**Report of the Standing Committee on Finance on Budget Vote 8: National Treasury, Dated 03 May 2023**

The Standing Committee on Finance (SCOF/ the Committee), having considered the National Treasury and the South African Revenue Service’s annual performance plans (2023/24), reports as follows:

1. **INTRODUCTION**
	1. The Minister of Finance tabled the annual performance plans of the National Treasury (NT), the South African Revenue Services (SARS) and other entities under the Finance portfolio in line with section 10(1)(c) of the Money Bills Amendment Procedure and Related Matters Act, Act No. 9 of 2009 (Money Bills Act), for consideration and report.
	2. The Minister of Finance, Mr Enoch GodongwanA, accompanied by the Deputy Minister, Dr. David Masondo, and the accounting and senior officials of National Treasury and SARS, through virtual meetings, briefed SCOF on 18 and 19 April 2023, respectively.
	3. The Committee further conducted an oversight visit to NT, Cooperative Banks Development Agency (CBDA), The Office of the Ombud for Financial Service Providers (FAIS Ombud), Financial and Fiscal Commission (FFC), Financial Intelligence Centre (FIC), Office of the Pension Fund Adjudicator (OPFA), Government Technical Advisory Centre (GTAC), Government Pensions Administration Agency (GPAA), and the Public Investment Corporation (PIC) on 29 and 30 March 2023, where it, among other things, received briefings on the implementation of audit action plans of these entities following the 2021/22 audit outcomes of their annual performance and financial statements by the Auditor-General of South Africa.
	4. 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).
	5. 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.
	6. SARS’s mandate is to contribute to the economic and social development of the country by collecting all taxes, duties and levies due to fund public service programs and priorities.
2. **POLITICAL OVERVIEW BY THE DEPUTY MINISTER OF FINANCE**
	1. The Minister of Finance, Mr Enoch Godongwana, explained to the Committee that NT’s plan was ambitious as the department was concluding its delivery of commitments set in the revised MTSF 2019-2024. He said that this plan focussed on economic growth, which is critical for improving employment levels, eradicating poverty, and reducing inequality.
	2. He said that NT endeavours include the primary responsibility of ensuring fiscal sustainability, monitoring efficient and effective use of scarce public resources by spending agencies and coordinating fiscal relations between the three spheres of government.
	3. The Minister said that similar efforts will be dedicated towards stabilising state-owned companies (SOCs) to be financially and fiscally sustainable while delivering on the national growth and development objectives. He said that NT will continue with efforts to narrow the budget deficit, which is key to stabilising the debt-to-GDP ratio. This will be achieved in the main by controlling non-interest expenditure growth.
	4. Mr Godongwana said that the fiscal framework contains growth in compensation spending while also increasing capital expenditure. He said that infrastructure projects will be financed through the Infrastructure Fund, using public-private partnerships and other funding arrangements to improve planning and speed up delivery.
	5. The Minister explained that the plan continues NT’s commitment to implement high impact programmes such as the Cities Support Programme, Neighbourhood Development Partnership Programme (NDPP), Jobs Fund, and the Municipal Finance Improvement Programme to deliver on national imperatives and departmental priorities. He said that strengthening public sector financial management as well as improving financial management governance and compliance across all spheres of government and in government entities is a priority. He said that during 2023/24, NT will continue with the development of the Integrated Financial Management System (IFMS) and concerted effort will be put on ensuring the system is rolled out.
	6. The Minister stated that in support of the Municipal Finance Management Act Unauthorised, Irregular, Fruitless and Wasteful Expenditure Reduction Strategy, NT has embarked on a project to develop a consequence management and accountability framework (CMA) for implementation by municipalities and municipal entities and in respect of consequence management.
	7. He said that a key focus area is overseeing and modernising government’s supply chain management systems and making government procurement more transparent, efficient, effective, and economical. He assured the Committee that work on the public procurement reforms will be accelerated with the revised draft Public Procurement Bill be taken through the Parliamentary process. In addition, oversight over compliance with SCM policies, procedures, norms, and standards will continue.
	8. He further assured that NT will continue to advance and protect South Africa’s interests in shaping regional and global policies that advance the economic, financial and development objectives of the country and Africa.
3. **OVERVIEW OF THE NATIONAL TREASURY BUDGET AND PROGRAMMES**
	1. A total of R34.9 billion is allocated to NT in 2023/24 (3,2% of total appropriated funds per Vote), of which 85 percent will be appropriated to transfers and subsidies mainly to: entities reporting under the Minister of Finance, conditional grants to municipalities, and social households for civil and military pensions. The projected allocations for the 2024/25 and 2025/26 are R33.1 and 34.6 billion, respectively.
	2. NT’s Compensation of Employees (COE) amounts to R920 million, which is only 2.6% of the 2023/24 budget, with a marginal increase in posts from 1048 (2022/23) to 1135 in 2023/24. Approximately R91.3 million will be allocated for COE cost of living adjustments.

