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Introduction

The key objective of government policy is the wider transformation of society. This transformation was elaborated and given substance and content in the Reconstruction and Development Programme. The RDP requires of all of us that we work together, that we focus our energies on our new priorities, that we strengthen our capacity to deliver public services efficiently and effectively.

The Budget brings together, in a single statement of fiscal intent, our collective mobilisation of resources towards these transformation objectives.

This House has heard the plans and programmes of government departments responsible for promoting social and economic development in all its dimensions. We have recorded progress across many fronts; we have noted obstacles to delivery; we have applauded the new initiatives and activities to which funds have been allocated for this financial year and beyond.

We have of course heard several accounts of how much more could be done if additional funds were available.

But the Budget has to address many needs. It must balance resource allocations between many spending commitments. Promotion of economic growth and job creation, human resource development, investment promotion and protection of the financial integrity of our economy - these and other challenges to our fiscal policy impact inevitably on the means available to us.

Putting the budget together, and coordinating economic and fiscal policies, are important elements in the broader transformation to which we are committed. Today we explore the roles of four departments that contribute to this coordination and integration of economic policy.

The Departments of Finance and State Expenditure, the SA Revenue Service and the Central Statistical Service contribute to the broader transformation programme in special ways. They contribute to the policy environment within which our social and developmental goals can be successfully pursued. They contribute to building the institutions for sound and sustainable transformation. They contribute to the operating rules of an accountable, disciplined, progressive democracy.

Building a strong economy

Our transformation requires a strong economy.

This government is committed to achieving sustainable growth and development. The policies required need to achieve macroeconomic stability, and be able to keep pace with domestic and global changes.

Although a stable macroeconomic environment is a necessary condition for growth and job creation, it needs to be supported by progressive micro-economic policies, strong institutions and a reinvigorated, capable and professional civil service.

Sustainable development needs to address all of these components. In doing so it will not be possible to satisfy every need in the short-term, but we require a vision which is firmly focused on medium-term priorities and long-term growth and development.

We have to recognise that we are operating in an increasingly globalised environment. Borders are softer, and there is a much easier movement of capital, goods and people than in the past.

Progress towards the formation of the European Union and the establishment of a single EURO currency illustrate this new world. There is also the growing strength of trade groupings in Latin America, amongst the North American economies, between countries linked by the oceans, and indeed between ourselves and our Southern African neighbours.

The eagerness of a number of East European countries to join the European Union, and the new debates which have arisen regarding East Asian integration, speak of the broadening international cooperation within an environment of intensifying competition. We in South Africa do not want to be competitive or improve our access to resources at the expense of our neighbours. The South African approach extends growth and development to the regional economy, and locates our own interests in the context of an African Renaissance. We have defined our goals as a developmental state. In our Growth, Employment and Redistribution strategy we committed ourselves to:

- Achieve a fast-growing economy which is competitive and able to create jobs for all workseekers;
- Redistribute income and opportunities in favour of the poor;
- Build a society in which all people benefit from sound health, education and other services; and
- To secure homes and places of work.

Our economic policies are designed to strengthen the role of the state in development by focusing attention on improving the capability of government to deliver education, health and welfare services more effectively to more people. The key to achieving this goal is our ability to reform the public sector. We need to relentlessly pursue the objectives of excellence in service delivery, to reduce the costs of administration, to improve the effectiveness of spending, and to prioritise and re-prioritise.

Sustainable development

We have avoided choosing a false, short-term solution to development. We have chosen a road which is sustainable. We have made this choice because our guiding objective and our unwavering commitment is to improve the lives of all South Africans. To do this we have to find the resources to meet the needs of the most vulnerable in our society, to eliminate poverty, to create a better life for all, not just today or tomorrow, but in the future, for our children and their children. We believe that the mix of economic policies we have chosen gives us the best chance of achieving this.

To take advantage of the many opportunities that exist, we have to be more creative, more competitive, more willing to find common and sometimes unconventional solutions. Complacency, hiding behind old theories, excuses and rhetoric does not further the developmental agenda. Identifying problems is easy, finding solutions which contribute positively to growth and job creation requires wisdom and courage.

