**2. REPORT OF THE STANDING COMMITTEE ON FINANCE ON BUDGET VOTE 8: NATIONAL TREASURY, DATED 10 MAY 2022**

The Standing Committee on Finance (SCOF/ the Committee), having considered the National Treasury and the South African Revenue Service’s annual performance plans (2022/23), 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 Deputy Minister, Dr. David Masondo, and the accounting and senior officials of National Treasury and SARS, through virtual meetings, briefed SCOF on 23 March 2022 and 03 May 2021, respectively. The Committee further conducted an oversight visit to SASRIA, the Land and Agricultural Bank of South Africa (Land Bank), and the Financial and Fiscal Commission (FFC) on 20, 21 and 22 April 2022, respectively, where it, among other things, received presentations/updates on the annual performance plans of these entities.
   3. The Committee also met all the entities with negative audit outcomes on 08 February 2022, in the presence of the Deputy Minister and representatives of the office of the Auditor-General South Africa (AGSA), in order to get an update on the implementation of their audit action plans for the findings of the previous financial year. These entities included the: National Treasury (NT), SARS, Public Investment Corporation (PIC), Central Bank Development Agency (CBDA), Land Bank SOC Limited (LBIC), Government Pensions Administration Agency (GPAA), Government Technical and Advisory Centre (GTAC), Independent Regulatory Board of Auditors and, the Land Bank- whose audit had been outstanding.
   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 Deputy Minister of Finance, Dr David Masondo’s political overview, on behalf of the Minister, focussed on three issues: 1. Update on the 2017 Preferential Procurement Policy Framework Act regulation in the wake of the recent Constitutional Court judgement in *Minister of Finance v Afribusiness NPC* (“Afribusiness”);2. Update on the Public Procurement Bill process; and 3. the filling of critical positions at National Treasury.
   2. The Deputy Minister clarified on what the Constitutional Court had ruled on in the *Afribusiness* judgment, as there seemed to be some confusion. He explained that the Constitutional Court had ruled on the Minister of Finance’s powers which it said were limited to section 3 of the PPPFA, which dealt with the threshold of 80/20 and 90/10, and found that the 2017 PPPFA regulations issued by Minister in 2017 went beyond section 3 and were therefore unlawful.
   3. The Deputy Minister explained that, after the *Afribusiness* judgement, NT went back to the Constitutional Court in order to seek some clarity. He said that NT filed an urgent application in order to establish whether the 2017 regulations would remain valid for another 12 months from the date of judgment or became invalid immediately, on 15 February 2022.
   4. The Deputy Minister explained that while waiting for clarity, NT had not stopped procurement. He stated that organs of state would have to apply for an exemption from implementing the PPPFA regulations to the National Treasury. He said that these exemptions would assist in preventing irregular expenditure and was not meant to stop procurement. Dr Masondo assured members and the public that exemption requests would be approved within 2 days of receipt by the National Treasury.
   5. The Deputy Minister mentioned further that NT had also published a call for public comments in order to address issues in the *Afribusiness* judgment in PPPFA regulations. He emphasised that procurement within Government has not stopped. He also clarified that the Constitutional Court had not outlawed BBBEE, as some of the public commentary had mischaracterised the *Afribusiness* judgment.
   6. On the Public Procurement Bill, Dr Masondo said that since Government was the largest buyer in the country, it had the responsibility to ensure that its procurement policy supported economic growth and transformation. He stated that Government spending on procurement was close to R1 trillion.
   7. The Deputy Minister stated that public procurement was a powerful instrument for Government to ensure that it transformed the economy to reflect the demographics of South Africa. He also explained that public procurement was also essential for government to industrialise through prescribing local content for certain goods, among other things. He said that Government should continue to require sellers of certain goods to the government, to increase their local content to create more jobs, industrialise and build the country’s manufacturing base which haemorrhaged since 1994. He highlighted that manufacturing had constituted about 24 per cent, but has now declined to 11 per cent of South Africa’s GDP.
   8. The Deputy Minister put emphasis on the role of public procurement to industrial policy, stating that NT needed to ensure that Government stopped de-industrialisation that has been taking place in the country. He stated that Clause 4 of the Public Procurement Bill proposed that state organs set asides for women, localisation, black people, and the previously disadvantaged. The Deputy Minister explained that redressing imbalances of the past was a constitutional requirement, stating that the majority of South Africans needed to feel that South Africa belonged to all who live in it, black and white. Dr Masondo stated that public procurement would play a major role in achieving this and informed the Committee that NT planned to table the Bill for consideration by Nedlac in May 2022.
   9. The Deputy Minister further updated the Committee on the filling of vacancies. He explained that NT had had interviews for the position of Chief Procurement Officer and the Accountant-General posts and memos were awaiting Cabinet approval.
   10. On 03 May at the presentation of SARS’s annual performance plan, the Deputy Minister further addressed the Committee. He reminded members that it has been 25 years since SARS was established in 1997, becoming one of the country’s shining lights of the democratic dispensation. He stated that a well-functioning revenue service was key to the country’s developmental ambitions.
   11. He highlighted that since its formation, SARS had collected more than R17 trillion. He commended SARS for having contributed to the improvement of South African lives through raising revenue which enables the country to provide, among others, healthcare, education, social security and support for the economy.
   12. The Deputy Minister stated that without SARS collecting its revenues, the country would not have been able to deliver services and support the economy. Dr Masondo stated that disruptions of the COVID pandemic, SARS had collected more revenue than expected. He said that this was assisted by the recovery of certain sectors of the economy, especially in the mining sector. He said that without an efficient and trustworthy revenue services, the country would not have been able to achieve this- commending SARS for staying the course.
   13. The Deputy Minister said that the adoption by SARS of latest digital technologies such as artificial intelligence and machine learning were signs of an institution that was in touch with the demands of the modern economy that operated in a complex environment, full of uncertainties.
   14. The Deputy Minister however, raised concerns about the unacceptably low taxpayer compliance levels with their tax obligations. He said that illicit activities and tax crimes remained a huge challenge, eroding tax morality and undermining the work of government and SARS. He however noted the gradual improvement in the overall compliance levels and strategic policy enhancements aimed at broadening the tax base and easing the tax burden on South Africans. He stated that he was certain that SARS would continue to perform well
   15. He highlighted the trying and uncertain times under which SARS was executing its mandate, such as July 2021 unrest, the recent floods, the conflict between Russia and Ukraine, and the COVID pandemic.
3. **OVERVIEW BY ACCOUNTING OFFICERS**