**TABLE 1: NT budget summary and vote expenditure trends 2023/24 MTEF**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Audited outcome** | **Adjusted appropriation** | **Averagegrowthrate(%)** | **Average: Expen-diture/Total(%)** | **Medium-term expenditure estimate** | **Averagegrowthrate(%)** | **Average:Expenditure/Total(%)** |
| R million |  **2019/20**  |  **2020/21**  |  **2021/22**  |  **2022/23**  |  **2019/20 - 2022/23**  |  **2023/24**  |  **2024/25**  |  **2025/26**  |  **2022/23 - 2025/26**  |
| Programme 1: Administration | 453,6 | 496,3 | 455,1 | 541,6 | 6,1% | 0,1% | 706,1 | 570,9 | 596,2 | 3,3% | 0,1% |
| Programme 2: Economic Policy, Tax, Financial Regulation and Research | 124,9 | 124,7 | 125,3 | 158,2 | 8,2% | 0,0% | 172,5 | 172,4 | 180,8 | 4,6% | 0,0% |
| Programme 3: Public Finance and Budget Management | 2 936,1 | 2 697,2 | 4 200,8 | 4 425,2 | 14,7% | 0,4% | 4 305,6 | 3 411,3 | 3 565,7 | -6,9% | 0,4% |
| Programme 4: Asset and Liability Management | 96,7 | 3 022,6 | 26 663,2 | 6 024,4 | 296,4% | 1,1% | 1 135,4 | 135,0 | 139,5 | -71,5% | 0,2% |
| Programme 5: Financial Accounting and Supply Chain Management Systems | 733,9 | 696,6 | 761,7 | 946,1 | 8,8% | 0,1% | 1 237,3 | 1 179,8 | 1 232,4 | 9,2% | 0,1% |
| Programme 6: International Financial Relations | 5 458,8 | 6 640,5 | 7 826,5 | 2 806,8 | -19,9% | 0,7% | 2 591,3 | 2 876,1 | 3 004,9 | 2,3% | 0,3% |
| Programme 7: Civil and Military Pensions, Contributions to funds and Other benefits | 5 487,1 | 5 188,8 | 6 042,8 | 7 012,1 | 8,5% | 0,7% | 7 039,0 | 7 355,1 | 7 684,6 | 3,1% | 0,7% |
| Programme 8: Revenue Administration | 9 529,0 | 10 271,9 | 11 295,2 | 11 527,8 | 6,6% | 1,3% | 12 157,6 | 11 636,2 | 12 135,1 | 1,7% | 1,2% |
| Programme 9: Financial Intelligence and State Security. | 4 951,1 | 4 942,9 | 4 999,5 | 5 395,5 | 2,9% | 0,6% | 5 544,5 | 5 804,0 | 6 085,8 | 4,1% | 0,6% |
| **Subtotal**  | **29 771,2** | **34 081,5** | **62 369,9** | **38 837,7** | **9,3%** | **4,9%** | **34 889,4** | **33 140,8** | **34 625,2** | **-3,8%** | **3,6%** |