The Medium Term Expenditure Framework

As part of the transformation agenda which this government has adopted, we have effected a fundamental change in the budget process. The Department of Finance working closely with the Department of State Expenditure developed a three-year Medium Term Expenditure Framework (MTEF) which sets out for Parliament, and the people of this country, the government's spending plans for the next three years.

By providing a three-year horizon, the MTEF allows for more transparent prioritisation. This will enable government to focus on those priorities which are crucial for reconstruction and development.

Goals of the MTEF

- The first and most important goal of the MTEF has been to strengthen political decision-making in the budget process. It has enabled Cabinet to make the link between the budget allocations and the services that we intend to deliver. It has translated abstract choices about budgets into concrete decisions about our priorities.
- The second goal of the MTEF has been to strengthen co-operative governance and decision-making, and provide a budget framework which captures our shared goals for the country. With three spheres of government, each responsible for their own budgets, there is potential for nationally shared goals and priorities to be lost in a confusion of conflicting and contradictory budgets. The MTEF brings all the spending programmes of government together.
- The third goal of the MTEF has been to make sure that every rand goes further: to deliver better services, more infrastructure, more poverty relief, and more reconstruction with the money we can afford. In the years ahead, the analysis underlying the MTEF will provide a tool which links expenditure inputs to service outputs. As the MTEF develops, we will focus more and more attention on reviewing the outputs of all spending programmes and activities.

- Finally, the MTEF has made an important contribution to the transparency and openness of budget policy making. In December last year we published a Medium Term Budget Policy Statement, which set out our preliminary projections for the economy, the public finances, and our initial MTEF projections for spending. It set out clearly and frankly the policy choices we face. As part of the new budget process we will each year publish a Medium Term Budget Policy Statement in advance of the tabling of the Budget thus providing Parliament with an early opportunity to contribute to the direction of policy.

The Medium Term Expenditure Framework does not just stretch the budget horizon from 12 months to 36. It is about making sure that we are spending our money on those things we have identified as priorities. It allows us to focus on the management of resources, thereby assisting us to understand that the debate is not about the R23,7 billion which we borrow, but about the way in which we spend the R177 billion we collect in revenues.

Critical to the MTEF process is the role that Parliament plays. This represents a major change in the culture of government. It requires a fundamental change in the way we plan and budget, and creates greater political accountability. By making known the spending plans of government for three years, the MTEF creates the space for Parliament to become actively involved in shaping and assessing these priorities.

There is no other country in the world which makes this amount of information available before the budget. Furthermore the MTEF places South Africa amongst the ranks of a small group of countries of amongst the 183 member countries of the IMF who recently adopted a Code of Good Fiscal Practice.

The MTEF process is supported by government's broader public service transformation, including the finalisation of the White Paper on Budget Reform due to be finished by September 1998. The Departments of Finance and State Expenditure are working on a Treasury Control Bill which will apply to the national departments and the provinces.

Asset and liability management

The Department of Finance has implemented far-reaching reforms in the area of asset and liability management. A panel of 12 primary dealers has been appointed to market government debt - a process that now occurs through an auction system. This is more efficient than the system of the past, and over time will help to reduce the cost to government of borrowing.

With the co-operation of national departments and provinces it has been possible for the Department to make significant improvements in cash flow management. We have been able to reduce the amount of cash needed to cater for mismatches in flows between payments and receipts to an absolute minimum level of between R1,5 billion and R2 billion. Through these initiatives substantial savings are being made on debt service costs.

I would like to bring to the attention of the House that the Department, in managing our off-shore borrowing with characteristic care and ability, was awarded the deal of the year in its 1997 Yankee bond issue.

The focus in the year ahead will be on developing an integrated database for asset and liability management and the implementation of a modern risk management system for our foreign debt portfolio. Further enhancement of the cash management system is also an important objective.

Intergovernmental relations

The implementation of Chapter 13 of the Constitution required legislation to be developed and tabled to support the financial and fiscal intergovernmental relations between the three spheres of government.

