Embargoed: Check against delivery

National Assembly

Introductory remarks on Vote 8: National Treasury, the SA Revenue Service and Vote 13: Statistics South Africa

Trevor A Manuel, MP
Minister of Finance
10 June 2002

Madam Speaker

It is just over two years since the National Treasury was formed from the former Finance and State Expenditure Departments, and four and a half years since the establishment of the SA Revenue Service as an autonomous organ of state.

A merger and an unbundling – both rather complex and stressful transitions. But both have paid rich dividends.

The National Treasury has succeeded in welding together its diverse elements – accountants and economists, policy analysts and financial managers, advisors and record-keepers – into a cohesive, integrated team, equipped both for the economic and fiscal policy challenges before us and for the equally daunting work of renewing and modernising financial systems and management practices.

And our Revenue Service continues to grow from strength to strength, reflected in the impressive revenue performance achieved year after year, and also in the decisive progress we have made in broadening and modernising the structure and resilience of our tax laws and administration.

Statistics South Africa has also recently graduated to a new status, and is now listed as a full department in schedule one of the Public Service Act. An organisational overhaul is in progress, aimed both at reinforcing the department's internal capacity and to support statistical functions throughout national and provincial government.

I do not propose to rehearse all the plans and programmes of the Treasury and the Revenue Service, or of Statistics South Africa. But I would like to highlight several critical aspects of our work that perhaps do not frequently make the front-page headlines, but are nonetheless in quiet ways contributing to sustainable growth and improved performance of our economy.

Vote 13: Statistics South Africa

National statistics system

First, we have to know how we are doing and how to measure our progress. How many people have water and electricity, where are jobs being created or lost, are schools in the right places and are the buildings being maintained, what are our critical skills needs, are municipalities spending their development funds, are we succeeding in reducing poverty and vulnerability?

To answer these questions, this House is invited to appropriate R272 million for the 2002/03 year. The vote comprises three main programmes – R59 million for Administration functions, R114 million for regular statistical services and R99 million for data processing and analysis of the census conducted last year.

The improvement of our national statistics system is one of the longer term priorities of Statistics South Africa. Our approach is to build a strategic information partnership across government departments, to construct links between the data systems that exist, to identify key indicators, to streamline information flows and to modernise standards, definitions, classifications and methodologies. The point of departure is that government information systems do not only depend on Stats SA's own data systems alone, but on the integrity and connectedness of all the sites of data capture and analysis right across the public sector, and indeed also on appropriate links between public and private sector databases.

This is long-term vision, but Mr Pali Lehlola's team has translated it into a practical programme of action for the years ahead. A new register of all businesses will be compiled as one of the first steps. This involves close cooperation with the Departments of Trade and Industry and Labour and with the Revenue Service. An audit of government statistics will begin this year. Five departments have been selected to pilot the development of departmental statistical units by March 2004. Building on Census 2001, a programme promoting statistical literacy in schools will start this year. Links with universities have been established to accelerate education and training in applied statistics. And our investment in new data processing technologies will mean earlier and more accurate results of Census 2001, and a new platform for regular household surveys and demographic analysis in the years ahead.

On its own, Stats SA cannot produce all the statistics that are required for every aspect of governance. Other government bodies need to assist in this process. But Stats SA is responsible for co-ordinating the process to ensure that statistics produced by other government departments, not only from registers, but also from various other sources, are reliable and meet common standards. Indeed, the aim is to recognise these collections as official statistics, once all requisite standards have been met.

This initiative, the establishment of the national statistics system (NSS), has involved advocacy for shared development indicators across departments. In addition, the NSS is to put in place a management system with associated databases for statistical information; facilitate increased statistical capacity in the country; and promote the production and use of statistics. Underpinning the necessity to provide a broad range of sustainable quality statistics is the need to avoid duplication of statistical production within government, set standards, and prevent work being done in silos. Cohesive, harmonised data are essential for policy formulation and decision making. Stats SA, together with the Presidency, recently held a workshop to discuss the way forward in developing an NSS. The main focus was on starting a process of identifying development indicators; and on setting common standards, sharing definitions, classifications and methodologies for amongst others FOSAD Clusters.

Organisational transformation of Statistics SA

Last year Stats SA focused on conducting a population census, the second under democratic rule. The first results from Census 2001 should be available by April 2003. I should take this opportunity to thank members of parliament and the public at large for having participated in this endeavour of national priority. The mapping information is already actively being used for sampling purposes.