**Source**: National Treasury ENE23 MTEF Vote 8

* 1. **Programme 1: Administration**
		1. The Administration programme provides strategic leadership, management and administrative support and capacity building to the National Treasury. A nominal increase of R164.5 million from R541.4 million in 2022/23 to R706.1 million in 2023/24. The projected allocation for the outer two financial years of the MTEF is R570.9 and R596.2 million, respectively.
		2. In terms of economic classifications, allocations increased significantly for payments for capital assets. *Machinery and equipment* is set to increase from R25.6 million in 2022/23 to R143.8 million in 2023/24. *Software and other intangibles assets* is set to increase R0.5 million to R5.5 million in 2023/24.
		3. The subprograms are Ministry, Departmental Management, Corporate Services, Enterprise-wide Risk Management, Financial Administration, Legal Services, Internal Audit, Communications, and Office Accommodation.
		4. The priorities of this programme include: monitoring of the efficiency of ICT by ensuring 93 per cent delivery against the service level agreements; ensuring the usefulness and reliability of the reported performance information in accordance with the performance management and reporting framework by obtaining an unqualified audit opinion with 15% fewer findings than 2022/23 on financial and non-financial performance information; ensuring good governance and sound control environment by achieving level 4 of the risk management maturity assessment; advancing organisational optimisation by utilising 70% of the training and development budget and; producing 4 quarterly progress reports on the extent of mainstreaming and institutionalisation of Women, Youth, Persons with Disabilities (WYPD) in the department through the implementation of the action plan on gender mainstreaming.
	2. **Programme 2: Economic Policy, Tax, Financial Regulation and Research**
		1. This programme is dedicated to economic policy research, analysis and advisory services in the areas of macroeconomics, microeconomics, the financial sector, taxation and regulatory reforms. The 2023/24 allocation is R172.4, up from 158.3 million in the 2022/23 adjustment budget. Over the medium term, the budget is projected to grow by 4.6%, to R180.6 million in the outer year.
		2. This programme aims to publish 30 research papers through the SA-TIED programme, table financial sector and tax legislation in Parliament, develop four economic forecasts that provide reliable macro-economic projections to aid policymaking, produce eight relevant micro and macro-economic research outputs that contribute to the promotion of macroeconomic stability, poverty alleviation, retirement reform, social security and the development of inclusive growth and job creating policies.
		3. It has the following sub-programmes: Programme Management for Economic Policy, Tax, Financial Regulation and Research; Financial Sector Policy; Tax Policy; Economic Policy; and Cooperative Banks Development Agency.
	3. **Programme 3: Public Finance and Budget Management**
		1. This programme provides analysis and advice on fiscal policy, public finances, and intergovernmental financial relations. It manages the annual budget process of government and provides public finance management support. This programme was expanded to incorporate what was previously programme 8 “Technical Support and Development Finance” in the previous strategic plan of NT. It is also aimed at facilitating employment creation and high-impact government initiatives and strengthen infrastructure planning and delivery.
		2. This programme will be allocated R4,3 billion in 2023/24, down from 4,4 billion in the adjustment budget. The projected allocations are R3.4 and 3,5 billion for the outer two years of the MTEF, a decline of 6.9%.
		3. This programme, as it did in the previous financial year, has twelve (12) targets for the 2023/24 financial year. The key targets for the programme include the publication of key legislation: Division of Revenue Bill, Appropriation Bill (AP), Adjusted Estimates of National Expenditure (AENE), Estimates of National Expenditure (ENE), and the Medium-Term Budget Policy Statement (MTBPS); enhancements to the provincial and local government fiscal frameworks; mandatory financial recovery plans; 80 technical advisors placed at NT, provincial treasuries and municipalities and; identifying and approving 35 catalytic projects in spatially targeted areas within metropolitan cities, secondary cities and rural towns to provide technical support to cities to strengthen infrastructure planning, delivery capacity and to support spatial transformation and inclusive developments.
		4. In terms of economic classification, over R599 million from Goods and services is earmarked for *Consultants: Business and Advisory*. The largest amount R3.4 billion from this programme budget goes towards transfers and subsidies to Provinces, Municipalities and Departmental Agencies.
		5. This programme has got the following sub-programmes: Programme Management for Public Finance and Budget Management; Public Finance; Budget Office and Coordination; Intergovernmental Relations; Financial and Fiscal Commission; Facilitation of Conditional Grants; Catalytic Infrastructure and Development Support Programme; and the Government Technical Advisory Centre.
	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 in order to facilitate national expenditure and maintain favourable sovereign debt ratings. Over the medium term, the strategic focus of this programme continues to be 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.
		2. Other targets are to: ensure timely and accurate payment of government debt obligations to avoid any credit defaults; finance government’s gross borrowing requirement over the MTEF and minimise risks emanating from government’s fiscal obligations by measuring performance and ensuring compliance with market and refinancing risk benchmarks; ensure sound management of government’s cash resources by meeting government’s liquidity requirements at all times and; produce 4 reports on the management of government’s contingent liabilities.
		3. This programme’s budget allocation for 2023/24 is R1,1 billion, down 71% from an adjustment allocation of R6.0 billion the previous year. The programme is allocated R134 and R139.5 million in the two outer years.
		4. This programme consists of the following sub-programmes and allocations: Programme Management for Asset and Liability Management; State-Owned Entity Financial Management and Governance; Government Debt Management; Financial Operations; and Strategy and Risk Management.
	5. **Programme 5: Financial Accounting and Supply Chain Management System**
