

**NATIONAL COUNCIL OF PROVINCES
DIVISION OF REVENUE BILL, 2007
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MINISTER OF FINANCE**

Thank you very much Chairperson, Deputy Chairperson, Honourable Members. Firstly, I want to express my very sincere appreciation for the co-operation that we received, especially from the Select Committee, led by the Honorable Ralane. The hearings on the Division of Revenue Bill have been exceedingly thorough and I want to convey our gratitude for the manner in which the process was run and the advice we have received from it.

Now, we have indicated over the period that as we are able to generate high levels of income we would use it in a way that responds more to the policy direction that government has taken and important amongst the choices that we exercised are those which advanced economic growth and job creation, in particular. So, in general terms, the support for the spending like infrastructure on the one hand, but also very evident in the Budget this year and over the Medium Term increase spending in Education; school education, further education and training but also in the way in which we are asking the education system to be able to track new people and regenerate the skills based through bursary programmes and the like.

The Division of Revenue Bill is of course that very vital link between the ideals we have set for ourselves in the country, the various organs of state and their translation into tangible goods and services that impact very directly on the quality of life of all of our people. It is exceedingly important that in dealing with this Bill and discussions today Chairperson, the House recognizes its

responsibility beyond today and the responsibility of the House beyond today clearly involves the oversight function in respect of the utilisation of these resources split into, at the provincial level certainly and the equitable conditional grant shares, and I know that constitutionally sometimes we stick our feet into boiling water but I think it is very important that in the oversight function the House recognises that it's responsibility did not end when the bill was debated on a day like today.

The other part of this, and I want to express appreciation, to you Chair, for the way in which National Council is taking up this matter, is to remain seized with the outcomes of what the money bought and so the attention to detail of the Intergovernmental fiscal review is a very important part of the oversight function. We have said that the shift in Medium Term Expenditure Budget is not to focus much on what the Department gets, if you take it further look at what it will spend on - the contracts of our people. You've got to be able to measure the change that the money bought. Now I know the House has done this, will continue to do this but my job Chairperson, the former Government put me away, the only reason they said why they said I couldn't be in society was that I was an agitator. The news to those who took those decisions is that I am an agitator and I am agitating this House now to be more vigorous in the exercise of it.

We have published the Budget for this year and so the appropriations are for this year, but very importantly the allocations for the two outer years are as important. We have not really been able to get in the minds of officials that they must treat that money as on budget. We don't want to see spending rise in February and March because we didn't spend through the year. The certainty about the budgets for the period 31 March 2010 are there and, so in our communication as members return to their provinces and deal with their constituencies, it is very important that we are able to communicate that as a single message from the Division of Revenue Bill.

The publication of information is exceedingly important for forward planning and to ensure certainty and predictability in funding flows. The question, I think, we have to ask in the oversight function is whether people understand this and whether they are ready to receive this kind of money. I have spent some time visiting three of the provinces in the last few weeks Chairperson; Northern Cape earlier this week, Mpumalanga just a few weeks ago and the Eastern Cape before that. I want to draw courage from the kinds of interactions I had both with provincial exco's but also with young learners in each and every province - very exciting stuff! We have the responsibility to provide the certainty so that people can plan and know that the changes will come. If we look at some of the details in the Budget and I will touch on this in a moment. If somebody has been waiting for a house they become desperate. If they see that houses are coming to their neighbourhoods, they feel better; they know that their chance will come tomorrow. The MTEF allows us to communicate like that and we must ensure that every sphere of government responds in this way to the challenge.

Let me turn to some of the deliberations that arose in the course of the interactions with the Select Committee and I want to state the obvious that I was not present in the briefings. From what I heard through our various officials it was a thorough process. Firstly and foremostly, I want to emphasize a full agreement about the oversight function of the NCOP. We must recognise it; it has been raised repeatedly in the course of the hearings. Secondly, the deliberations focused on the concept of value for money or the concept of spending and here too we need to reinforce that kind of interrogation of the presentations. Clearly there were very interesting discussions about Health infrastructure where things have not always gone according to plan. There was a report carried on the BBC not so long ago about the fact that money for the DR Hospital were taken away to build stadiums for 2010.

Now nothing can be more further from the truth but these kinds of rumors arise in circumstances where people are not thorough in examining the detail, examining

the sources of money, examining the allocations or examining the interconnection between one year and the next. So part of the discussions that we must make sure of in the Select Committee is the understanding certainly by MEC's and senior officials in Health departments that there is not going to be some national department that parachutes money in from time to time. I think that the issue of infrastructure in Health is also challenging us in a direct way. We have this conditional grant called the Revitalisation Grant. Now the Revitalisation Grant was designed to upgrade hospitals that we found are in a very poor state of repair but it was never designed to relieve provinces of the provision of health care. The provision of health care is impossible without the physical infrastructure but one gets a sense that provinces now believe it is not their responsibility to provide, especially the secondary or district hospitals as this must wait for Revitalisation. We are going to have detailed interaction about this.