NATIONAL TREASURY

* 1. Mr Dondo Mogajane, the Director-General of the National Treasury, stated that in implementing the NT’s plans for 2022/23, there would be many obstacles in the coming year. He said that some of the obstacles were old and some, new. He said that there were global risks that could devastate the local economy and impact NT were they to materialise.
  2. Mr Mogajane stated that NT would need to be resilient to overcome the systemic challenges of inequality, poverty and unemployment, which were all exacerbated by chronic low growth, rapid global warming and intensifying conflicts, among other risks. He said that this would require a determined effort from NT in pursuing ongoing endeavours to accelerate economic growth, including taking structural constraints into account, applying measures to retain investors, and restoring public trust.
  3. Mr Mogajane stated that safeguarding the fiscal framework remained key to NT activities. He also provided an overview of NT’s key focus areas for 2022/23, including the national budgeting process, managing the fiscal relations of the three spheres of government, interacting with regional and international organisations to increase South Africa’s economic development, filling critical vacancies, and gender mainstreaming.
  4. He said that NT, through the Budget Facility for Infrastructure (BFI) and partnerships with the Development Bank of Southern Africa and Infrastructure South Africa, is helping to build a pipeline of viable projects for execution. He said that the BFI has considered 61 projects that were submitted to it by public institutions and NT had approved a total of R6.7 billion in fiscal support in the 2021/22 adjustments budget and over the 2022 MTEF period. He said that most of these projects have multiple funding sources and are designed to crowd in private investment.
  5. He explained that the Infrastructure Fund is working in conjunction with public agencies to prepare six projects with a total value of R96 billion. He said that this includes the rollout of the broadband infrastructure and the construction of six new border posts.
  6. He said that NT is reviewing government’s macroeconomic policy from the global financial crisis to the present. This review, he said, will: examine how key indicators, such as economic growth and employment, have evolved since 2008; assess government’s fiscal, monetary and macro-prudential policy choices; and propose appropriate reforms to policy targets and institutional frameworks. He informed the Committee that a draft review document will be finalised at the end of March 2022, forming the basis for workshops, public discussions and additional research. He said that a final review is expected to be published in 2023.

