with taxpayers. He added that SARS was rebuilding the anti-illicit economy capacity focussing on tobacco, mining and minerals and other illicit imports through raising customs surveillance at the ports of entry.
   8. He said that the Nugent Commission had found that there had been a massive failure in governance and integrity since 2014 and the Bain and Company operating model that had been implemented had deliberately sought to render the organisation incapable of fully serving its mandate by, among other things, impeding SARS’ modernisation programme, triggering an exodus of capable and experienced staff and dismantling (the capacity of) essential business units such as the Large Business Centre, the Compliance Unit, the Integrity Unit and Illicit Economy Unit. The Commissioner reported to the Committee that these business units have since been or were being re-established or reviewed and strengthened.

1. **OVERVIEW OF THE NATIONAL TREASURY BUDGET**
   1. A total of R30,7 billion has been allocated to the National Treasury in 2019/20; an increase of 3.6% from 2018/19 budget. This budget is projected to increase by 5% and 5.7% to R32,3 billion and R34,1 billion in the outer years of the Medium-Term Expenditure Framework (MTEF). 77% of the 2019/20 allocation goes to transfers and subsidies, 0.1% to payment for capital assets, 15.1% to payment for financial assets and 8.1% to current payments. The table below summarises National Treasury’s MTEF allocations.

**TABLE 1: National Treasury Budget Summary 2019/20 MTEF**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | |  |  |  |  |  |  |
|  |  | **2019/20** | | | |  | **2020/21** | **2021/22** |
| R million |  | **Total** | **Current  payments** | **Transfers and  subsidies** | **Payments for  capital assets** | **Payments for  financial assets** | **Total** | **Total** |
| **MTEF allocation** |  |  |  |  |  |  |  |  |
| Administration |  | 555,7 | 533,4 | 4,1 | 18,2 | – | 599,4 | 636,8 |
| Economic Policy, Tax, Financial Regulation and Research |  | 149,7 | 128,1 | 20,8 | 0,9 | – | 159,6 | 169,0 |
| Public Finance and Budget Management |  | 320,0 | 263,3 | 54,3 | 2,4 | – | 325,3 | 344,2 |
| Asset and Liability Management |  | 108,4 | 107,7 | – | 0,7 | – | 116,1 | 122,0 |
| Financial Accounting and Supply Chain Management Systems |  | 1 093,6 | 970,0 | 109,7 | 13,9 | – | 1 159,2 | 1 222,6 |
| International Financial Relations |  | 5 751,5 | 65,6 | 1 027,3 | 0,7 | 4 657,9 | 6 059,3 | 6 396,6 |
| Civil and Military Pensions, Contributions to Funds and Other Benefits |  | 5 574,5 | 72,7 | 5 501,8 | – | – | 5 590,2 | 5 895,3 |
| Technical Support and Development Finance |  | 2 737,6 | 365,3 | 2 372,3 | – | – | 2 965,4 | 3 176,2 |
| Revenue Administration |  | 9 529,0 | – | 9 529,0 | – | – | 10 110,0 | 10 673,1 |
| Financial Intelligence and State Security |  | 4 951,1 | – | 4 951,1 | – | – | 5 223,2 | 5 510,5 |
| **Subtotal** |  | **30 771,1** | **2 506,1** | **23 570,3** | **36,8** | **4 657,9** | **32 307,7** | **34 146,3** |

1. **OVERVIEW OF THE SOUTH AFRICAN REVENUE SERVICE’S BUDGET**
   1. SARS receives a transfer/grant from the Revenue Administration programme of the National Treasury, on top of other income (see Table 2 below). In 2019/20 SARS will be allocated a total budget of R9, 841 billion. R40,3 million of this is a transfer/grant to the Office of the Tax Ombuds (OTO). The allocation to SARS will increase to R10, 991 billion in 2021/22, while the allocation to the OTO will increase to R44,8 million.
   2. Table 2 below shows that although SARS’ MTEF allocations increase by R1.1 billion over the period, its funding needs exceed allocations by about R2,7 billion over the MTEF.

