

Report of the Standing Committee on Finance on the Special Adjustments Budget Vote 8: National Treasury, Dated 14 July 2020

Finance Standing Committee

REPORT OF THE STANDING COMMITTEE ON FINANCE ON THE SPECIAL ADJUSTMENTS BUDGET VOTE 8: NATIONAL TREASURY, DATED 14 JULY 2020

The Standing Committee on Finance (SCOF/ the Committee), having considered the National Treasury's strategic plan (2019 to 2024) and the revised annual performance plan (2020/21), reports as follows:

1. INTRODUCTION

1. The revised addendums to the strategic and annual performance plans of the National Treasury (NT) were tabled in Parliament by the Minister of Finance on 08 July following the adoption of the revised fiscal framework of 7 July 2020 related to the Coronavirus Disease 2019 (COVID-19) economic relief measures. The Committee was also briefed by the Director-General, Mr Dondo Mogajane, on the revisions.
2. The 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 on the Public Finance Management Act of 1999 (PFMA).
3. 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.

1. OVERVIEW BY THE ACCOUNTING OFFICER

1. The Director-General of National Treasury, Mr Dondo Mogajane explained to members that the purpose of amendment to current plans were to incorporate COVID-19 interventions, amend planned indicators and targets: where they will be impacted on by COVID-19 prioritisation and, to reflect the adjusted 2020/21 budget allocation. He explained that no strategic outcomes and indicators revisions were proposed on the strategic plan (2019-2024). There were however changes that were proposed on the annual performance plan (APP) and the budgetary allocation for 2020/21.
2. The APP 2020/21 now reflects that it will be implemented in a difficult environment with economic growth outlook weak and falling long-term growth estimates as GDP growth is expected to contract by 7.2% in 2020/21, recovering to 2.3% in 2021/22 and 1.5% in 2022/23.
3. Out of all the seven of the nine NT programs that are not transfers, namely; Programme 1: Administration, Programme 2: Economic Policy, Tax, Financial Regulation and Research, Programme 3: Public Finance and Budget Management,

Programme 4: Asset and Liability Management, Programme 5: Financial Accounting and Supply Chain Management System, Programme 6: International Financial Relations and, Programme 7: Civil and Military Pensions, Contribution to Funds and Other Benefits, changes were proposed in only four. The proposed changes were in Programmes 1, 3, 5 and 6.

4. On Programme 1, the proposal is to reduce the annual target for the percentage of spend on the training and development budget. On Programme 3, the proposal is to reschedule the quarter two and three targets into quarter four-- on the approval of catalytic projects in spatially targeted areas within metropolitan cities, secondary cities and rural town. On Programme 5, the proposal is to reschedule the quarter two and three targets into quarter four-- on the implementation of the Integrated Financial Management System II plan. Lastly, Programme 6, a second quarter target will be rescheduled to quarter four and relates to the number of advocacy forums to be hosted for the uptake of development finance.
5. Programme 8: Revenue Administration and, Programme 9: Financial Intelligence and State Security are transfers to the South African Revenue Service and, the Financial Intelligence Centre and State Security, respectively.

1. OVERVIEW OF THE REVISED NATIONAL TREASURY BUDGET AND PROGRAMMES

1. Total allocation

1. A total of R33.1 billion was allocated to the National Treasury in 2020/21. This amount has been revised to R35.2 billion, an addition of R2,1 billion, taking into consideration other downward revisions across departmental programmes. A downward revision of R863 million will be effected across all programmes except Programme 8: Revenue Administration. Programme 4: Assets and Liability Management was allocated an additional R3 billion, which has been transferred to recapitalise the Land Bank following its credit default in March.

1. Programme 1: Administration

1. The Administration programme provides strategic leadership, management and administrative support and capacity building to the Department. A budget of R536.9 million was allocated for 2020/21 and has been revised down by R15.6 million to R521.3 million in the special adjustment budget. An annual target for the percentage of spend on the training and development budget has been reduced for the 2020/21 financial year.

1. Programme 2: Economic Policy, Tax, Financial Regulation and Research

1. This programme is dedicated to economic research, analysis and advisory services, modelling, and financial sector, taxation and regulatory reform. The 2020/21 allocation was R162.4 million and has been revised down by R3.0 million to R159

million in the special adjustment budget. No performance target will be affected by the budget suspensions on this programme.

1. 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. It has been expanded to incorporate what was previously programme 8 “Technical Support and Development Finance” in the previous strategic plan. This programme was allocated R3,3 billion in 2020/21 and has been revised down by R282 million to R3.1 billion.
2. Targets for quarter two and three have been rescheduled to quarter four on the approval of catalytic projects in spatially targeted areas within metropolitan cities, secondary cities and rural town.

1. 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 companies (SOCs) by enabling them to meet government’s policy objectives in a financially and fiscally sustainable manner, as well as promote sound corporate governance. 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 2020/21 was R124.2 million and has been increased to R3,1 billion through an injection of R3 billion. There was also a suspension of R5,3 million under this programme.

1. Programme 5: Financial Accounting and Supply Chain Management System

1. This programme was allocated R1,0 billion in 2020/21, which has been revised down by R78 million to R955,3 million. The programme seeks to promote effective and efficient government financial management and accountability across the three spheres of government. One sub-programmes under the Office of the Accountant General, focussing on the implement the IFMS II plan will reschedule its targets to quarter four.