		1. This programme has been allocated R1.23 billion in 2023/24, from an adjustment budget of R946 million the previous year. The projected allocations in the outer financial years of the MTEF are R1.17 and R1.23 billion, respectively. In terms of economic classifications, allocations remain static with no significant increases except for the following: *Goods and services: computers -* increased to R733.3 million from R408 million in the previous year and; *Payments for financial assets* and transfers and subsidies decreased, respectively to R8.2 million and R62.2 million.
		2. The purpose of this programme is to facilitate governance and accountability by promoting and enforcing the transparent, economic, and effective management of revenue, expenditure, assets, liabilities, and supply chain processes in the public sector.
		3. The 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 because of procurement irregularities through the Office of the Chief Procurement Officer sub-programme.
		4. This programme has the following sub-programmes (and their allocations): Programme Management for Financial Accounting and Supply Chain Management Systems; Office of the Chief Procurement Officer; Financial Systems; Financial Reporting for National Accounts; Financial Management Policy and Compliance Improvement; Audit Statutory Bodies; and Service Charges: Commercial Banks.
		5. The programme has 12 planned targets in 2023/24 which include: improving governance and compliance across all spheres of government by developing 100% of norms and standards; producing 32 governance reports to provide an update to oversight structures of government on the improvement of financial management governance and compliance across all spheres and entities in government; producing 22 Public Finance Management Capacity Development Programmes progress reports across all spheres of government in order to improve financial management execution; ensuring 98% availability of transversal systems to users in line with SLA agreements; producing 20 statutory reports to improve financial management statutory compliance across all spheres and entities in government; issuing frameworks, guidelines, circulars, treasury instructions and other tools to enable proper implementation of the legislation; implementation of the IFMS II Plan; producing Draft Public Procurement Regulations.
	6. **Programme 6: International Financial Relations**
		1. The programme has six planned targets for 2023/34 and its 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. The focus and targets of this programme this year are to: ensure 100% response to all economic surveillance reports; hosting two advocacy forums to increase the uptake of development finance; produce two country partnership framework progress reports that report on the relationship between the government of South Africa and various Multilateral Development Banks that operate within the Republic of South Africa; produce one analysis report on the outcomes of South Africa’s engagements in regional and global forums; develop policy positions to measure South Africa’s engagement in various global forums and institutions.
		3. This programme has been allocated R2.59 billion in 2023/24, down from R2.80 billion in the adjustment budget of 2022/23. It is projected to be R2.87 and R3,0 billion respectively in the two outer years of the MTEF. It has the following sub-programmes for 2022/23: Programme Management for International Financial Relations; International Economic Cooperation; Africa Integration and Support; International Development Funding Institutions; and International Projects.
	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 R7,0 billion in 2023/24, R7,3 and R7,6 billion respectively in the outer years of the MTEF.
		2. The sub-programmes under this programme are Government Pensions Administration Agency, Civil Pensions and Contributions to Funds, and Military Pensions and Other Benefits.
	8. **Programme 8: Revenue Administration**
		1. The Revenue Administration programme receives an allocation of R12,1 billion in 2023/24, up from R11,5 in the adjustment budget of 2022/23. In the outer years of the MTEF, the allocations are projected at R11,6 and 12,1 billion respectively. The budget allocation is a transfer payment to the South African Revenue Service, which is responsible for administering the country’s revenue system. This programme is discussed further below under SARS’s annual performance plan.
	9. **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 2023/24 allocation for the Financial Intelligence Centre and State Security is R5,5 billion, from R5,3 billion in the adjustment budget of 2022/23, projected to increase to R5,8 and R6.0 billion in the outer years.
1. **OVERVIEW OF THE SARS BUDGET**
	1. SARS receives a transfer from National Treasury under Programme 8. In 2023/24 SARS will be allocated a total budget of R12,1 billion from R11,5 in the adjusted appropriation of last year. R51.2 million of this is a grant to the Office of the Tax Ombuds (OTO). The allocation to SARS is projected to decline to R11,6 billion in 2024/25, moderating to R12, 1 billion in 2025/26. The allocation to OTO will increase to R53.5 and R55.9 million, an average increase of 6.3 per cent over the MTEF.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Subprogramme** | **Audited outcome** |  | **Adjusted appropriation** | **Averagegrowthrate(%)** | **Average: Expen-diture/Total(%)** | **Medium-term expenditure estimate** | **Averagegrowthrate(%)** | **Average:Expen-diture/Total(%)** |
| R million |  **2019/20**  |  **2020/21**  |  **2021/22**  |  **2022/23**  |  **2019/20 - 2022/23**  |  **2023/24**  |  **2024/25**  |  **2025/26**  |  **2022/23 - 2025/26**  |
| South African Revenue Service | 9 529,0 | 10 271,9 | 11 295,2 | 11 527,8 | 6,6% | 100,0% | 12 157,6 | 11 636,2 | 12 135,1 | 1,7% | 100,0% |
| **Total**  | **9 529,0** | **10 271,9** | **11 295,2** | **11 527,8** | **6,6%** | **100,0%** | **12 157,6** | **11 636,2** | **12 135,1** | **1,7%** | **100,0%** |
| Change to 2022Budget estimate |   |   |   |  –  |   |   | 500,0 | 500,0 |  –  |   |   |
|  |  |  |  |  |  |  |  |  |  |  |  |
| **Economic classification** |  |  |  |  |  |  |  |  |   |  |  |
| **Transfers and subsidies** | **9 529,0** | **10 271,9** | **11 295,2** | **11 527,8** | **6,6%** | **100,0%** | **12 157,6** | **11 636,2** | **12 135,1** | **1,7%** | **100,0%** |
| Departmental agencies and accounts | 9 529,0 | 10 271,9 | 11 295,2 | 11 527,8 | 6,6% | 100,0% | 12 157,6 | 11 636,2 | 12 135,1 | 1,7% | 100,0% |
| **Total**  | **9 529,0** | **10 271,9** | **11 295,2** | **11 527,8** | **6,6%** | **100,0%** | **12 157,6** | **11 636,2** | **12 135,1** | **1,7%** | **100,0%** |
| **Proportion of total prog expenditure to vote expenditure** | **32,0%** | **30,1%** | **18,1%** | **29,7%** |  **–**  |  **–**  | **34,8%** | **35,1%** | **35,0%** |  **–**  |  **–**  |