**TABLE 2: SARS Budget Summary 2019/20 MTEF**

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **2019/20** | **2020/21** | **2021/22** |
| **R million** |  |  |  |
| National Treasury Grant | 9 529 031 | 10 110 017 | 10 673 090 |
| Final Grant Receivable | 9 488 723 | 10 067 492 | 10 628 226 |
| Final OTO Grant Receivable | 40 308 | 42 525 | 44 864 |
| Interest Income |  |  |  |
| Other Income | 312 187 | 315 309 | 318 462 |
| Total Funds Available | 9 841 218 | 10 425 326 | 10 991 552 |
| Baseline Expenditure (BAU) | 10 649 510 | 11 272 561 | 11 966 141 |
| Total CAPEX including BAU |  |  |  |
|  |  |  |  |
| Available Projects | -808 291 | -847 235 | -974 589 |
| Projects |  |  |  |
| Funding surplus/shortfall | -808 291 | -847 235 | -974 589 |

1. **OVERVIEW OF NATIONAL TREASURY 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 R555.7 million is allocated for 2019/20, up from R423.2 million actual expenditure in 2018/19. The projected increase for this programme is R599.3 million and R636.8 million respectively in the two outer years of the 2019/20 MTEF.
   2. **Programme 2: Economic Policy, Tax, Financial Regulation and Research**
      1. This programme is dedicated to economic research and modelling, and policy and legislative development. The 2019/20 allocation is R149 million, up by R8 million from 2018/19. Over the medium term, the National Treasury aims to conclude proposals for tax policy amendments and to table the Financial Sector Regulation Amendment Bill and other Twin Peaks model legislation aimed at developing and/or enhancing South Africa’s prudential and market conduct framework for new regulatory authorities. It will also table the Financial Matters Amendment Bill which will enact, among others, the establishment of deposit insurance scheme under the South African Reserve Bank.
   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. For 2019/20, R320 million has been allocated for this programme.
   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 (SOCs) by enabling the SOCs to meet government’s policy objectives in a financially and fiscally sustainable manner, as well as promote sound corporate governance in SOEs. This programme will build a framework for reducing the number of government guarantees issued to public entities and improving the risk exposure from such guarantees. This programme’s budget allocation for 2019/20 amounted to R108.4 million, compared to R110 million the previous year.
   5. **Programme 5: Financial Accounting and Supply Chain Management System**
      1. The Financial Accounting and Supply Chain Management programme has been allocated R1,1 billion, down by R1 million from the R1,2 billion for 2018/19. This programme seeks to promote effective and efficient government financial management and accountability across the three spheres of government. A major focus has been placed on improving government procurement processes and identifying malpractices as a result of procurement irregularities. R668.3 million has been allocated to this over the medium-term.
   6. **Programme 6: International Financial Relations**
      1. International Financial Relations will receive R5.7 billion in 2019/20, up by R349 million from the previous year. The programme’s mandate 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.
      2. As at 2018/19, through this programme, South Africa has made capital contributions to the New Development Bank amounting to R14.1 billion since it was established in 2014. Over the medium term, NT expects to make further capital contributions amounting to R13.5 billion.
   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 R5.5 billion in 2019/20, up by R411 million from 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 R2.7 billion for 2019/20, down by R61 million in 2018/19.
   9. **Programme 9: Revenue Administration**
      1. The Revenue Administration programme receives an allocation of R9.5 billion in 2019/20, up by R552 million from R9 billion in 2017/18. The budget allocation is a transfer payment to the South African Revenue Service, which is responsible for administering the country’s revenue system.
   10. **Programme 10: Financial Intelligence and State Security**
       1. Financial Intelligence and State Security comprises transfers to the Financial Intelligence Centre to combat financial crimes, including money laundering and terrorism-financing activities. The 2019/20 allocation for the Financial Intelligence Centre and the South African Secret Services is R4.9 billion.
2. **OVERVIEW OF SARS’ PROGRAMMES**
   1. SARS will focus on resolving significant taxpayer disputes, the illicit economy, border management and rebuilding its leadership and organisation. The revenue collection estimate for 2019/20 is R1,422 trillion. The largest sources of this revenue collection estimate, about 80 per cent, remain Personal Income Tax, Corporate Income Tax and, Value Added Tax.
   2. SARS seeks to achieve five key outcomes, namely; Outcome 1: Increased customs and excise compliance, Outcome 2. Increased tax compliance, Outcome 3. Increased ease and fairness in doing business with SARS, Outcome 4. Increased cost-effectiveness and internal efficiencies and, Outcome 5. Increased public trust and credibility. A number of measures/targets have been set for the 2019/20 MTEF to achieve these five outcomes.
3. **OBSERVATIONS AND RECOMMENDATIONS**
