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SPECIAL ADJUSTMENTS BUDGET

TREVOR A MANUEL, MP, MINISTER OF FINANCE

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Madam Speaker, Ministers and Deputy Ministers, honourable members of the National Assembly, today we take the unusual step of tabling a special Adjustments Appropriation Bill. Though we have occasionally had to table second adjustments budgets in previous years, this is the first time an appropriation has been required before the usual adjustments budget. We table this special appropriation bill due to the fact that in each case, we unfortunately do not have the option of waiting for the normal adjustments budget at the end of October.

Both the Government in general and I as Minister of Finance have been hesitant to introduce more than one adjustments budget a year. Where we have done this, it was either due to an emergency or a clear unavoidable situation. While the items that we request additional resources for today cannot be considered a natural or economic emergency, we table this special appropriation bill after exploring all options to meet the urgent cash-flow requirements. Not providing this financial support may, in some cases, cost government more than the amounts requested.

Stadium projects

The first set of additional allocations is requested to ensure speedy completion of our 2010 FIFA World Cup stadium projects. In the Budget in February this year, we announced an amount of R8,4 billion over four years for the ten stadium upgrade or construction projects. Today, we are pleased to announce that in certain cases, construction is proceeding faster than anticipated. For this reason, we are requesting that R1,9 billion be brought forward from next year's allocation to the present year. In addition to faster progress on the projects, the additional funds will be used to pre-fund the procurement of roofing structures which, in some cases, involve importing expensive fabricated steel products. Early payment reduces risks of cost escalation and currency risk. In particular, the Soccer city stadium project in Johannesburg and the Moses Mabhida Stadium project in eThekwini contain complex roofing structures.

Since we announced the R8,4 billion ceiling on the stadium projects, we have had a number of requests for additional resources. We have been firm in our resolve not to provide any additional resources for these projects and we commend host city municipalities for ensuring that we do not exceed the financial limits on all of the projects.

A review of all ten stadium projects shows that we are on track to meet the deadlines set by FIFA. This is again testimony to South Africa's ability to organise and manage large international projects to the highest standards. We wish each of the host cities and the local organising committee well in their endeavours to host a memorable tournament.

State owned enterprises and development finance institutions

Honourable members, in 2004 Government signalled a strategic shift in its approach towards state owned enterprises and our development finance institutions. We signalled a stronger role for these enterprises and institutions in driving our developmental agenda. When we took this decision, we were mindful of the fact that, in some cases, our enterprises were not well managed in the past, not well capitalised and governance and oversight was sometimes lacking.

In implementing this strategy, we have had to work tirelessly in increasing their strategic focus and in improving management. Our approach attempted to steer away from sterile ideological debates about whether the public sector or the private sector was better able to deliver services to business and households. Instead, we have adopted a pragmatic approach that recognised that there were areas where government had to exit from providing the service, but there are also areas where we feel that the public sector can play a positive role in driving investment, lowering the cost of business and crowding in private sector investment.

Our strategy has entailed taking a tough stance to root out poor management, focusing these enterprises on their mandated core functions and responsibilities. We must ensure that we build financially viable enterprises that can contribute towards development without ongoing access to fiscal resources. We also knew that, in some cases, as the sole or principal shareholder, we would have to provide additional resources to finance higher levels of investment. So far, our strategy has been effective. We have seen gross fixed capital formation rise, partly driven by higher investment by the public sector.

In the Budget in February this year, we announced a number of developments in state owned enterprises and development finance institutions where we were working to assess business plans, improve management competence and increase strategic focus. In particular, we informed Parliament that we were reviewing the business plans and activities of the Pebble Bed Modular Reactor Project, Sentech, the Land Bank and Broadband InfraCo.

We also announced that funds would be provided to some of these entities once business plans had been approved, and a larger than normal contingency reserve was set aside for this purpose. In terms of Section 30(2)(d) of the Public Finance Management Act, 1 of 1999, such allocations may be provided for in an adjustments appropriation bill.

Sentech

Today, we are pleased to announce that an agreement has been reached on the business plan of Sentech. Government has approved Sentech's role in developing a national wireless network that can be used by a number of enterprises including private companies to enhance wireless internet connectivity to both businesses and households. Sentech will become a wholesale wireless network provider, investing in signaling and transmission technology to bring down the costs of wireless internet services to all users. For this purpose, Government is providing R500 million as an initial capital investment in this infrastructure.