Through Census 2001, Stats SA has introduced new technology to scan documents and questionnaires on a grand scale. The benefits of this system are being explored for all paper-based processing in Stats SA, and have been offered to SARS and the Department of Home Affairs.

This year, internal organisational transformation will be a key focus. Stats SA has taken a number of steps to improve quality in data collections. It has established a quality and methodology unit to give advice and assistance on all aspects of statistics collection, including sampling, raising factors, statistical analysis and quality control. This advice will also extend to other departments.

In addition, a programmes and project office has been created to strengthen capacity to manage major projects such as five-yearly population censuses and regular surveys. It will log and monitor performance of all projects and their functions, budgets, risks, financial management and documentation. In addition, the Internal Auditor has been requested to give specific attention to risks and controls in provincial offices, where new financial managers have been appointed. With the assistance of Statistics Sweden, Stats SA has started to introduce a systematic quality management approach in its work and three pilot projects are using this approach: establishment of the new business frame; updating and maintenance of the master sample for household surveys; and improvement of recruitment practices.

There is, at present, no training programme on official statistics in any South African tertiary institution. Stats SA has therefore had to take short-term action to address this issue. Staff members (21 in number) are currently being trained at Economic Commission for Africa (ECA). These are the Institute of Statistics and Applied Economics at Makerere University in Uganda, and the East African Statistical Training Centre in Tanzania. One person has been sent to complete a PhD at the African Census Analysis Project at the University of Pennsylvania. In addition, nine people are attending courses at the University of the Witwatersrand, leading to a Master's Degree in Data Mining and Data Fusion, and three people have been short-listed for IT studies in Pakistan through the Jacob Zuma Trust.

International cooperation on statistics

Stats SA has become a full member of the United Nations Economic and Fiscal Commission. In its first attendance as a member in March this year, Stats SA was elected as chair of the consortium, 'Partners for Statistical Development in the 21st Century' (PARIS21).

Regionally, Stats SA as a focal point, has continued its work with the Southern African Development Community (SADC) on the 2000/1 round of censuses, and continues contributing to the efforts of the SADC Secretariat in harmonising the region's measurements relating to demographic, social and economic statistics. A three-year United Nations sponsorship has been secured for collaboration on best practice in undertaking censuses in the region. We have also mobilised sponsorship for SADC wide census data analysis from the Rockefeller Foundation. Stats SA has taken the lead in time-use studies in the region, which highlight unpaid female labour, and has supported other SADC statistical agencies in implementing such studies. It has also offered assistance in the area of poverty mapping in the SADC region and beyond.

Stats SA's key strategic objectives for the next three years are to develop and further implement the national statistics system; continue to improve the quality, not only of the content of statistics, but also the skills of the people and the systems within the organisation that are essential for good statistical production; strengthen organisational capacity, including provincial statistical capacity; improve dissemination through producing even better paper-based and electronic products and enhancing their marketing; and comply with international and national standards for statistics collections, analysis and dissemination.

Stats SA continues to be resilient while it adapts to change. Although the challenges it faces are extensive, the vision of the organisation is clear; the direction has been defined; and there is substantial progress in implementing strategies to ensure that this vision is realised.

Vote 8: National Treasury

Corporate restructuring

Let me turn now to the National Treasury – an important client of Statistics SA, not just because we rely on national accounts statistics to track the growth and performance of the economy, but also because our budget reform initiatives depend on progress in reliably measuring progress across the entire spectrum of social and development indicators of public service delivery.

The Treasury vote has two distinct parts. Programmes 1 to 5 provide for departmental administration, economic planning and budget coordination, debt management, financial systems, the Accountant-General's office and other operational responsibilities of the Department. The 2002/03 appropriation for these functions is R605 million. Programmes 6, 7 and 8 provide for provincial and local government transfers, civil and military pensions, contributions to various funds and transfers to international organisations, to Lesotho and Namibia in terms of the Rand Monetary Area Agreement, and to the South African Revenue Service, the Financial and Fiscal Commission, the secret services accounts and the new Financial Intelligence Centre. These various statutory transfers and contractual commitments add up to R9,389 billion, 94 per cent of the total vote. Details are set out in the *Estimates of National Expenditure* and the Treasury's *Strategic Plan* for the three years ahead.