   1. The Committee welcomes the reappointment of Minister Mboweni and the appointment of the new Deputy Minister, Dr. David Masondo, and wishes them well in their work.
   2. The Committee will, in the coming two weeks, hold an induction session to consider the Legacy Report of the outgoing Committee and to receive orientation on the financial sector. The incoming and outgoing Chairpersons have already met for a handover. The Committee wishes to thank the outgoing Committee and its Chairperson for the work done over the fifth parliament. The Committee will pay special attention to outstanding and ongoing work initiated by the outgoing Committee in developing its strategic and annual performance plans.
   3. The Committee agrees with the Deputy Minister of Finance’ analysis that we are in a transitional phase between the fifth and the sixth administration. As a result of this transition, the work of the Committees involve wrapping-up the work of the previous administration while incorporating the new priorities. The Committee will only be able to develop its five year plans after the publication of the government-wide Medium-Term Strategic Framework and the Strategic Plans of the 6th Parliament. There shall therefore be both continuity and an infusion of the new priorities in the Committee’s oversight activities, taking into consideration the tabled plans of the National Treasury and its entities and the priorities set out by the President in the State of the Nation Address of June 2019.
   4. The Committee notes that the budget of NT is projected to increase by up 5.7% annually over the medium-term. It further notes that although the budget of SARS will increase by about R1,1 billion over the medium-term, it is still below its funding needs by almost R2,7 billion. The Committee recognises that the shortfalls are as a result of the government-wide fiscal consolidation measures. Institutions have to squeeze out inefficiencies and learn to do more with less. The Committee however believes that enforcement institutions such as SARS and other law enforcement should have adequate resources and capacity to help government recover state funds that were lost as a result of state capture, corruption and maladministration.
   5. The Committee notes that the National Treasury will be tabling a number of Bills in the 2019/20 financial year including the Public Procurement Bill, the Financial Matters Laws Amendment Bill, the Financial Services Laws General Amendment Bill, the Municipal and Fiscal Powers and Functions Bill, the Conduct of Financial Institutions Bill, and other recurring Money Bills. The Committee notes that many of these Bills have been delayed as they were part of last year’s annual performance plan. The Committee requires an explanation from the National Treasury on why the National Payment System Bill is no longer part of the Bills that will be tabled in this financial year. The Committee further requires the National Treasury to table its proposed Bills as soon as possible to enable the Committee to plan its legislative programme given that this year is shorter owing to the national elections.
   6. The Committee urges the National Treasury to expedite its work on revising the policy framework on the modernisation of approvals for expenditure deviations. The Committee believes that the enactment of the long-awaited Public Procurement Bill will go a long way in dealing with the issue of SCM deviations, eliminate the fragmentation of the country’s procurement policy and legislative framework and, establish an overarching regulatory framework of procurement that will facilitate efficiency and economic transformation. The Committee therefore urges the National Treasury to expedite the tabling of the Public Procurement Bill.
   7. The Committee urges the Minister to expedite the appointment of the Chief Procurement Officer and other senior DDG positions within Treasury in order to ensure leadership stability and the implementation of the Auditor-General’s leadership, financial management and governance recommendations as contained in the 2017/18 annual report of the National Treasury and its audit action plans. The Committee requires the National Treasury to provide it with an update on the filling of these senior leadership positions as leadership vacancies normally contribute to weakened internal controls and poor audit outcomes.
   8. The Committee is not satisfied with the slow pace of consequences management on the Integrated Financial Management System (IFMS). The Committee requires an update from the National Treasury on the outcomes of the forensic investigation into the IFMS and the actions taken against anyone found to have violated the law in the next quarterly briefing. The Committee further requires details on the implementation of the IFMS and the appointment of the Chief Director: IFMS.
   9. The Committee is concerned about the financial state of SOCs. The Committee notes that a Special Appropriation Bill on Eskom will be tabled on an urgent basis in Parliament. The Committee also notes the reforms that have taken place since 2017 to turn the financial position and management of SOCs. However, many SOCs continue to pose a great risk to the fiscus. While the Committee recognises that the turnaround plans at SOCs cannot be achieved overnight, it is concerned on the impact and effectiveness of these changes particularly at SAA and Eskom, given the recent resignations of the Chief Executive Officers. The Committee requires NT to report quarterly to it on all contingent liabilities, the status of SOC guarantees, the extent of the exposure against guarantees and, the data on the portfolio of SOC assets. The Committee believes that additional support to SOCs should be contingent on not just theoretical turnaround plans, but the successful implementation of such plans.