In 1997/98 the following legislation was passed: the Financial and Fiscal Commission Act; the Intergovernmental Fiscal Relations Act; the Revenue Funds Interim Arrangements Act; and the Local Authorities Loans Funds Acts Repeal Act. The Division of Revenue Bill, which divides revenue between the three spheres of government for the 1998/99 Budget, will come before Parliament in this sitting. All this legislation is designed to promote and co-ordinate intergovernmental relations.

For 1998/99 the focus will be on the further refinement of the fiscal framework and the budget process. Greater co-ordination between sectoral policy issues and provincial budgets will also receive attention.

In the sphere of local government the Department of Finance has developed and published the equitable share formulae for local government, the Introduction of an Equitable Share of Nationally Raised Revenue for Local Government. In the coming year the focus will be on the development of a new borrowing system for local government, and a new accounting framework for municipalities.

Financial management systems

A modern financial management system is key to the success of the MTEF and the integrity of the financial and fiscal framework. Government inherited an antiquated system not suited for the fiscal framework that has now evolved. To develop well-targeted output measures for the MTEF, to effectively evaluate and control expenditure, a financial management system capable of producing timeously, user-friendly data is required. Early warning systems have been developed which alert national departments and provinces of potential over-expenditure are also an important part of the system.

One of the key areas for the Department of State Expenditure in the coming period is to effect a major overhaul of the financial management systems in government.

The integrity of public finances and the new fiscal framework ultimately depend on the quality of the financial management system. The Department of State Expenditure is working with provinces on a number of projects to assist in improving the interface to their financial systems, the recovery of overpayments to employees, and identification of "ghost" appointments through audits.

Moreover, the department has been involved in the training of personnel in the correct use of the PERSAL system used for sound administration procedures are in place and functioning properly as a database for personnel.

Generally Recognised Accounting Practice (GRAP)

Section 216(1)(a) of the Constitution of South Africa requires the introduction of "Generally Recognized Accounting Practice" (GRAP). The Department of State Expenditure is involved in two projects which seek to enhance the use of GRAP. Firstly, together with the Institute for Public Finance and Auditing (IPFA), the Office of the Auditor-General and the South African Institute of Chartered Accountants have initiated a project to develop accounting guidance for the public sector. The intention is to draft a public sector perspective based on accounting standards in the private sector. Secondly South Africa is working in a project under the management of the International Federation of Accountants (IFAC), which is involved in the development of an authoritative accounting standards for governments worldwide. In the future South Africa will have to align itself with international accounting practice for governments.

Procurement reform

The Green Paper on Public Sector Procurement Reform was considered by Cabinet on 22 January 1997. To a large extent this reform process was embarked upon in order to make the tendering system more easily accessible to small, medium and micro enterprises.

The State Tender Board is continuously liaising with departments to ensure that the procurement system supports government policies, and serves to support the overall economic objectives of government. This is reflected in the contracts finalised by the State Tender Board. For the 1997/98 financial year the State Tender Board considered contracts to the value of R12,6 billion of which R3,14 billion was awarded to companies owned by previously disadvantaged individuals. This figure will escalate as new tenderers are empowered to tender successfully.

The South African Revenue Services (SARS)

SARS attained administrative autonomy with effect from 1 October, 1997 after the SARS Act was passed by Parliament in last year. In terms of the Act, SARS now has considerable flexibility to manage its resources and assets. The Act transforms the organisation into an organ of state outside the limitations of the Public Service but as an institution within the Public Administration accountable to the Minister of Finance.

SARS is mandated to:

- Collect all national taxes, duties and levies;
- Secure the collection of revenue which may be assigned to SARS under any other legislation or an agreement with an organ of State or institution entitled to revenue; and
- Advise the Minister on revenue-related matters.

An advisory and consultative body has also been established known as the SARS Advisory Board, consisting of the Commissioner for SARS, two senior SARS employees, and eight other members who are drawn from outside of government.

A key objective of the transformation agenda is to maintain and strengthen a tax system that is fair, efficient and internationally competitive, and that will meet the needs of the fiscus. The improvement of tax administration and collection is an essential step in achieving real tax reform. Tax administration is a key component of tax policy. By improving the administrative capacity of the South African Revenue Services, government aims to narrow the tax compliance gap and broaden the tax base, allowing for a future reduction in taxes.