The third issue which I am told the Select Committee gave a lot of attention to was the compositions of municipal budgets especially the growing personnel component. Now I want to express appreciation for the manner in which this matter was debated because, indeed, we are very seriously challenged because municipalities are responsible, they have been given a mandate by the Constitution to provide good quality service and to provide a developmental role and if they consume too much a large share of the budget for personnel, they fail fundamentally in their most elementary Constitutional mandate! Now us raising it is one thing but when the Select Committee raises it as their oversight I think it raises the tempo of the debate quite a few notches and I want to express appreciation for that.

The Division of Revenue Bill would clearly find resonance completely in the Presidents' State of the Nation Address of 9 March and the issues would then be taken up by the nine Premiers, in what they call, I'm not sure why, the State of the Provinces Addresses. In line with the President's vision, the 2007 Division of Revenue allocated a further R89.5 billion over baseline on the key priority

programmes and again I want to emphasize the baseline was there, the baseline was in last year's Division of Revenue Bill, we have added 89.5 billion to that and of this R32.3 billion is allocated to national departments and R39.2 billion to provinces and R18.1 billion to municipalities. Schedule 1 of the Bill provides a summary of the allocation of funds across the three spheres and national governments share includes debt service costs of R52.2 billion, a contingency of over R3 billion and conditional grants to provinces of over R31.5 billion and to local government R13.6 billion. The provincial equitable shares allocated R171.3 billion while local government is allocated R20.7 billion. The increased allocations provide for the strengthening of a series of pro-poor services especially at provincial level. A substantial share of the additional resources is expected to go to Education to train and hire additional teachers, teaching systems and support staff in schools and districts and to improve the remuneration levels of teachers. Together with resources set aside in the Provincial Equitable Share for the implementation of no-fees schools and a substantial increase and resources in classroom building and to provide water and electricity and sanitation in schools. The investments announced in this year's Budget constitute a conservative effort towards improving the quality of the public schooling system. I want to emphasize as I have done before that money is only part of the issue. Without good quality educators, we will fail the learners, we will fail the education system and we will fail Democracy. Chairperson, you know I visited some of the poorest places in the last few weeks but in one of the provinces I drilled through the under-spending of the current fiscal year. When you look at under-spending in Education, you pause and you take out a very sharp drill like a dentist would have and you drill down as deeply as you can go and when I struck a point where the province says the under-spending is on learner support materials, I pause... because it cannot be that in an environment where parents are incapable of affording elementary things, in an environment where many of the schools affected are in fact no-fees schools, where it is not schools are not in leafy suburbs. You sit with money unspent on learner support materials - it means that somebody is not doing their job! I am using this to

emphasize a point I raised, I think that when this Bill is passed by this House, Chairperson, we can have a measure of comfort of the quantum of the resources allocated for the task, but that is all that we can have comfort about. The oversight function needs to be enhanced to ensure that we focus on the quality of the outcomes.

Last year, in respect of Health, also very significant increases with the special focus on the increase of the number of health workers and the debate on the Intergovernmental fiscal review, we would have dealt with that issue already, but over the next five years we must train and employ a further 30 000 people in the public health system. Last year's Budget framework made provision for the treatment and care of about 250 000 people who are ill with Aids. We are likely to reach that figure quite soon and the HIV and Aids programme presently being delivered through 272 sites is stepped up to double the uptake over the next three years. The money is there, we have to ensure that it is properly allocated.

One of the big changes in this year's Budget is of course the Community Library Services Grant, I know the Honorable Robertson says that it was all her work; we can all claim responsibility in that way. There is R1 billion and my observations from interactions is in fact that we must try and speed up the process. I am not sure if it is the issue of the physical space to store the books and that there are many unemployed librarians at the moment. I think that we have to look at all of the issues together including other services like internet facilities in the libraries to advance the struggle.

In respect of Local Government, over the next three years, municipalities will receive R129.2 billion including in-kind donations of R7.4 billion. This includes 27.2 billion to compensate municipalities for the ongoing loss of RSC levies. As a result, the local government share of nationally raised revenue increase from 6,5 per cent in the current financial year to 7,2 per cent in 2007/08 to 7,8 per cent in the outer year that ends on 31 March 2010.

Regional bulk water and sanitation infrastructure is prioritised to sustain the delivery of free basic services and to deliver water and electricity to schools and clinics. Total infrastructure transfers to municipalities now total R52 billion over the next three years. That is real money in any currency. These allocations aim to support local programmes that will provide for sustainable neighbourhoods, while at the same time attracting private sector investment in under-serviced communities. Together with increases in housing allocations, this should provide a major boost to local development.

Conclusion

Chairperson, provinces and municipalities have a key role to play in Government's Programme of Action which among other things seeks to deliver more and better services to our people.

They also have a major role to play in facilitating the attainment of our growth targets. The public resources allocated in the Division of Revenue Bill will certainly help us to achieve our targets. But, it will only help, it can't do everything. As elected representatives we have a collective responsibility in ensuring that the resources we spend are effectively and efficiently used and that we can measure the improvements of the quality of life of the poorest of our people and off all South African's as a result of wise decisions taken in this House.

Thank you