Land Bank

The Land Bank is a key development finance institution providing access to credit in the agricultural sector. It has played a pivotal role for almost a century in the development of commercial agriculture in South Africa. If in South Africa we are going to expand our agricultural industry and in particular, if we are going to succeed in bringing black farmers into the agricultural supply chain, the Land Bank is going to continue to be a key player in this sector.

However, we are also mindful that the operations and governance of the Land Bank have not been optimal. The capital adequacy ratio of the Bank has fallen considerably, mainly due to the writing off of some large non-performing loans. Led by the Minister of Agriculture, Government has actively engaged with the Board and the management team to improve the functioning of the institution. We have made progress in a number of areas that are of concern to government. However, the task of turning the Land Bank around is still very much work in progress, and the Treasury will continue to monitor financial aspects of this project.

Given the progress that we have made and noting the low level of capital on the balance sheet, it is prudent for government to recommend an injection of R700 million in cash and the provision of a R1,5 billion government guarantee in order to ensure the sustainable operations of the Bank.

I will continue to work with the Board of the Bank and the Minister of Land Affairs and Agriculture to put this institution on a sound footing.

Pebble bed modular reactor project

Members of this house will be aware that considerable progress has been made in recent years in the design of a new generation nuclear power plant, known as the Pebble Bed Modular Reactor. The construction of a demonstration plant has now begun, for which government has made a financial commitment of R6 billion over three years. This commitment was also announced in the 2007 Budget speech. At the time of the budget, the amount required this year and details of the business plan were not finalised.

At this stage, external funding for the project is not available and an amount of R1,8 billion is therefore required for the period April to December this year. This amount will allow the project to fund ongoing recurrent expenses as well as provide for contractual obligations related to the design components of the demonstration plant.

Alexkor

It is known to many of you that government's efforts to exit from diamond mining through state owned mining company Alexcor have been impacted upon by a protracted land claim made by the Richtersveld community. A Deed of Settlement in the land claim was signed on 22 April 2007. The settlement constitutes the conclusion of a lengthy court case in which billions of Rands were claimed from the Government of South Africa. The settlement was subsequently approved by Cabinet. One of the conditions of the settlement is that Alexkor Limited should continue to operate as a going concern, and that it will enter into a Pooling and Sharing Joint Venture with a Richtersveld Mining Company which will become the owner of the converted land mining rights that presently belong to Alexkor. Funding of R44,7 million is required for the operational costs and working capital of the Alexkor Mine for the current financial year, in addition to the restitution amounts provided on the Land Affairs vote.

This settlement is aimed at providing the community of the Richtersveld with a legal and corporate structure to benefit from the mining operations while government takes on some of the liability to rehabilitate the land once the mining operations are wound down.

Denel

The final item in this special appropriation bill relates to an indemnity claim in favour of Denel's aero-structures subsidiary. The claim is presently being verified by auditors appointed by the Department of Public Enterprises, and an amount of R222 million is required as provision against this contingent liability.

Conclusion

Madam Speaker, in each of these cases, it is not possible to wait until the normal adjustments appropriation bill, to be tabled on 30 October 2007 in this house. It is not the intention of government to request approval for the appropriation of resources more often than is absolutely necessary. If we could have avoided the need for a special adjustments budget, we would have done so.

Turning our state enterprises and development finance institutions around so that they can become effective tools in the hands of a developmental state requires huge effort on all fronts. I confess that in some cases, we have been disappointed with our efforts to focus their activities in a manner that ensures financial sustainability. We have much more work to do to improve the quality of management and the strategic direction of these enterprises. However, as shareholder, it is also our obligation to ensure that these entities do not engage in risky financing arrangements that would inevitable cost consumers more in the long term. It is our obligation to provide funding, after due diligence has been completed, where these funds are required to increase investment or to lower the costs of doing business in South Africa.

In total, an additional appropriation of R5,195 billion is required for the Departments of Agriculture, Communication, Sport and Recreation and Public Enterprises. The anticipated revised total expenditure level, and how it is to be financed, will be dealt with as usual in the Medium Term Budget Policy Statement at the end of October.

I thank you