1. Programme 6: International Financial Relations

1. 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. This programme was allocated R6,3 billion in 2020/21. This has been revised down by R105 million to R6.2 billion in the special adjustment budget.

1. **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 was 5,7 billion in 2020/21. This has been revised down by R172 million to 5.5 billion in the special adjustments budget.

1. **Programme 8: Revenue Administration**

1. The Revenue Administration programme's allocation of R10,5 billion in 2020/21 has not been affected. A number of targets for SARS have been affected in 2020/21. They were covered on the Committees' report on the special adjustments budget fiscal framework report adopted on 07 July. The main one is the main budget revenue collection for the fiscus which has been revised down from the projected R1 398.0 trillion in Budget 2020 to R1 099.5 in the special adjustments budget for 2020/21. This will amount to a shortfall of R304 billion in the current year, projecting major shortfalls in all tax categories.

1. **Programme 9: Financial Intelligence and State Security**

1. Financial Intelligence and State Security comprises transfers to the Financial Intelligence Centre (FIC) to combat financial crimes, including money laundering and terrorism-financing activities. The 2020/21 allocation for the Financial Intelligence Centre and the South African Secret Services was R5,2 billion. This has been revised down by R200 million to R5 billion in the special adjustments budget.

1. **LEGISLATIVE PROGRAMME FOR 2020/21**

1. National Treasury has tabled the following Bills that have been passed by Parliament: the Division of Revenue Bill and the Appropriation Bill.
2. Other Bills to be tabled or processed by Parliament for the 2020/21 financial year are two Division of Revenue Amendment Bills (one table in June and another to be tabled in October), two Adjustment Appropriation Bills (one table in June and another to be tabled in October), Auditing Profession Amendment Bill (tabled in February), Disaster Management Tax Relief and Administration Bills (tabled in June), Financial Sector Laws Amendment Bills, Financial Sector Related Levies Bill, Rates and Monetary Amounts and Amendment of Revenue Laws Bill, Tax Administration Laws Amendment Bill and, Tax Laws Amendment Bill.
3. Draft Bills which the National Treasury also intends to table in 2020/21 include the: Municipal and Fiscal Powers and Functions Amendment Bill, Conduct of Financial Institutions Bill, Public Procurement Bill and, Revised Treasury Regulations.

1. **OBSERVATIONS AND RECOMMENDATIONS**

1. The Committee requests that this report and its recommendations be read together with the reports of this Committee on: Budget Vote 08 of 19 May 2020 and, the special adjustments budget's revised fiscal framework and revenue proposals of 07 July 2020.

2. The Committee notes the changed socio-economic environment affecting the department and the country, particularly the projected shortfall in revenue by more than R300 billion and the increased borrowing requirements as a result of the Coronavirus Disease 2019 (COVID-19). It also notes the projected economic contraction by 7.2% in 2020/21, as compared to those of Budget 2020 in February.
3. The Committee notes further that despite these, the programmes of National Treasury have so far required very minimal revisions and budget adjustments due to the COVID-19 lockdown. The Committee welcomes that National Treasury still expects to meet all its targets in its seven programmes, except for the downward revision of some training and development targets. Other targets in Programmes 3, 5 and 6 were merely rescheduled to the last quarter of the 2020/21 financial year. The Committee will continue to monitor progress on all departmental programmes going forward.
4. The Committee further notes the downward revisions of R863 million across all NT's Programmes, except for Programme 8: Revenue Administration. The Committee recommends that although SARS has not been affected by the adjustments, it should however present to the Committee its revised plans and targets in the next quarterly briefing given the changes to the fiscal framework.
5. The Committee notes the R3 billion allocation to recapitalise the Land Bank. The Committee reiterates its observations in Fiscal Framework report of 7 July that "...The Land Bank is a strategic entity that should not be allowed to fail given its contribution to the agricultural sector, and its developmental and transformation mandate. The Committee notes that the Land Bank may require further support for it to become sustainable again. The Committee is aware that the Land Bank has not managed its role efficiently and effectively and will more rigorously monitor its progress in future. The Committee also recommends that NT also fulfils its oversight responsibilities on the Land Bank far more effectively[and holds those accountable for the lapses to account]. The Committee requires a detailed briefing from the Land Bank and National Treasury on the challenges confronting the Land Bank." Accountability.
6. The Committee notes that there has been some progress and a report has been compiled on the options available to National Treasury in establishing a State Bank. The Committee is organising to be briefed by the Minister of Finance soon on the progress and development of the State Bank.
7. The Committee reiterates its recommendation in paragraph 6.30 of the Revised Fiscal Framework of 7 July 2020 on the need for National Treasury to engage on the feasibility of unlocking domestic investment through impact investments and Regulation 28 of the Pension Funds Act and on the feasibility of prescribing assets for pension funds and report to the Committee on this. It also recommends that National Treasury considers how pension fund members can leverage their pension assets without eroding their provision for retirement. The Committee will call the GEPF, Financial Sector Conduct Authority and National Treasury to brief it on what the rules are and what is feasible in this regard.
8. The majority in the Committee supports the revisions and adjustments to National Treasury's plans and allocations.

Report to be considered.