In the past year SARS was able to exceed the revenue collection target set. This has enabled the Government to reduce the personal income tax burden by R3,7 billion. A new income tax system will come on line towards the latter half of 1998. This will result in huge productivity gains as a number of existing manual processes will be automated and integrated. This will significantly reduce duplication and loss of revenue, and increase oversight of the system.

On 1 October 1997, SARS launched an extensive campaign to broaden the tax base. The campaign aimed to register persons, businesses and employers not registered for tax purposes, and was supported by a wide-ranging tax education programme. During the first six months of the campaign SARS was able to establish that the default percentage for Income Tax was 27 %, for VAT 28 %, and for PAYE 28%.

Central Statistical Services (CSS)

Impartial and reliable official statistics, whether economic or demographic, are an important means by which independent parties - locally and internationally - can hold government accountable for its performance.

People assess the progress we make in respect of our transformation agenda and the achievement of our economic policy targets on the basis of statistics. The veracity, credibility and relevance of the country's statistical data is a key policy issue. South Africa was among the first dozen countries in the world to agree to the IMF's Special Data Dissemination Standards.

Over the past year the CSS has refined its measure of inflation to show its effect on poor as well as rich families, in smaller towns as well as metro centres. Similarly, employment statistics demand continuous improvement, to ensure that they capture developments in the labour market. Examples of this are new areas of formal employment in services such as tourism; new forms of work such as subcontracting; and increasing informal participation in sectors such as transport and construction.

The CSS is currently grappling with such changes. This year it has entirely re-vamped its labour surveys, with Australian assistance, to improve their coverage. At the same time, it is doing special research into the effect of different ways of asking about unemployment in household surveys that are appropriate to our context. We look forward to the results.

The huge change in the methodology in the census of 1996 must not be lost sight of. The census is no longer based on a model of flawed racist assumptions of black fertility. Instead it provided the widest ever door- to-door survey, across the widest cross section of our society. The results are still being computed, and when published, will provide the best ever base of information for the policies of all government.

For the first time the CSS produced and published a set of quick, preliminary census results in the middle of last year. The lower-than-expected preliminary result, a population of 37,9m, no longer seems so surprising. The newspapers have been full of lengthy reports - another one just last week - that fertility rates around the world have dropped faster than expected. South Africa, with its considerable industrialisation, is clearly no exception.

Since then, the actual household questionnaires - some nine million of them have been coded and punched into computers at nine provincial centres (in all some 2 billion keystrokes!). At the peak, some 5000 people were employed, working in three shifts. This provided a worthwhile spread of temporary employment and training.

We are all impatient for the final results. But given the controversy, the CSS embarked upon extensive checks. In particular, it has been reviewing the undercount: by means of a person-by-person comparison of questionnaires against the census documentation, in a one-percent sample of all households.

However, as promised by the CSS, the new data are already flowing to the Independent Electoral Commission for preliminary use in delimiting wards and districts for next year's elections. The figures are made available to a massive computerised Geographical Information System, or GIS, produced by CSS in co-operation with Land Affairs for the IEC.

The basic census results will be published free of charge for the nation, in two summary booklets and on the Internet. However, more specialised products will attract a charge, in line with international practice. This policy will be clarified at a workshop next month, when users will also have a chance to present their data needs.

The CSS itself is held accountable not only to the Minister but by the Statistics Council, which I appoint after a process of public nominations. The discussions between the CSS in its discussions with institutional stakeholders of a draft Green Paper are complete, and the Paper will soon be considered by myself and made available for public comment.

Madam Speaker, I want to focus briefly on some key institutional transformation issues in all of the four organisations which make up the Ministry of Finance.

The Department of Finance had been through a major restructuring and transformation process in the past two years. This restructuring culminated in the approval by Cabinet in October 1997 of a new organisational structure for the department. Although Vote 14 carries a budget of R 5,9 billion, the operational budget of the Department of Finance is only R 68,8 million.