THE SOUTH AFRICAN REVENUE SERVICE

* 1. SARS Commissioner, Mr Edward Kieswetter, outlined SARS’s strategic focus areas for 2020 to 2025, recapping the priorities, performance highlights for the previous financial year and the deliverables for 2022/23.
  2. He stated that up to this year, SARS had collected almost R18 trillion, from a humble R147 billion in its first year in 1997. He said that this year’s revenue collection had increased by 10 fold, with net revenues of over R1,5 trillion.
  3. Mr Kieswetter reminded members that SARS has an obligation to build an effective and efficiency revenue system. He mentioned that it is the work of SARS that enables government to build a capable state that fosters economic growth and social development. He said that SARS higher purpose is to serve the wellbeing of all South Africans.
  4. Mr Kieswetter emphasised SARS Vision 2024 to become ‘a smart, modern SARS with unquestionable integrity, trusted and admired’. He stated that SARS theory of compliance was underpinned by that a belief that most taxpayers are honest and simply want to fulfil their obligations with the least amount of effort and cost. He said that SARS model was geared towards making it easy to comply by providing assistance for taxpayers to comply, detecting and deterring non-compliance and enforcement of the law.
  5. He said that SARS’s strategic intent was to develop a tax and customs system that is based on voluntary compliance. He said that in order to support this intent, 9 strategic objective were developed, namely; 1. Provide clarity and certainty for taxpayers and traders of their obligations; 2. Make it easy for to comply; 3. Detect those who do not comply and make non-compliance hard and costly; 4. Develop high performing, diverse, agile, engaged and evolved workforce; 5. Increase and expand the use of data to ensure integrity, drive insight and improve outcomes; 6. Modernise systems to provide digital and streamlined online services; 7. Demonstrate effective resource stewardship; 8. Work with and through stakeholders to improve the tax ecosystem; and 9. Build public trust and confidence in the tax administration system.
  6. He said that there are key “must win battles” for SARS in its strategic plan, which were to broaden the tax base by ensuring that all taxpayers are registered, improving voluntary compliance, achieving more with less resources, maintaining partnerships, and building an organisation with integrity that can be trusted and admired.

1. **OVERVIEW OF THE NATIONAL TREASURY BUDGET AND PROGRAMMES**
   1. A total of R33.9 billion is allocated to NT in 2022/23, of which 86 percent will be appropriated to transfers and subsidies. The projected allocations for the 2023/24 and 2024/25 are R32.0 and 32.1 billion, respectively.

**TABLE 1: National Treasury budget summary and vote expenditure trends 2022/23 MTEF**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Audited outcome** |  |  | **Adjusted  appropriation** | **Average growth rate (%)** | **Average:  Expen- diture/ Total (%)** | **Medium-term expenditure  estimate** |  |  | **Average growth rate (%)** | **Average: Expen- diture/ Total (%)** |
| R million | **2018/19** | **2019/20** | **2020/21** | **2021/22** | **2018/19 - 2021/22** |  | **2022/23** | **2023/24** | **2024/25** | **2021/22 - 2024/25** |  |
| Sou | 424.3 | 453.6 | 496.3 | 541.4 | 8.5% | 0.1% | 521.6 | 544.0 | 563.5 | 1.3% | 0.1% |
| Programme 2: Economic Policy, Tax, Financial Regulation and Research | 138.8 | 124.9 | 124.7 | 153.8 | 3.5% | 0.0% | 158.2 | 160.4 | 160.4 | 1.4% | 0.0% |
| Programme 3: Public Finance and Budget Management | 2,530.4 | 2,936.1 | 2,697.2 | 4,337.5 | 19.7% | 0.4% | 4,438.2 | 4,354.7 | 3,443.1 | -7.4% | 0.4% |
| Programme 4: Asset and Liability Management | 91.2 | 96.7 | 3,022.6 | 9,017.9 | 362.4% | 0.4% | 1,126.0 | 1,120.0 | 128.0 | -75.8% | 0.3% |
| Programme 5: Financial Accounting and Supply Chain Management Systems | 771.4 | 733.9 | 696.6 | 1,046.0 | 10.7% | 0.1% | 1,122.1 | 1,375.9 | 1,172.0 | 3.9% | 0.1% |
| Programme 6: International Financial Relations | 5,807.7 | 5,458.8 | 6,640.5 | 7,745.9 | 10.1% | 0.8% | 2,637.8 | 2,590.3 | 2,875.1 | -28.1% | 0.4% |
| Programme 7: Civil and Military Pensions, Contributions to funds and Other benefits | 5,020.1 | 5,487.1 | 5,188.8 | 6,409.5 | 8.5% | 0.7% | 7,012.1 | 7,039.0 | 7,355.1 | 4.7% | 0.8% |
| Programme 8: Revenue Administration | 9,007.2 | 9,529.0 | 10,271.9 | 11,295.2 | 7.8% | 1.3% | 11,527.8 | 11,657.6 | 11,136.2 | -0.5% | 1.2% |
| Programme 9: Financial Intelligence and State Security. | 4,763.5 | 4,951.1 | 4,942.9 | 4,999.5 | 1.6% | 0.6% | 5,395.5 | 5,402.1 | 5,643.9 | 4.1% | 0.6% |
| **Subtotal** | **28,554.6** | **29,771.2** | **34,081.5** | **45,546.7** | **16.8%** | **4.4%** | **33,939.2** | **34,244.1** | **32,477.3** | **-10.7%** | **4.0%** |