   10. The Committee is concerned that despite the government-wide work to find solutions to challenges in municipalities, many of them are in a critical state with many of them implementing unfunded budgets. The recently released report of the Auditor-General of South Africa entitled “*Consolidated General Report on the local government audit outcomes: MFMA 2017/18*” shows that 63% of municipalities regressed in their overall audit outcomes in 2017/18. The Committee believes that the Standing Committee on Public Accounts (SCOPA) will attend to this. The Committee supports National Treasury’s work in coordinating fiscal relations and promoting sound and transparent budgetary planning across all spheres of government. The Committee believes that there should be more coordination of support to municipalities between the various national and provincial departments that provide such support in order to ensure that it is effective, efficient and improves the management of municipalities. This includes the coordination between the work of National Treasury of strengthening capacity to improve financial management and the implementation of financial management legislation through the Local Government Financial Management Support sub-programme; the Municipal Finance Improvement Programme (MFIP). The Committee has requested the National Treasury to, as soon as possible, provide it with a report on its assessments of the effectiveness of its support programmes (such as the MFIP and the Cities Support Programme) to municipalities.
   11. The Committee welcomes measures to rebuild the South African Revenue Service. While noting reservations from some on the transparency of the process followed to appoint the new SARS Commissioner, the majority in the Committee believes that the National Treasury has provided explanation on the recruitment process followed in appointing him, as was recommended by the Nugent Commission. The information on the recruitment process is publicly available on the National Treasury’s website. The Committee wishes to emphasise that the appointment of the Commissioner of SARS is the prerogative of the President. The Committee welcomes the appointment of Mr Kieswetter and wishes him well in his work.
   12. Further, the Committee welcomes the report of the Nugent Commission and notes that the Cabinet has endorsed its implementation. The Committee will, in the next quarter, request a briefing and update on the report by the National Treasury, SARS and Judge Robert Nugent and continuously oversee the implementation of the report’s recommendations.
   13. The Committee welcomes the re-establishment of the Large Business Centre, the Compliance Unit and the review and strengthening of the Anti-Corruption Unit and, the establishment of the Illicit Economy Unit at SARS. The Committee believes that the re-establishment of these units will go a long way in enabling SARS to arrest revenue leakages, particularly in the illicit economy.
   14. The Committee notes the extension of the Employment Tax Incentive (ETI) scheme by a further 10 years as announced earlier this year. The Committee also notes that over 1.1 million young people have benefitted from it since its inception in 2014. The Committee recommends that a more detailed study of the achievements and sustainability of the ETI and its impact on job creation be conducted by the National Treasury.
   15. The Committee notes that there are concerns that the commitments made in Nedlac by National Treasury and other government departments about reducing job losses related to the implementation of the Health Promotion Levy (sugar beverages tax) are not being fulfilled. The Committee further notes that the rate of the Health Promotion Levy(HPL) was increased after the first year of its implementation, without any evidence of its impact on health promotion. The Committee understands that the HPL was not merely conceived as a revenue generating initiative but to impact on the health of South Africans. The Committee requires National Treasury to update the Committee regularly on the progress in the implementation of the Nedlac commitments on job loss mitigation.
   16. The Committee requires the National Treasury and SARS to supply it with more detailed information on how the High Risk Investigation Unit (“rogue intelligence unit”) was funded.
   17. The Committee requires the National Treasury to report to it in the next quarter briefing on the feasibility of insourcing particularly security and cleaning services across government.
   18. The Committee requires written responses from the National Treasury on the Venda Pension Fund.
   19. The Committee requires National Treasury to report to it in more detail on the retirement/ pension funds reforms.

**The Economic Freedom Fighters (EFF) noted their objection.**

**The Democratic Alliance (DA) reserve their position.**

**Report to be considered**