MINISTRY: FINANCE
REPUBLIC OF SOUTH AFRICA

SPEECH ON THE 2009 DIVISION OF REVENUE BILL

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Chairperson and honourable members, firstly, and importantly, I wish to express my sincere appreciation for the cooperation we have received from all those who took part in the thorough processing of the 2009 Division of Revenue Bill. In particular, we are grateful to the Select Committee, chaired by Mr Ralane, for the sterling work it has done. This is particularly remarkable when bearing in mind that due to the elections scheduled for 22 April 2009, the processing of the Bill had to be expedited, affording the NCOP limited time for processing the Bill.

The Bill gives expression to cooperative governance

Chairperson, honourable members, the Division of Revenue Bill is the embodiment of co-operative governance which is at the heart of our Constitution. It is an outcome of extensive consultation processes among technocrats and between the political leadership of the three spheres of government. The division of resources among the three spheres is one of the most critical steps in the budget process, as it provides the basis for the preparation of the national, 9 provincial and 283 municipal budgets for the next financial year.

The Bill gives effect to section 214(1) of the Constitution and the Intergovernmental Fiscal Relations Act, 1997, which require an annual Act of Parliament to provide for the equitable division of revenue among the three spheres of government.

The need for greater accountability and improved quality of services

Chairperson and honourable members, there is no doubt that this Division of Revenue Bill is presented to you at a time of turmoil in the global economy, where many countries are finding ways of protecting themselves against the adverse effects of the sharply slowing economic conditions. A large part of the strategy is to explore ways of ensuring that we do more with the little we have, that we employ our resources more smartly and more efficiently, and that we minimise or eradicate wastage. The period ahead requires from us, as a collective, that we improve our oversight over scarce resources to ensure that the quality of services is improved, and that the poor are not left behind during these difficult times.

This Bill covers in detail all transfers to be made to provinces and municipalities over the next three years. The explanatory attachments also contain detailed information on the formulas for the provincial and local equitable share allocations, and a detailed framework on each conditional grant to a province or municipality. The publication of this information will enable every province and municipality, and every national and provincial department, to prepare multi-year budgets. The positive strides made by South Africa in ensuring a transparent budget process have been internationally recognised. South Africa is ranked second in the world on the Open Budget Index, which measures the transparency and quality of budget information. This is indeed a remarkable achievement.

Chair and honourable members, allow me to caution that certainty of resource allocation alone is not sufficient to ensure that services are delivered to our people. This House has an exceedingly important role in being even more vigorous in its oversight role, ensuring that these fiscal flows result in services being delivered to our people. The House has been vigilant in the past in ensuring that funds are spent on programmes that seek to ensure that the poor receive quality services. We expect that this good work will continue so as to ensure that value for money is indeed attained during these leaner fiscal times. More effective and efficient spending by every province and municipality will result, for instance, in no children needing to learn under trees; to clean and cholera-free drinking water delivered to our people and to fast-tracking of access to houses and public transport. This Bill, with the wealth of information it contains, such as the outputs in the frameworks for conditional grants, is but one of the tools we put before this House to exercise its oversight over national departments, including National Treasury, provinces and municipalities.

Highlights of the deliberations of SCOF on the Bill

Chairperson and Honourable Members, I am informed that some of the discussions by the Select Committee on Finance were quite vibrant. Some of the issues raised by those who made representations to the Committee pointed to the following pertinent matters about our budgeting, financial management and performance monitoring system:

- Firstly, and perhaps more importantly, they highlighted the importance of the NCOP in exercising their oversight role.

- Secondly, matters of capacity and quality of spending were highlighted. I am told that Members of the Select Committee raised concerns that insufficient investment in libraries, community and sports facilities should be addressed, as these types of interventions are essential tools in creating a supportive environment for the development of our youth. At the same time, attention needs to be given to putting in place appropriate scholar transport systems that address urban and rural scholar transport needs.

- Thirdly, employment generation programmes will have to be supported in the present economic climate the country finds itself in, hence phase two of the EPWP. I am informed that there was rigorous debate on this matter. The concerns raised by the committee have been noted and the allocations will in future be adjusted to ensure that the programme is also institutionalised in rural municipalities.

- Lastly, the importance of ensuring that more poorly resourced municipalities are appropriately funded was stressed throughout the hearings. As part of the ongoing review of the local government fiscal framework, focus will be on strengthening the own revenue base of metropolitan and other larger urban municipalities, and increasingly targeting transfers to more poorly resourced municipalities. A number of reforms have already been introduced to more appropriately fund poorly resourced municipalities. These include introducing a minimum (R5 million) Municipal Infrastructure Grant allocation and making appropriate adjustments to the local government equitable share formula (revenue raising component). Again, additional resources alone will not address the challenges faced by these smaller and rural municipalities. Steps will have to be taken so that these additional flows to smaller and rural municipalities result into tangible service delivery improvements and are not used only to pay salaries.

The Division of Revenue Bill

The Division of Revenue, as set out in this year's Bill, gives effect to the priorities articulated by President Motlanthe in his State of the Nation Address on February 6, and further elaborated on in the speeches of the Premiers of our provinces.

The budget framework allows us to provide R161 billion in additional spending over the next three years, in comparison to our spending plans from a year earlier. Over the period ahead, government's spending plans are focused on many objectives, including: enhancing the quality of education; improving health care provision, particularly for the poor; reducing infant, child and maternal mortality rates; reducing crime levels and enhancing citizen safety; expanding the built environment to improve public transportation and meet universal access targets in housing, water, electricity and sanitation; and decreasing rural poverty by taking steps to raise rural incomes and improve livelihoods by extending access to land and support for emerging farmers.