**TABLE 2: Revenue Administration trends and estimates**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Current** | **7 854,9** | **8 015,3** | **10 198,9** | **10 977,8** | **11,8%** | **86,9%** | **11 657,6** | **11 136,2** | **11 635,1** | **2,0%** | **95,7%** |
| South African Revenue Service: Operations | 7 814,6 | 7 972,7 | 10 154,1 | 10 931,3 | 11,8% | 86,5% | 11 606,4 | 11 082,7 | 11 579,2 | 1,9% | 95,2% |
| South African Revenue Service: Office of the Tax Ombud | 40,3 | 42,5 | 44,9 | 46,5 | 4,9% | 0,4% | 51,2 | 53,5 | 55,9 | 6,3% | 0,4% |
|  **Capital**  | **1 674,1** | **2 256,6** | **1 096,3** | **550,0** | **-31,0%** | **13,1%** | **500,0** | **500,0** | **500,0** | **-3,1%** | **4,3%** |
|  South African Revenue Service: Machinery and equipment  | 1 674,1 | 2 256,6 | 1 096,3 | 550,0 | -31,0% | 13,1% | 500,0 | 500,0 | 500,0 | -3,1% | 4,3% |

**Source**: National Treasury ENE2023 MTEF Vote 8

* 1. For the 2023/24 financial year, SARS has 24 planned targets which include two new indicators. SARS will receive R1.5 billion over the MTEF to implement capital projects. SARS has indicated that it requires additional funding to execute their mandate and to address pressures in keeping up with the pace of technological changes as well as obtaining the requisite capacity and capabilities, whilst preparing existing staff to better cope with the intricacies of a global and digitalised economy as an imperative to continue to ensure optimal compliance with tax and customs laws. Although SARS received an allocation towards critical resources in 2021/22, the entity is not satisfied with the allocations.
	2. SARS collected gross revenues of R2.0 trillion in 2022/23 (which was 7.9% more than in 2021/22); paid refunds of R381 billion (R59 billion more than 2021/22) – leading to net revenue of R1,6 trillion (7.9% more than the previous year); collected R231.8 billion compliance revenue (7.6% more than the previous year); and facilitated trade totalling R3.9 trillion (which is 18% more than in 2021/22).
	3. Table 3 below summarises all SARS’s performance indicators and budget per programme over the MTEF.

**TABLE 3: Summary of SARS targets and budget**

|  |  |  |  |
| --- | --- | --- | --- |
| **Strategic Intent** | **Strategic Performance Target** | **Number of target indicators** | **Budget (R’000)** |
| **2023/24** | **2024/25** | **2025/26** |
| Institutional performance: To develop and administer a tax and customs systems based on voluntary compliance and where appropriate enforce responsibly and decisively | Revenue estimates are met and/or exceeded % Collection of revenue as agreed with the Minister, Enhanced Trade Facilitation, Overall compliance has increased as measured by a well-defined compliance. | 3 |  |  |  |
| SO 1: Provide clarity and certainty for taxpayers and traders of their obligations. | The majority of taxpayers and traders perceive the guidance SARS provides to be clear, unambiguous and easy to follow - % of taxpayers and traders surveyed are satisfied with the clarity and certainty provided by SARS. | 2 | 552 266 | 520 387 | 539 798 |
| SO 2: Make it easy for taxpayers and traders to comply with their obligations. | Increased number of taxpayers and traders using digital and self-help platform - % of taxpayers and traders using digital and self-help platforms to interact with SARS.Standard taxpayers are auto assessed by SARS - % of standard taxpayer’s returns auto assessed by SARS (individual taxpayers).A focused compliance programme for the SMME segment is developed and implemented. | 3 (1 new indicator) | 4 253 709 | 4 024 438 | 4 175 220 |
| 3: Detect taxpayers and traders who do not comply and make non-compliance hard and costly. | Increase compliance through the 98.48% accurate detection of risk - Risk detection rateExtent to which SARS enables the NPA to successfully prosecute criminal cases referred by SARS - % of cases SARS referred to the NPA that is accepted for prosecution. | 2 | 3 153 426 | 2 989 032 | 3 110 116 |
| 4: Develop a high performing, diverse, agile, engaged and evolved workforce. | Improve the engagement of SARS employees - Employee Engagement Index score achieved based on survey of employees. | 3 | 533 550 | 502 895 | 521 797 |
| 5: Increase and expand the use of data within a comprehensive knowledge management framework. | Risk detection, assessment and profiling is largely automated and substantively informs case selection for standard matters. Manual risk profiling and case selection is only used for complex matters - % utilisation of automated risk assessment for taxpayers and traders. | 2 | 647 784 | 609 414 | 631 716 |
| 6: Modernise our systems to provide DIGITAL and streamlined online services. | Digital platforms availability for taxpayers and traders - % of planned capacity to be available for mission critical systems.Security of taxpayers and traders information and interactions via digital platforms - Number of security breaches on digital platforms from known risks. | 2 | 1 160 685 | 1 170 549 | 1 245 275 |
| 7: Demonstrate Effective resource stewardship to ensure efficiency and effectiveness. | Reconfigured SARS’ cost structures to align with international peers - Increase ICT investment as % of total allocation.Demonstrate effective stewardship through the appropriate spending of the budget allocation received from National Treasury - % Deviation between SARS’ spending for the year and the allocation SARS received from National Treasury.Unqualified audit opinion achieved from the Auditor-General - Unqualified Audit opinion. | 3 | 1 469 840 | 1 427 621 | 1 490 042 |
| 8: Work with and through Stakeholders to improve the tax ecosystem. | SARS has met all its commitments in terms of the Organisation for Economic Cooperation and Development’s (OECD) Exchange of Information (EOI) standards - % of commitments metPartnerships with identified government departments to leverage platforms on educational programmes. | 2 (1 new measure) | 142 441 | 133 569 | 136 918 |
| 9: Build PUBLIC TRUST and CONFIDENCE in the tax administration system. | Public opinion survey results reflect high trust and confidence in SARS - % score as per public opinion survey.Service Charter index achievement - % Service Charter performance score (old Service Charter). | 2 | 621 362 | 596 884 | 623 841 |
| Total | 12 535 062 | 11 974 788 | 12 474 723 |