**Source: National Treasury ENE22 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 budget of R R521.6 million is allocated in 2022/23, down from an adjusted appropriation of R541.4 million in 2021/22. The projected allocation for the outer two financial years of the MTEF is R544.0 and R563.5 million, respectively.
     2. This programme has the following sub-programmes and their allocations for 2022/23: Ministry (R4,4m); Departmental Management (R56.3m); Corporate Services (R167m); Enterprise-wide Risk Management (R37.3m); Financial Administration (R53.6m); Legal Services (R23.9m); Internal Audit (R31.1m); Communications (R9.2m); and Office Accommodation (R138.4m).
     3. 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 25% fewer findings than 2021/22 on financial and nonfinancial 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 2022/23 allocation is R158.2, up from 153.8 million in the 2021/22 adjustment budget. Over the medium term, the budget is projected to grow by 1.4%, to R160.4 million each in the two outer years.
     2. This programme aims to publish 15 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 policy-making, produce four 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 for 2022/23: Programme Management for Economic Policy, Tax, Financial Regulation and Research (R51.5m); Financial Sector Policy (R24.7m); Tax Policy (R32.6m); Economic Policy (R28.6m); and Cooperative Banks Development Agency (R20.8m).
  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 R4,4 billion in 2022/23, up from 4,3 billion in the adjustment budget. The projected allocations are R4,3 and 3,4 billion for the outer two years of the MTEF.
     3. This programme has got the following sub-programmes (and allocations): Programme Management for Public Finance and Budget Management (R34.7m); Public Finance (R64.7m); Budget Office and Coordination (R66.4m); Intergovernmental Relations (285.5m); Financial and Fiscal Commission (R63.8m); Facilitation of Conditional Grants (R2,4b); Catalytic Infrastructure and Development Support Programme (R654.1m); and the Government Technical Advisory Centre (R789.4m).
  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 2022/23 is R1,1 billion, down from an adjustment allocation of R9.0 billion the previous year. The programme is allocated R1,1 billion in 2023/24, decreasing sharply by -75.8% to R128 million in 2024/25.
     4. This programme consists of the following sub-programmes and allocations: Programme Management for Asset and Liability Management (R31.8m); State-Owned Entity Financial Management and Governance (R1,0b); Government Debt Management (R20.6m); Financial Operations (R25.8m); and Strategy and Risk Management (R12.0m).
  5. **Programme 5: Financial Accounting and Supply Chain Management System**
     1. This programme has been allocated R1,1 billion in 2022/23, from an adjustment budget of R1 billion the previous year. The projected allocations in the outer financial years of the MTEF are R1,3 and R1.1 billion, respectively. 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.
     2. 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 as a result of procurement irregularities through the Office of the Chief Procurement Officer sub-programme.
     3. This programme has the following sub-programmes (and their allocations): Programme Management for Financial Accounting and Supply Chain Management Systems (R 122.3m); Office of the Chief Procurement Officer (R68.7m); Financial Systems (R626.4m); Financial Reporting for National Accounts (R112.3m); Financial Management Policy and Compliance Improvement (R142.1m); Audit Statutory Bodies (R50m); and Service Charges: Commercial Banks (0.3m)
  6. **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. The focus and targets of this programme this year are to: ensure 100% response to all economic surveillance reports; host one advocacy forum 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 R2,6 billion in 2022/23, decreasing from R7,7 billion in the adjustment budget of 2021/22. It is projected to be R2,5 billion and R2,8 respectively in the two outer years of the MTEF. It has the following sub-programmes for 2022/23: Programme Management for International Financial Relations (R10.8m); International Economic Cooperation (R52.4m); Africa Integration and Support (R1,4b); International Development Funding Institutions (R1,1b); and International Projects (R23m)
  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 2022/23, R7,0 and R7,3 billion respectively in the two outer year of the MTEF.
     2. The sub-programmes and their allocations under this programme for 2022/23 are: Government Pensions Administration Agency (R79.8m); Civil Pensions and Contributions to Funds (R6,6b); and Military Pensions and Other Benefits (R251.7m).
  8. **Programme 8: Revenue Administration**
     1. The Revenue Administration programme receives an allocation of R11,5 billion in 2022/23, up from R11,2 in the adjustment budget of 2021/22. In the outer years of the MTEF, the allocations are projected at R11,6 and 11,1 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 2022/23 allocation for the Financial Intelligence Centre and the South African Secret Services is R5,3 billion, from R4,9 billion in the adjustment budget of 2021/22, and increasing to R5,4 and R5,6 billion in the outer years. The allocation to Financial Intelligence Centre for 2022/23 is R316.8 million and Secret Services, R5,0 billion.