Speaking candidly, I can share with you that executive responsibility for this large and complex budget vote has served as a taxing test of the reach and robustness of our Public

Finance Management Act and its regulations. Much of the work of our Corporate Services division has focused on implementing the PFMA – building a performance management system, piloting procurement reforms, reinforcing our legal advisory capacity and strengthening internal financial management. We have found, for example, that the PFMA's requirement that departments must undertake a full risk assessment as a prelude to developing an internal audit plan has been an instructive and challenging complement to our broader strategic planning. But it takes time and a serious commitment of management resources to implement management reforms properly. There is a lesson for us all here – our reform programmes need to be measured and well-considered.

The format of the Division of Revenue Bill, the Appropriation Bill and the *Estimates of National Expenditure*, and the details of provincial and local finances we publish in the *Intergovernmental Fiscal Review* illustrate sufficiently the thrust of our budget reforms and the more rigorous approach to public expenditure planning and management. In the year ahead, the emphasis will continue to fall on improved measurement of service delivery and refinement of the quality and integrity of both the financial and – as important – the non-financial information that accompanies the formal budget legislation.

Departmental strategic plans, required for the first time this year, have already added greatly to the substance and value of our deliberations on budget votes in this House. In the years ahead, we will seek to improve these plans, and I hope that committees, and in particular our new Budget Committee, will advise us refining their format and content.

There are many ways in which our budget reforms are contributing quietly to improved expenditure planning and management. Let me share with you just one illustrative statistic. There has been a great deal of public discourse about government underspending in recent months. Of course, by comparison with the annual appropriations, there is underspending. An appropriation, by intent, sets the maximum that an accounting officer may draw on the National Revenue Fund. There are many causes of underspending – they include project delays due to administrative weaknesses, which are a bad thing, and savings achieved through prudent management or good fortune, which we should welcome. But I am pleased to report that preliminary figures for last year show a marked improvement in the trend. In their rollover requests, departments indicated savings of approximately R1,6 billion last year, compared with nearly R2,8 the previous year. Particularly pleasing is the strong improvement in spending on capital projects.

Reinforcing financial management

Improving service delivery is partly about better planning and budgeting, and partly about better financial management. This is a large, complex challenge – regulating and reforming supply chain management, implementing a new chart of accounts, modernising financial systems, building an integrated management information system, improving internal audit capacity and skills, implementing enhanced accounting standards.

An Accounting Standards Board has been appointed and guidelines for asset management have been prepared. This year, departments' annual reports will include significantly improved financial statements, strengthening the oversight tools available to this House and the public.

More timely reporting requirements and strengthened financial governance standards are now in place. The success of this transformation now lies in its implementation – how firmly it is embedded in departmental practice, and how effectively we, in this House, and civil society more broadly, exercise our oversight and accountability responsibilities.

Asset and liability management

A particularly important financial management role rests, however, directly with the Treasury. Although good progress has been made in reducing the annual borrowing requirement, the total loan debt of government of R450 billion remains far the largest financial portfolio in our economy. About 20 per cent of this debt is denominated in foreign currencies.

We have turned around the rising debt-GDP ratio, and interest costs are now steadily falling as a share of the national budget. This has partially been achieved by restructuring state assets, and we anticipate a further contribution to debt reduction when a public offer of shares in Telkom is concluded this financial year. But our progress should not allow us to slacken our vigilance. Prudent and far-sighted asset and liability management remains a singularly critical element in ensuring the sustainability of our growth-oriented fiscal stance. For every R10 billion we succeed in reducing the national debt portfolio, an additional R1 billion a year is permanently added to our capacity to spend on public services and development programmes.

Last year, we began to manage our debt portfolio more actively, on the strength of an explicit risk management framework and a debt benchmark against which the costs and risks of alternative funding options can be assessed. Mainly through swaps and an active switch and buy-back programme, the liquidity of the government securities market has been enhanced and significant savings in debt costs have already been achieved.

Alongside the management of our debt, we have a responsibility to ensure sound management of our assets. This includes coordination of intergovernmental cash requirements, which contributes in turn to lowering the overall borrowing requirement. It also includes improved corporate governance, coordination of the investment and borrowing plans of public entities, negotiation of dividend policies for commercial public enterprises and normalisation of their tax status. These are initiatives that rely on close cooperation with other departments, and the energy and understanding of my colleagues who have direct responsibility for state-owned enterprises has been vital to the progress we have made.

Public-private partnerships

Closely related to the challenge of restructuring our public enterprises, within government we are also gradually re-shaping the interface between the state and private sector suppliers of services.