**Source: Compiled from SARS APP 2023/24**

1. **OBSERVATIONS AND RECOMMENDATIONS**
	1. The Committee notes and welcomes the annual performance plans of NT and SARS, the proposed allocation in Budget Vote 8, the key priorities and the performance target indicators as presented to it. It also notes the plans of other entities that report under the Ministry of Finance, many of which the Committee met to get an update on the implementation of their audit action plans on 29 and 30 March 2023.

IMPLEMENTATION OF AUDIT ACTION PLANS

* 1. The Committee, in its BRRR of 2022, noted the regression in audit outcomes across the finance portfolio when compared to the previous year (2021/22). As it did at the beginning of last year (2022), and as advised by the Office of the Auditor-General of South Africa (AGSA), it resolved to follow-up on the implementation of audit action plans.
	2. The briefings on the audit action plans were made by NT, CBDA, FAIS Ombud, FFC, FIC, OPFA, GTAC, GPAA, and PIC on 29 and 30 March 2023. The Committee was assisted by the AGSA team that audits the finance portfolio. SARS could not attend this oversight activity as it was busy with the end of year filing season. The Committee requires all these entities, including SARS, to submit quarterly reports on the resolution of adverse findings from the previous year. More details on the outcomes of this oversight visit are reported in the oversight reports of the Committee on each of these entities (ATC’d on 03 May 2023).
	3. The Committee will continue to heighten its oversight over the implementation of the audit action plans as it wants to see improved governance and audit outcomes across the finance portfolio, which is the custodian of public finances for the rest of government. The finance portfolio should lead by example so that the rest of government could follow on its footsteps given its constitutional role of managing the overall public finances.
	4. The Committee believes that improving audit outcomes of the finance portfolio is a combined effort of the executive and accounting authorities/officers, management, audit committees, internal audit divisions and AGSA. It believes that management plays a critical role in ensuring that the audit action plans tackle the root causes that lead to the AGSA’s findings and that actions are tailor-made to address such challenges. The internal audit function should play a crucial role in ensuring that action plans are implemented more effectively. The audit committees should also their oversight role in ensuring that quarterly reports show sustainable improvements in audit outcomes. The Committee also urges for improvement in the prevention of internal control deficiencies.

FILLING OF LEADERSHIP AND SENIOR MANAGEMENT VACANCIES

* 1. The Committee notes that there remain several vacant strategic positions across the finance portfolio. The importance of filling such positions cannot be gainsaid as, according to AGSA, leadership and senior management instability contributes to governance challenges which then lead to adverse audit outcomes. A contributing root cause to poor audit outcomes, according to AGSA, is the instability caused by prolonged vacancies or acting appointments in key positions.
	2. In this regard, the Committee urges the Minister of Finance to prioritise the filling of vacancies at executive and senior management levels in the National Treasury and in the entities across the finance portfolio. It also urges the accounting authorities and officers to prioritise the filling of all funded vacancies to improve service delivery and reduction of unemployment.
	3. After the adoption of this report, and within 30 days, the Committee requires the Minister of Finance to submit to it a list of all vacant and acting leadership and senior management positions across the finance portfolio. This list should highlight how long such positions have been vacant or filled in an acting capacity, the reasons for the delays in filling them, and steps being taken to fill them.

IFMS II PROJECT

* 1. The Committee remains concerned about the challenges relating to the IFMS II project. This year the Committee finally conducted an oversight on the IFMS. The Committee wanted to witness for itself how this system operates. The Committee got more concerned when it was taken to the State Information Technology Agency (SITA) Head Office in Centurion and found that there was no IMFS system that has been implemented.
	2. The IFMS contract was renewed for a further 5 years last year, despite the fruitless and wasteful expenditure raised by AGSA for successive years since 2016 and the issuing of the material irregularity against the Director General of National Treasury. NT had incurred fruitless and wasteful expenditure of about R300 million on the project since 2016, as it had made payments for which no services were received on technical support and maintenance. In the previous year NT failed to record R68 million spent on the IFMS as wasteful and fruitless expenditure for 2022/23. Previous wasteful and fruitless expenditure incurred since 2016/17 was also removed from NTs balance sheet, resulting in an understatement of almost R400 million. As a result of this NT received a qualified audit opinion, a deterioration from previous year’s audit outcomes.
	3. While about R400 million has been, according to AGSA, fruitless and wasteful expenditure, over R2,6 billion has been spent on the IFMS since in conceptualization fifteen years ago (in 2005). There is clearly a need for the Committee to get to the bottom of what happened in this project. The Committee reports more details on the IFMS in its Oversight Report on the IFMS. The Committee has scheduled a briefing, on the second week of May, from NT and other partner departments or agencies, including SITA.
	4. The Committee will further receive a briefing on all the forensic reports that have been conducted by various agencies on the IFMS at the end of May (2023). The Committee will then take a resolution on how to proceed with this matter. AGSA has already referred the matter to the Special Investigation Unit, following the issuing of a material irregularity to NT.