The resources provided in this Bill will enable each sphere of government to step up programmes targeted at these priorities.

Of the R161 billion additional resources, national departments will share R101.5 billion (including R50 billion for Eskom), provinces R47.8 billion and municipalities R11.3 billion over the MTEF. Further details on the specific programmes and projects to be implemented in each province and municipality over the MTEF can be found in their 2009 budget statements.

Chairperson, Schedule 1 of the Bill provides a summary of the allocation of funds to the three spheres of government. Of the R738.6 billion budget in 2009/10, national department functions amount to R483.7 billion. This includes debt service costs amounting R55.3 billion and a contingency reserve of R6 billion. Provinces receive R231.1 billion and R23.8 billion is allocated to local government.

Schedules 2 and 3 allocate equitable shares to provinces and municipalities. Schedules 4 through 6 allocate conditional and other grants to provinces and local government. Schedule 7 allocates in-kind transfers to municipalities. Schedule 8 allocates incentives for provinces and municipalities to meet targets with regards to priority government programmes.

Increased allocations for a range of provincial functions

The 2009 MTEF allocations to provinces provide for further strengthening of social services programmes that have a high impact on human development, the quality of life and social transformation.

A substantial share of the additional resources is expected to go to education, ensuring that access and quality are improved. The 2009 Budget extends the no-fee schools policy from the poorest 40 per cent of schools to the poorest 60 per cent; reduces the teacher:learner ratio in the poorest 20 per cent of schools; caters for facilities for learners with disabilities; and extends the coverage of the national school nutrition programme. Provision is also made in the infrastructure grant to provinces to increase classroom space for Grade R learners and upgrade school infrastructure and secure facilities. The installation of libraries and laboratories are also addressed.

Provincial budgets will reinforce the strengthening of the health sector so that South Africans who do not have medical insurance can also enjoy good quality health care. Allocations are set aside to expand the range of vaccines provided to children in order to reduce maternal and child mortality, and combat HIV and Aids and extreme- and multi-drug resistant TB. The hospital revitalisation programme is also prioritised in the period ahead. In addition, provinces are expected to step up their own hospital maintenance budgets.

Our housing budget receives a further R3.7 billion, taking total allocation over the next three years to R44.7 billion. Chairperson, in 2003/04, we spent R4.6 billion on housing. By 2011/12, the end of our present budgeting period, the budget rises to R17.2 billion. Allocations for water, sanitation, electrification and municipal roads all rise in a complementary manner. It is thus very important that this House continue to ask questions around what the returns for this sizable investment are.

Access to public transport has a major impact on the economy and on people's lives, particularly the poor that are mainly reliant on public transport to get to work and education facilities. The need for effective public transport systems is therefore critical in creating a better life for all. Transport related adjustments include the creation of a new conditional grant, namely the public transport operations grant, of R11.5 billion for bus subsidies over the period. Reforms to the current system will include the conversion of existing and interim commuter bus services subsidies with negotiated per kilometre based contracts that are supportive of intermodal efficiencies in public transport.

Chairperson, this budget also provides for provincial social departments to expand social welfare services to meet growing community needs, with a focus on strengthening early childhood development programmes. Land and agrarian reform support programmes are also prioritised in the period ahead, to give people from previously disadvantages backgrounds access to land as well as support to make productive use of such land.

Local Government

Over the next three years, municipalities will receive R181.7 billion (including in-kind-allocations), or an additional R11.3 billion. This includes R22.9 billion for the sharing with metropolitan municipalities of the general fuel levy that will be introduced as the primary replacement of the former RSC levies from April this year. The local government equitable share receives a further R2.5 billion for the delivery of free basic services to all poor households.

Municipal infrastructure related spending is allocated an additional R8 billion over the next three years. This results in total infrastructure transfers to municipalities of just under R58.3 billion over the next three years, increasing to R67.5 billion if infrastructure provided on behalf of municipalities (in-kind transfers) is included. These adjustments are intended to enhance access to water, sanitation, electricity and roads; extend regional bulk infrastructure to support services to the poor; promote municipal initiatives supportive of more efficient use of energy; and support host cities in their preparations for the 2009 Confederations Cup and 2010 FIFA World Cup.

We need to ensure that the intergovernmental grants at our disposal are designed in such a manner as to support optimal outcomes. It has become evident that there is a need to reform the Municipal Infrastructure Grant to appropriately respond to the different demographic, economic, infrastructural and institutional challenges faced by the 283 municipalities in the country. From the 2009 Budget, the Municipal Infrastructure Grant (Cities) will enable cities to more effectively manage, support and account for built environment outcomes by focusing on their entire infrastructure programme performance rather than solely on project outputs. Although smaller, more rural municipalities will continue to account for project outputs, attention will be given to introducing innovations that address capacity and resource deficiencies faced by these municipalities and improve expenditure outcomes.

Finally, allocations for capacity-building total R1.7 billion over the 2009 MTEF. This is further complemented by the *Siyenza Manje* programme (through the DBSA) to develop skills in engineering, planning and financial management within municipalities. In the period ahead Government will take steps to co-ordinate these capacity building initiatives and avoid duplication and contradictions.

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 economic development.

Conclusion

Chairperson, provinces and municipalities continue to play an important role in accelerating growth and job creation, broadening economic participation and reducing poverty.

Taking into account the current economic downturn, it will be exceedingly important in the period ahead to take stronger action in pursuit of efficiency and better targeted expenditure. Expenditure priorities of provinces and municipalities therefore need to focus on more efficient and effective service delivery, protecting the poor, and creating employment.

Chairperson and honourable members, I thank you.