National and provincial departments' annual procurement of supplies and services, equipment and construction works exceeds R50 billion. Almost all of this is currently transacted through conventional procurement contracts, in which services are supplied on the strength of quoted or tendered prices and specifications, with limited oversight and post-delivery management of service quality and effectiveness.

This is beginning to change. In a well-structured public-private partnership, government remains the purchaser of a service or an asset from a private supplier, but the terms of the contract pass on explicit incentives to the supplier, through a detailed specification of service standards, rewards for successful performance and penalties for delays and failure to meet requirements. Typically, a PPP also brings private capital and expertise into the construction and maintenance of assets, thus reducing government's borrowing requirement and project management risks. Some 40 projects of national and provincial departments are currently under review. Particularly innovative and challenging initiatives include a number of hospital facilities management and co-location projects, contributing both to physical rehabilitation and to improved management of non-medical services in our public hospital estate.

Like our larger financial management reform programme, the introduction of new procurement procedures takes time – a well-structured PPP typically takes eighteen months or two years to negotiate. The skills to manage projects need to be built not just in treasuries, but across all departments and agencies involved. But the programme is steadily gathering momentum. Over 600 people have now attending our PPP training programmes. The lessons of this approach for contract management – its focus on affordability, value for money and transfer of risk to service providers – will enable government to harness private sector capacity more effectively over a steadily widening range of services and functions.

Macroeconomic policy, tax and international policy development

Our macroeconomic, tax and international economic work is similarly firmly focused on the structural reforms and policy challenges of long-run growth and improved economic performance.

This covers a large agenda and I can mention just a few of the initiatives in progress.

Work by our macroeconomic team includes liaison with organised labour and business in Nedlac on diverse issues – agricultural pricing policies, access to financial services, elements of a national growth strategy, budget priorities, employment creation and labour market policies. Together with the Reserve Bank, we are deepening our economic modelling capacity and improving our understanding of inflation trends, the impact of international financial developments and options for improving banking sector regulation.

We continue to chair the SADC Tax Subcommittee, through which we can actively pursue improved coordination with our neighbours and opportunities for promoting regional economic integration. This year the first courses of the Southern African Tax Institute are being held, focused on developing high-level tax analysis and administration capacity in the SADC countries. This year, a review of the taxation of retirement savings will be undertaken. Mining tax, including the possible introduction of a royalty tax system, will be re-examined. The role that taxes can play in supporting wider environmental policy considerations is under review.

International issues under the spotlight include monetary convergence in the region and in Africa, the new Southern African Customs Union formula and institutions and options for reducing financial transactions costs in the SADC region. Following the completion of the Myburgh Commission's work, we will take further steps in implementing prudential regulations over capital flows and review the usefulness of the remaining exchange controls. Through our Chairing of the Development Committee of the Board of Governors of the Bank and the International Monetary Fund and our participation in other multilateral forums, we continue to press for increased debt relief for Africa, international trade reforms to benefit developing countries, more effective multilateral oversight of the international financial architecture, and mobilisation of support for the core initiatives of the New Partnership for African Development.

In all of these initiatives and policy commitments, there is a clear and consistent complementarity between our macroeconomic and fiscal stance and the role of the South African Reserve Bank in managing monetary policy and our foreign exchange markets. As we noted at the time of the Budget in February, the depreciation of the rand at the end of last will raise CPIX inflation above the target range this year and in due course Governor Mboweni and the Monetary Policy Committee will outline a path and time horizon over which the inflation rate will return to the target range. The recovery of the rand in recent weeks has confirmed our view that the rand's fall was overdone and we expect to see the inflation trend moderate steadily in the second half of this year and in 2003.

The inflation trend was anticipated in our February estimates, and so the public service wage adjustments announced by Minister Fraser-Moleketi last week will be fully met from available funds, including the contingency reserve set aside in the main budget. I am pleased that our fiscal stance, after several years of disciplined moderation, allows us to adjust salaries to compensate for the effect of higher prices on the real earnings of our teachers, nurses, service men and women and other public servants.

I have to add that, while the wage settlement preserves the spending power of government employers, it does not exceed inflation and so does not contribute to an inflationary demand gap in our economy. I mention this because it has been suggested by some financial commentators that there is some kind of mismatch at present between fiscal and monetary policy. Nothing could be further from the truth. Our fiscal policy continues to emphasise prudence in the level of the budget deficit and to give priority to long-run structural reforms. Governor Mboweni oversees a monetary policy stance that is appropriately focused on a medium-term inflation target. I can state emphatically that I am entirely comfortable with the current balance between the fiscal stance and monetary policy.