NT PROGRAMMES AND RELATED ISSUES

* 1. The Committee notes that this is the final year of NT’s Strategic Plan and the last APP as derived from the government-wide 2019-2024 MTSF, as there will be elections that will usher into the 7th Parliament in 2024. This is therefore a crucial annual plan, as its performance assessment will determine whether NT managed to deliver on its service delivery commitments, strategic objectives, priorities, and targets throughout sixth Parliament. The Committee will make its own evaluation based on the previous years’ performance when it compiles its Legacy Report at the end of its term. It will also highlight the challenges and make recommendations for further oversight and legislation to the 7th Parliament.
	2. The Committee believes that the APP focused more on input and outputs, paying little attention to outcomes and impacts. The Committee however acknowledges that the strategic plans and the MTSF make up for those gaps as they are outcomes oriented.
	3. The Committee notes that the 2023/24 APP has several Bills that NT has or intends to table. Besides the fiscal framework (annual tax and revenue) related Bills, these include the Financial Matters Amendment Bill, Municipal Fiscal Powers and Functions Amendment Bill, Public Procurement Bill, Conduct of Financial Institutions Bill, Municipal Finance Management Amendment Bill, General Financial Laws Amendment Bill. The Committee urges for clear prioritization of these Bills given the limited time that Parliament must process them before the sixth Parliament term ends.
	4. The Committee is concerned that the Public Procurement Bill has been promised for the past nine years but has not yet been tabled. Throughout this Committee’s tenure, we have been in our engagements and tabled reports, urging the Minister and the Department to expedite the tabling of this Bill for processing by Parliament. When presenting the National Budget in February this year, the Minister of Finance promised that the Public Procurement Bill will be tabled in Parliament in March 2023. The Committee requires an explanation of why this Bill has not been tabled yet and a deadline for its tabling.
	5. The Committee notes that although being processed by the Appropriation Committees, the Eskom Debt Relief Bill, and the conditions it imposes on Eskom may constrain Eskom from investing and participating in new electricity generation capacity. While Eskom should sort out its balance sheet and become financially sustainable again, it must not lose its generation capacity and mandate. It must compete with the new players by establishing its own renewable energy projects.
	6. The Committee believes that there should be clear regulations regarding municipalities’ sourcing of electricity, beyond the current procurement rules. These regulations would assist in ensuring that there are uniform rules and tariffs in place which municipalities and other organs of state will use as a benchmark when sourcing electricity from independent power producers. The Committee notes that NT had released Circular 118 to guide municipalities on the procurement of electricity. The Committee will request a briefing on this circular soon.
	7. The Committee notes that the solar panel tax incentive announced by the Minister of Finance in the 2023 Budget may exclude large sectors of society from benefiting from the scheme. In the Committee meeting of 18 April, the Minister of Finance conceded to this as the scheme may not cater for the missing middle (those who are too poor to access the tax incentive yet also not poor enough to benefit from the indigent policies of government).

FOLLOW-UP ISSUES FROM THE PREVIOUS YEAR

* 1. There are several issues which the Committee intended to focus on emanating from its 2022 Budget Vote 8 adopted on 10 May 2022. Below these issues are highlighted:
		1. The Committee will follow-up on NT’s review of government’s macro-economic policies since the global financial crisis of 2008 to the present. This macro-economic policy review will examine how key indicators such as economic growth and employment have evolved since then. It will also assess the government’s fiscal, monetary, and macro-prudential policy choices; and propose appropriate reforms to policy targets and institutional frameworks. The Committee expects to be briefed on this review once it is finalized.
		2. The Committee will schedule a briefing on the details of the Municipal Finance Improvement Programme (MFIP) and its achievements and challenges over the past financial years given that the MFIP five-year programme cycle came to an end last year and it is important to take stock of the lessons learned and challenges encountered. The Committee will liaise with the Department and the Portfolio Committee on Cooperative Government and Traditional Affairs (COGTA) to arrange a joint briefing on this sub-programme.
		3. The Committee will request a briefing on the challenges with the payment of military veterans’ pensions. The Committee noted last year that NT had discovered many irregularities, including that some veterans would not necessarily be veterans. The Committee will explore the possibility of a joint briefing with all the affected departments and committees of Parliament.
		4. The Committee will request a briefing from NT on the progress being made on the pension fund reforms, including specific action with deadlines to be taken.
		5. The Committee notes the work of NT on the funding of anti-gender-based violence efforts under Programme One. In view of the escalation of gender-based violence, the Committee would like to be briefed in more detail on this in quarterly reports.