1. **OVERVIEW OF THE SARS’S BUDGET** 
   1. SARS receives a transfer from National Treasury under Programme 8. In 2022/23 SARS will be allocated a total budget of R11,5 billion from R11,2 in the adjusted appropriation of 2021/22. R46.5 million of this is a grant to the Office of the Tax Ombuds (OTO), an increase of 2.6 per cent from the previous year’s adjusted appropriation. The allocation to SARS is projected to increase to R11,6 billion in 23/24, moderating to R11, 1 billion in 2024/25. The allocation to the OTO will increase to R51.2 million and R53.5 million, an average increase of 6.1 per cent over the MTEF.
   2. SARS stated that it had: collected R1.56 trillion in 2021/22 (which was 255 more than in 2020/21); paid refunds of R321 billion (R20 billion more than 2020/21); collected R209.7 billion compliance revenue (21% more than the previous year); and facilitated trade totalling R3.3 trillion (which was 27% more than in 2020/21).
2. **OTHER ENTITIES VISITED BY THE COMMITTEE** 
   1. The Committee undertook an oversight visit to the South African Special Risk Insurance Association (SASRIA), the Land and Agricultural Development Bank of South Africa (Land Bank) and the Financial and Fiscal Commission (FFC) from the 20 – 22 April 2022 in Gauteng. The Committee observations and recommendations on the oversight visit will be included in the Oversight Report.

**SOUTH AFRICAN SPECIAL RISK INSURANCE ASSOCIATION (SASRIA)**

* 1. The main purpose of the visit to SASRIA was to get presentation of their annual report, strategic and annual performance plans, and the implementation of the audit action plans. It was also to get a detailed briefing on how 2021 July unrests impacted on SASRIA.
  2. Established in 1979, SASRIA is owned by the government of South Africa as the sole shareholder. It is mandated to provide cover for special risks such as riots, strikes, political unrest, terrorist attacks, civil commotion, public disorder and labour disturbances.
  3. Over the medium-term, SASRIA focusses on improving its financial performance and revising its reinsurance structure, where 40 per cent of the insurance business is ceded to reinsurers with catastrophe cover of R10 billion in years 1 and 2.
  4. The expenditure of SASRIA is expected to decrease to an average annual rate of 43.2 per cent, from R27 billion in 2021/22 to R5 billion in 2024/25. This is manily due to additional funding of R14.9 billion from government in 2021/22 to assist the association in covering the cost of claims related to the 2021 July unrest.
  5. SASRIA expects to derive 95.7 per cent (R18 billion) of its revenue over the MTEF period from client premiums, with overall revenue increasing at the average annual rate of 8.1 per cent.
  6. SASRIA incurred claims amounting to R37.14b as at 19 April 2022 as a result of the 2021 July unrests which affected KwaZulu-Natal and parts of Gauteng. R22.52b have already been settled, representing a total of 8 853 claims. R14.62b, representing a total of just over 17 000 claims, remains outstanding.
  7. In terms of liquidity, the cash injection from National Treasury in January and increase in premium flows ensured that there is no immediate liquidity challenge. The financial sustainability projections indicate that the business will be profitable by the 2022/23 financial year.
  8. Sustainability concerns remain, and if any event the magnitude of the July unrest was to happen; SASRIA cautioned that it would not survive as a business. The stakeholder management component developed a media strategy that is yielding positive results. SASRIA maintains it has good relationships with all its stakeholders which include clients, brokers, National Treasury and the regulators.
  9. SASRIA will seek to implement risk mitigation initiatives as well as new underwriting initiatives. A new re-insurance structure was implemented in August 2021, new rates implemented in February 2022, and a new MOI was approved by the Minister of Finance and awaiting Prudential Authority approval.