South African Revenue Service (SARS)

Let me conclude by commenting briefly on the Strategic Plan for the next three years of the South African Revenue Service.

The record revenue collected by SARS last year is all the more remarkable as it was achieved in an environment of substantial new implementation challenges together with far-reaching organisational change.

In the financial year 2001/02, SARS collected a record R 249,2 billion and exceeded its collection target by R15,2 billion. As in the previous financial year, SARS managed to attain this success at a cost of under 1,2 per cent of revenue collected. For the 2002/03 year, an amount of R3,417 billion is allocated on the Treasury vote for the Revenue Service, or just under 1,3 per cent of anticipated revenue.

Organisational change and investment in technology

The successes of SARS can be attributed to a number of factors including the dividends of its organisational changes and investment in technological improvements.

In addition to improved revenue collection and successful implementation of new taxation laws, the organisation also achieved other significant milestones and has set ambitious new targets for next financial year.

New processing, compliance and taxpayer service centres were established in KwaZulu-Natal in October 2001. A number of valuable lessons were learned during this process that will inform the creation of other centres. It is envisaged that the next phase of the Siyakha processing, compliance and taxpayer service centres roll-out will be in the Western Cape towards the end of the year.

In the 2001/2 financial year, a total of 3,3 million income tax returns were processed and tax assessment backlogs were eliminated through the establishment of additional "war rooms". Taxpayers also benefited from the introduction of "e-filing" in respect of VAT, PAYE and provisional tax and a reduction of processing times for payments. The "e-filing" system will be further refined in 2002/3 and taxpayers will be able to submit income tax returns electronically.

The high-profile Woodmead project resulted in the collection of R4,3 billion and inroads were made by more focused and targeted compliance activities. A computerised risk profiling system and integrated audits were introduced and a bigger emphasis was placed on field audits. High-risk sector investigations and audits will continue and the electronic risk-profiling system will be expanded.

Tax law and administration reforms

On the legislative front, SARS implemented new capital gains tax legislation and prepared the Revenue and Second Revenue Laws Amendment Acts that were adopted by Parliament. Collectively, these two laws provided for the implementation of strategic investment incentives, capital allowances for airport infrastructure, refinements to capital gains taxation legislation and group re-organisation relief. Enabling legislation was also prepared in respect of industrial development zones, customs registration and accreditation and a new system for the collection of excise duties. New challenges include amendments to the SARS Act and re-writing the Customs and Excise Act.

From a customs perspective, SARS increased the examination rate of goods to 5% at most offices and commenced with the implementation of an accreditation system that, amongst others, enables clients to electronically submit customs declarations. A pilot project commenced on 1 May 2002 at Johannesburg International Airport to process documents electronically and resulted in drastic improvements in turn-around times. Other developments include the preparation of new legislation on transit, warehouse control and declarations; improved training of customs officers; the implementation of a risk-based passenger control system; and infrastructure and other improvements at ports of entry. SARS will continue with its efforts to upgrade infrastructure, focus on further improving customs management and operational skills and enhancing customs service delivery.

Although 2001/2 witnessed an improvement in the compliance culture, serious concerns remain. With this in mind, SARS will embark on a rigorous programme that will focus on:

?? further improving client services;

?? developing and rolling-out enforcement programmes that will focus on closing the tax gap;

?? broadening the tax base and developing an approach to taxing the informal sector;

?? implementing taxpayer education programmes to create a new taxpayer compliance culture; and

?? simplifying and strengthening the customs regime to facilitate legitimate trade whilst combating illicit trade.

The challenge for SARS, in the years to follow, is to sustain its performance by continuing to build better compliance and by creating a flexible, sophisticated and responsive institutional infrastructure.

Madam Speaker and Honourable Members, the achievements in the three departments are formidable. Yet, the challenges ahead demand that we remain as vigilant and focussed as we have been to date; there simply is no let-up. For the achievements, I want to express my sincerest appreciation to the three Heads of Department – Ms Maria Ramos, Mr Pravin Gordhan and Mr Pali Lehohla. I also want to express my sincerest appreciation to all members of the Portfolio Committee on Finance, but especially to Barbara Hogan for her stewardship and leadership over the past years.

Thank you for your patience in listening to me this afternoon.