One of the major changes in the Department has been in the area of human resources. The department has attracted a cadre of top class economists and managers. In addition the Department has made significant progress in the area of representivity. The Department now complies fully with the targets set out in the White Paper on the Transformation of the Public Service, 50 per cent of the department's management is black; 19 per cent of the department's managers are women.

Targets for representivity have also made good progress in the Department of State Expenditure achieving the targets set out in the white Paper will continue to be a priority.

The amount allocated to the Department of State Expenditure for the 1998/99 financial year is R1 227,558 million. This represents an increase of 20,2% on the amount of R1 021,470 million voted in the Main Estimates for 1997/98 financial year. Of this R800 million constitutes the budget for Secret Services which will be dealt with by Deputy Minister Nhlanhla later today.

As part of the process of transformation the whole financial system and management of SARS has been overhauled and budgetary planning has been largely decentralised. The SARS Budget will constitute a sub-programme on the Budget of the Department of Finance. The SARS Budget of R 1 225 million has been presented to this House, and will be discussed today. The expenditure for 1997/98 equals that of the budget, which is in contrast with huge reported rollovers in previous financial years.

All the objectives in terms of the SARS budget were achieved namely:

- Revenue collected is in excess of the target of R 164 billion;
- The baseline for expenditure was corrected which in itself was important for the compilation of the Medium Term Expenditure Framework (MTEF);
- Additional expenditure was incurred mainly in the following critical areas:
    - Development of the new Income Tax system;
    - Replacement of old office computers;
    - Maintenance and enhancements to computer systems;
    - Addressing the mainframe capacity problem;
    - Standardisation of the computer systems of Customs and Excise;
    - Appointment of approximately 500 additional personnel to vacant posts.

The expenditure budget for 1998/99 amounts to R 1,704 billion and will be used mainly in the following areas:

- Maintenance of current operations;
- Improvement of salary structures to retain and attract staff;
- Filling of further vacancies to improve collection capabilities;

Revenue to be collected increased by R 15,128 billion from R 161,502 billion to R 176,630 billion. We are confident that this target is attainable.

SARS has adopted the Government's White Paper on Transformation relating to service delivery, and in this regard a Client Charter has been developed, which in turn is underscored by a new internal Code of Conduct for staff. The vision of SARS is to provide an excellent service in a transparent environment ensuring optimum collection of revenues.

The transformation of the CSS as an organisation has been rapid and far-reaching. A first indication is the progress towards representivity. For instance, in three years the CSS has moved from being 14% black to 59%. At management levels the proportion of both women and blacks is just short of 50%, well ahead of the public service target date.

A new performance-oriented appraisal instrument was applied late last year. Members of staff and supervisors sought consensus on the ratings, regarding the achievement of key performance areas. This year, the appraisal is being extended to ongoing performance management, and linked to a new annual cycle of activity-planning and three-year budgeting for the MTEF.

The Budget of the CSS for 1998/99 is R83 million. An additional amount of R4 million has been set aside for improvement in the conditions of service, and an amount of R5 million for the dissemination of the Census.

Conclusion

In government around the world Ministers of Finance and the Departments which support them are often the most unpopular departments. These are the people who often say "NO!". Too often, the task of interrogating some of the more expensive policy options in governments anywhere fall on treasury officials. Clearly there are many more comfortable places in government than in these departments.

But our pledge is to maximise the value of tax payers' money. This means the Revenue Service seeks to ensure that every rand that might be raised as a consequence of tax policies adopted by this Parliament will be raised, thereby progressively reducing the tax burden. It means that the Departments of Finance and State Expenditure design appropriate budgets and ensure that all of government implements these spending plans. It means that the CSS ensures that information is available which will allow us to target government efforts to the best outcome, and measure the impact of changes. All of this comes together in the pursuit of value for money.

It is appropriate in appealing to this House for support of the budget of these Departments that we express our gratitude to Ms Maria Ramos, Mr Trevor Van Heerden, Mr Cassiem Gassiep and Dr Mark Orkin, and their respective teams for the quality of service they render.

We would like to thank Sipho Mpahlwa for his leadership and support, and the Portfolio Committee for their hard work and guidance. And lastly, Deputy-Minister Gill Marcus for her support.

Madam Speaker, I move.