**LAND AND AGRICULTURAL DEVELOPMENT BANK OF SOUTH AFRICA (LAND BANK)**

* 1. The Land Bank is a development finance institution mandated to address agricultural and rural development in South Africa. It receives its mandate from the Land and Agricultural Development Bank Act of 2002 and is regulated by the Public Finance Management Act. It is expected to play a pivotal role in advancing agriculture and rural development.
  2. The Land Bank has been experiencing liquidity and funding challenges, which resulted in a default on its debt. It has not yet finalised the liability solution to address the liquidity challenges and this posed significant uncertainty regarding its going concern status. The Auditor-General recommended that oversight and monitoring be strengthened to ensure that the turnaround strategies of the Land Bank are implemented and the liability solution is finalised in order to mitigate the related financial and economic risks associated with the Land Bank.
  3. Land Bank’s expenditure is expected to decrease at an average annual rate of 22.3 per cent, from R3 billion in 2021/22 to R1.4 billion in 2024/25, due to average annual decreases in spending of 17.5 per cent on goods and services as part of the bank’s efforts to ensure greater cost efficiency, and 27.7 per cent on interest expenses. The decrease in interest is mainly driven by writing off some outstanding loans and the early settlement of others.
  4. Land Bank’s spending on compensation of employees is expected to decrease at an average annual rate of 7.6 per cent, from R389.3 million in 2021/22 to R307.4 million in 2024/25, due to natural attrition. The bank is set to derive an estimated 96.4 per cent (R5.8 billion) of its revenue over the period ahead through interest income, decreasing at an average annual rate of 15.6 per cent, from R2.6 billion in 2021/22 to R1.5 billion in 2024/25, in line with the projected reduction in the loan book.
  5. In April 2020, the Land Bank defaulted on certain payment obligations and this triggered a cross default on substantially all of the Bank’s borrowings. The Bank suspended the payment of interest and capital across all of its facilities. Since the default the Bank has been in a *de facto* standstill with all its lenders (except for one lender who has since been settled). All lenders have not called on the Bank to settle its debts and have thus far ensured that the Bank does not have to liquidate its assets to settle them. The Bank has continued to service interest payments and has been able to reduce debt by 28% since default. In May 2020, the Bank appointed a Corporate Finance Advisor to design and implement a Liability Solution and cure the event of default. Three versions of the Liability Solution have been considered since then.
  6. In June 2020, R3b equity injection by the State was announced and received in September 2020. This was intended to provide a degree of financial stability to the Land Bank in order to be able to sustain its disbursements to existing customers and resume the payment of interest to Lenders. In August 2020 the Bank paid arrear interest and resumed normal interest payments. A request for recapitalisation of the Land Bank was submitted into the Medium Term Budget process, and a R7b recapitalization was subsequently announced.
  7. Since the inception of the event of default situation in April 2020, the Land Bank has worked to restore and catch up all interest due on all funding and in addition has made the following three capital reduction payments to the South African lenders: February 2021: 12% (R4.9 billion) of capital outstanding; June 2021: 10% (R3.4 billion) of the then capital outstanding, and October 2021: 10% (R3.1 billion) of the then capital outstanding. Although this adds up to 32% it represents a 28.7% (R11.4 billion) reduction of the original amount outstanding to South African lenders.
  8. The newly appointed Land Bank Board convened a workshop with all the local lenders, on 09 February 2022, to consider all the burning issues raised by the lenders about the proposed Liability Solution. The Lenders have requested for reasonable time to work through the proposals, and have provided an indicative date of 30 September 2022 as a realistic time to finalise an acceptable Liability Solution. In the meantime, the Board has obtained the in principle support of the lenders to resume lending activities by setting aside R500m of its cash resources to originate a new portfolio of development clients, whilst continuing to support existing clients with their production and seasonal loan financing requirements.
  9. Liquidity challenges at the Land Bank continues to hamper its support for the sector. The default status has disabled the Land Bank from sourcing new funding, thus restricting it from fully supporting the loan requirements of its clients. Since the default, the Bank has been reliant on collections of instalments / repayments it receives from its clients to service interest and partial capital redemption of its debts, as well as to cover its operating cost commitments.
  10. The Land Bank cannot fully commence with its developmental and transformation initiatives if it is not cured from the default, and get its funding structure resolved for a financially sustainable business model. Work is in progress between the Land Bank, lenders and the shareholder to develop a liability solution that will be acceptable to all stakeholders in order to cure the Bank’s default. The solution will take cognisance of the conditions of the capital injection that were outlined by the Minister of Finance following the appropriation of R7bn of equity injection by Parliament.

**FINANCIAL AND FISCAL COMMISSION**

* 1. FFC derives its mandate from the Financial and Fiscal Commission Act (1997), which requires the commission to advise relevant authorities on financial and fiscal requirements for national, provincial and local spheres of government in terms of section 220 of the Constitution. It also derives its mandate from the following: the Borrowing Powers of Provincial Governments Act (1996), the Intergovernmental Fiscal Relations Act (1997), the Provincial Tax Regulation Process Act (2001), the Municipal Finance Management Act (2003), the Municipal Systems Amendment Act (2003), the Municipal Fiscal Powers and Functions Act (2007), and the Money Bills Amendment Procedure and Related Matters Act (2009).
  2. The FFC receives a transfer, from NT’s budget vote. FFC’s expenditure is expected to increase at an average annual rate of 0.9 per cent, from R63.6 million in 2021/22 to R65.4 million in 2024/25. The allocation is R63.9 million for 2022/23. FFC’s spending on compensation of employees is its main cost driver, increasing at an average annual rate of 8.4 per cent, from R30 million in 2021/22 to R38.3 million in 2024/25, due to a projected increase in personnel from 43 in 2021/22 to 48 over the medium term.
  3. FFC’s spending on goods and services, the commission’s second‐largest cost driver, is set to decrease at an average annual rate of 7 per cent, from R33.2 million in 2021/22 to R26.7 million in 2024/25, due to cost‐cutting measures implemented on administration and a reduction in the use of external researchers.
  4. The FFC is comprised of two programmes, namely the administration programme and the research programme. The proportion of the FFC’s total budget taken up by the Research Programme has decreased from 36.7% in 2018/19 to 16.2% in 2020/21 in the audited outcomes. Over the medium term, on average, 67.5% of the total expenditure is concentrated on Administration, which consists of Office of the Chairperson, Commissioners, CEO’s office, Finance and Corporate Services. Of the total staff complement of 37, there are 7 full-time researchers including the Head of Research, and 11 research interns.
  5. Slower spending during the financial year has accumulated to an underspending of R11.5 million in the budget or accumulated surplus of R12.4 million for the financial year. The cash balance at the end of the year amounts to R16.2 million. This is in spite of the return of prior year surplus to the fiscus of R19.7 million made during the year.