SARS PROGRAMMES

* 1. The Committee notes that for the first time SARS collected gross revenue of over R2 trillion, which resulted in net revenue of R1.68 trillion in 2022/23. SARS paid refunds of R381 billion, an 18.7% increase from the previous years’ refunds. SARS also facilitated trade of R3.93 trillion, which is R606 billion or 18.2% more than 2021/22. The Committee commends SARS for its overall achievements under the precarious economic conditions. The Committee further acknowledges the contribution of SARS to the improvement of the lives of South Africans and residents through the raising of revenue which enables the country to provide, among others, healthcare, education, social security, and support for the economy.
	2. The Committee notes that over the years, and despite these achievements, SARS has been underfunded. The Committee notes the submission from the Commissioner of SARS, Mr Kieswetter, that according to the Organisation for Economic Cooperation and Development (OECD) recommendation of cost-to-revenue collection for developing countries, SARS should be funded by R16.87 billion (or 1% of net revenue in 2022/23) in 2023/24. The Committee believes that SARS should be funded as recommended for it to maintain or improve its capacity and its performance, which is clearly not aligned to its spending as it only achieved 68.8 per cent of its targets against 100% budget expenditure in 2022/23.
	3. The Committee further notes that the impact of the underfunding of SARS has led to a contraction of headcount by 1.06% and a decline in capital expenditure by 5.60%. Other impacts are that SARS struggles to replace critical skills, attract and retain scarce talent, maintain its current technology infrastructure, and invest in modernisation. While the Committee acknowledges that SARS’ budget has been favourably increasing in past few years, it will further engage the Minister on SARS’ underfunding during the budgetary review and recommendations process later in the year.
	4. The Committee is concerned about the attrition rate, which equates to 956 employees year to date, stemming from mainly contract expiry (42.29%), resignations (31.49%) and retirement (16.74%). The Committee further notes that although the Employee Engagement Index, according to SARS’ Survey, improved by 7.8% from 61,6 to 69,4%, the survey response rate declined from 76% to 69%. The Committee recommends that SARS intensifies its employee engagement and put mechanisms in place to retain critical skills, especially those lost through contract expiry and resignations.
	5. The Committee notes that the appointment system of SARS could be exclusionary and tantamount to denial of service to some of its customers, especially working class and the poor. While in the country most people have got mobile phones, most customers may not be tech-savvy or have smartphones. The Committee acknowledges and supports building a smart and modernised SARS, but such should not leave some customers out. The Committee has been alerted to instances where some customers travel long distances only to be turned away without being attended to. This is concerning as SARS service centres should cater for all categories of customers in an efficient and compassionate manner. The Committee will be liaising with SARS and will conduct oversight to, among others, investigate some of the service delivery challenges and propose possible interventions by the Commissioner to ensure that all customers, especially the working class and the poor have access to SARS.
	6. The Committee notes the Commissioners’ presentation of independent surveys where SARS’s trust rating was reported to have improved when compared to the previous years. The Committee however believes there is still room for improvement, especially in improving public awareness about SARS and education on tax issues and morality. Noting that SARS already has outreach programmes which target current and prospective taxpayers, the Committee recommends that SARS, working with other relevant departments (such as the Departments of Education), develops a compulsory tax education curriculum that will ensure that prospective taxpayers are conscientized of their tax obligations early on in life.
	7. The Committee is concerned about the illicit economy and the tax gap, which is estimated to be about R200- 300 billion per annum. Although the Committee acknowledges the improvement of SARS on compliance revenue and other compliance enforcement actions reported to it, there is a need to heighten compliance and enforcement. This should also include a focus on the informal economy and making sure that taxpayers understand their obligations. While this is obviously not the work of SARS alone, as there are interdependencies between it and other law enforcement agencies (on criminal issues), SARS must lead.
	8. The Committee reiterates its view that tackling tax avoidance and illicit financial flows is crucial in improving the position of the country’s fiscus. The Committee will engage the Tax Committee led by Judge Dennis Davis to examine areas that pose the highest risks of aggressive tax avoidance and transfer pricing. It will invite Judge Dennis Davis and SARS to make presentations on the findings of the Tax Committee’s enquiries soon.
	9. The Committee notes with concern the impact that loadshedding has on the economy at large and to revenue losses. According to SARS, about R60 billion revenue was estimated to have been lost in 2022 because of loadshedding. It said that VAT was the first product to be affected as sales declined when there was loadshedding, followed by corporate income tax.
	10. The Committee will request a briefing on the country-by-country reporting and automatic exchange of information projects and their impact on raising revenue since they became effective a few years ago.
	11. The Committee notes that the procedures for the implementation of policy and formulae changes in sugar tariffs takes too long, sometimes up to 34 weeks, thus creating some uncertainty in the industry. The Committee further notes the reasons for this long process, which involves several players such as the Ministers of Trade, Industry and Competition and Finance, the International Trade Administration Commission (ITAC) and SARS, The Committee believes that standard and streamlined procedures need to be explored to alleviate delays, where feasible.

Having considered the annual performance plans and the proposed budget vote for the National Treasury and SARS, the Committee asks the National Assembly to adopt Budget Vote 8 and this Report.

 Report to be considered.

The DA reserves its position.