1. **OBSERVATIONS AND RECOMMENDATIONS**
   1. The Committee notes the annual performance plans of the NT and SARS and their key priorities and performance targets as presented to it. It also notes the plans of the FFC and updates given by SASRIA and the Land Bank. Specific observations and recommendations on the FFC, SASRIA and the Land Bank will be included in the Committee’s Oversight Visit Report.

IMPLEMENTATION OF AUDIT ACTION PLANS

* 1. The Committee notes the updates it received on 8 February 2022 on the implementation of the audit action plans developed to remediate the adverse audit findings raised by the Auditor-General of South Africa (AGSA) in the previous year’s financial statements. This followed from the Committee’s recommendation in the Budgetary Review and Recommendation Report of 2021. The updates were given by NT, Land Bank, government Pensions Administration Authority (GPAA), Government Technical Advisory Centre (GTAC), Independent Regulatory Board of Auditors (IRBA), the Public Investment Corporation (PIC), and the Cooperative Banks Development Agency. The Committee will continue to heighten its oversight over the implementation of the audit action plans as it wants to see improved governance outcomes within the finance portfolio, which is the custodian of public finances for the rest of government.
  2. The Committee believes that the implementation of audit action plans should form part of the annual performance plans of NT and entities in the portfolio, with measurable targets and outcomes, and urges the Minister to consider this.
  3. The Committee believes that improving audit outcomes of the finance portfolio is a combined effort of management, audit committees, internal audit divisions and the 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 also play a crucial role in ensuring that action plans are implemented more effectively. The audit committees should also play their oversight role in ensuring that quarterly reports show sustainable improvements in audit outcomes. The Committee also urges for the improvement in the prevention of internal control deficiencies from happening in the first place.
  4. The Committee expects to see improved audit outcomes from all the entities that the AGSA raised findings on in the previous financial year.

FILLING OF LEADERSHIP AND SENIOR MANAGEMENT VACANCIES

* 1. The Committee notes that there remains a number of vacant strategic positions across the finance portfolio. The importance of filling such positions cannot be gainsaid as, according to the 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. 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.
  2. The Committee remains concerned about delays in filling up the positions of Chief Procurement Officer and the Accountant-General and many acting positions in many entities such as GTAC and GPAA. The Committee however welcomes the update from the Deputy Minister that interviews have been conducted on the positions of Chief Procurement Officer and Accountant-General, with the memos having been submitted to Cabinet for approval.
  3. In its BRRR report of 2021, the Committee noted the increasing complaints regarding service at GPAA. In response to questions from the Committee, Mr Mogajane admitted to administrative challenges at GPAA caused by, among others, leadership instability as there was no Head of GPAA. The Committee urges the Minister to prioritise the appointment of the Head of GPAA, and to take immediate action to finalise cases, so as to resolve the service delivery challenges.
  4. The Committee commends the Minister for the appointment of the new board of directors at the Land Bank. The Committee urges the Minister to prioritise the appointment of a new CEO, as Mr Ayanda Kanana has resigned. The Committee wishes Mr Kanana well in his new journey.
  5. The Committee notes announcements by the Minister that Mr Mogajane will be vacating his position at the end of his contract in June. The Committee thanks and wishes Mr Mogajane well. It also urges the Minister to prioritise the filling of this position.
  6. The Committee was very impressed by the succession planning at SASRIA where the incoming CEO has been shadowing the outgoing CEO. The Committee believes that this assists in ensuring a smooth leadership handover and stability. The Committee believes that it is possible to achieve this in other entities as vacancies are normally known in advance.
  7. 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.

PUBLIC PROCUREMENT BILL

* 1. The Committee notes further delays in the tabling of the Public Procurement Bill. In all its reports over the past few years, the Committee has been urging NT to expedite the introduction of this Bill for processing by Parliament. The Committee believes that this Bill will assist in consolidating the fragmented procurement regime in the country, and help to root out corruption within the procurement system, among others. The Committee again urges NT to prioritise this Bill

IFMS 2 PROJECT AND MATERIAL IRREGULATIRY

* 1. The Committee notes that NT has incurred fruitless and wasteful expenditure of about R300 million on the Integrated Financial Management System (IFMS) project since 2016, as NT made payments for which no services were received on technical support and maintenance for the IFMS. While the Committee had scheduled an oversight visit on this project, there was a clash in its schedule as the Minister and DG Mogajane had to attend the IMF/World Bank Spring Meetings in Washington DC.
  2. The Committee remains concerned about the IFMS project since 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 DG of National Treasury.
  3. The Committee expects to be updated on the developments on this material irregularity issue in the next quarterly briefing by NT. It also expects to be briefed on whether the investigations on the IFMS by the Special Investigations Unit, the Hawks, and the Public Protector have been finalized or not. The Committee will also invite the Office of the AGSA to the next quarterly meeting as the IFMS project issues need to be resolved, once and for all, as they have dragged on for too long.

NT PROGRAMMES

* 1. The Committee notes that NT is reviewing 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 was concerned by media reports which purported that, as the custodian of national assets of the country, NT was not involved in the disposal of 51 percent of SAA shares to a private equity partner. The Committee would like to emphasise that NT needs to play its role as provided for in section 54 of the Public Finance Management Act, 1999, when significant shareholding is disposed of in State-Owned Companies.
  3. Considering the dire situation of financial management in municipalities, the Committee is doubtful of the effectiveness of the Municipal Finance Improvement Programme (MFIP). The Committee will schedule a briefing on the details of this programme and its achievements and challenges over the past financial years given that the MFIP five-year programme cycle is coming to an end. It will be 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) in order arrange a joint briefing on this sub-programme.
  4. On Programme 7, the Committee notes the ongoing challenges with the payment of the military veterans’ pensions. The Committee further notes that NT has discovered many irregularities, including that some veterans would not necessarily be veterans. The Committee will, in the near quarter, schedule a briefing on the details of these challenges and how they are being resolved. The Committee will explore that possibility of a joint-briefing with all the affected departments and Committees of Parliament.
  5. As stated in the Committee’s previous report, the Committee notes that although ongoing, the pension fund reforms have been very slow. The Committee also notes that one of the main reasons for the slow progress is the complexity of discussions at Nedlac. The Committee requires NT to brief it on the progress being made on these reforms, including specific action with deadlines to be taken.
  6. 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 details on this in the next quarterly briefing.

SARS PROGRAMMES

* 1. The Committee notes that since its formation in 1997, SARS has collected almost R18 trillion to date, from a humble R147 billion in its first year. In the previous financial year, SARS’s revenue collection has increased by 10 fold since 1997, with net revenues of over R1,5 trillion. The Committee commends SARS on these milestones.
  2. The Committee also agrees with the Deputy Minister that a well-functioning revenue service is key to the country’s developmental ambitions. The Committee also 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.
  3. The Committee believes that for the tax base to broaden and voluntary compliance to improve, the economy needed to grow. It is also important to ensure that the manner in which government spent is responsible. The Committee is of the view that while taxpayers have an obligation to comply with the law, there is also a mutual obligation on the state to deliver services, spend wisely and ensure consequence management for those who misuse or misappropriate state resources.
  4. The Committee further believes that tackling tax avoidance and illicit financial flows are crucial in improving the position of the country’s fiscus. The Committee therefore welcomes the re-establishment of the Tax Committee led by Judge Dennis Davis to examine areas that posed the highest risks of aggressive tax avoidance and transfer pricing. The Committee will invite Judge Dennis Davis and SARS to make presentations on the findings of the Tax Committee’s enquiries in the near future.
  5. The Committee will also request a briefing on the country-by-country reporting and automatic exchange of information projects and their impact in raising revenue since they became effective a few years ago.
  6. The Committee re-emphasises the need for the finalization of the global framework on the taxation of e-commerce and online businesses, especially when it comes to income tax. The Committee however notes that SARS already collects VAT from e-commerce transactions, with VAT on e-services yielding R1 billion in the last financial year.
  7. The Committee notes that the Public Protector recently released a report that found some violation of procurement policies at SARS over a number of years with respect to the appointment and extension of some IT contracts. The Committee expects to be fully briefed on this report and steps being taken to remedy the situation and will schedule a briefing in this regard.
  8. The Committee notes that women represented in leadership positions at SARS now stands at 49.91 per cent. The Committee would like to see more being done on the inclusion of persons with disabilities.

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

The Democratic Alliance (DA) reserves its position.

The Freedom Front Plus rejects the report.

**Report to be considered.**