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Introductory remarks to the National Council of Provinces

Finance Minister Mr Pravin Gordhan

8 July 2009

Chairperson of the National Council of Provinces,

Deputy chairperson of the National Council of Provinces,

Honourable members

I am here to present the Appropriation Bill which most of you are familiar with. On February 11 this year the original Bill was tabled with the budget in the National Assembly. Following the general elections in April, it was revived, debated and approved by the National Assembly over the past month. Several technical changes have been made to better align the Bill with the new Cabinet structure announced by President Zuma in May this year. An extensive process has been put in place by the DPSA to give administrative effect to new cabinet portfolios and departmental structures that support ministers responsible for such portfolios. This process is not yet complete. So I present to you the Appropriation Bill as amended by the National Assembly.

Honourable members, you have over the past weeks had the task of engaging in policy debates on the budget votes of all the departments. That is not an easy task; it demands careful consideration. Once you pass the budget, the public relies on their public representatives to ensure that the lives of our people are improved upon and that wastage is eliminated and corruption dealt with effectively. They expect parliament to hold the Executive accountable.

This Appropriation Bill is passed in an uncertain and generally gloomy global context. Recent sentiments are that the green shoots in the global economy are being covered by brown shoots, as indications show that the much anticipated global recovery is as yet some way off. It is now inevitable that 2009 will see a contraction in global economic growth, with signs that the recession will bottom out at the end of the year. Domestically, GDP growth forecasts by the World Bank, OECD and IMF for South Africa for this year range from -1.5 per cent to -2 per cent.

The global economic slowdown has pushed our own economy into recession – our first in 17 years. We have had to relook at our fiscal trajectory, with the impact of the slowdown on our revenue collection for this year being undeniably significant. We recently announced that our revenue collection could be as much as R60 billion below target, if present trends continue. Our spending will therefore exceed revenue this year. However, our prudent fiscal stance in past years have given us the space to increase borrowing to address this shortfall, and ensure that spending plans to sustain economic activity can continue.

What this means is that we have to borrow more to make up the shortfall in revenue. We have to prune unnecessary spending and reprioritise our plans going forward. We must be uncompromising about our approach in attacking wastage and corruption. The space created by the fiscal position we took also taught us that it is vital to ensure that any borrowing is done in a sustainable manner. Borrowing now means paying back later, with interest, and so borrowing more now effectively means that there will be less available to spend in future. Our borrowing requirements must therefore be met in a manner that will not hinder our future growth plans.

Our approach to addressing our borrowing requirements should be ensuring that as much of our borrowing requirements can be met domestically as possible, instead of relying on foreign inflows. This means increasing domestic savings and investment levels. July is known as Savings Month in South Africa, and is aimed at promoting a savings culture in the country. There are positive indications that South Africans are taking this message to heart, as the gross saving rate as a proportion of GDP rose to 17.1 per cent in the first quarter of this year, up from an average of 15.4 per cent in 2008. However, our saving rate remains low by international standards. There is more that can be done to improve this, even in tough economic times. The crisis has highlighted the importance of making responsible decisions for the future.

The slowdown is putting additional pressure on ensuring that value-for-money remains tantamount for all spending decisions. Spending pressures are being felt at all levels of government. Provinces and local municipalities are grappling with lower revenue streams, and the implications this has for spending on priority areas like health, education and so on. Where necessary, spending must be reprioritised so we can spend more on providing services required by our people and less on programmes that can be delayed. Times have changed and our way of doing things must change too.

Let me from the onset clarify that there is no additional funding that the new departments will receive in this main budget. Funds will be transferred from one vote to another in line with the transfer of functions, and where necessary additional resources will be provided to cater for new ministries and for new functions. These transfers and changes will be reflected in October when we table the Adjustments Appropriation Bill. To ensure continuity, departments that were in existence before 10 May 2009 will continue to exist until the re-organisation becomes effective. Yesterday, we tabled an explanatory memorandum which is available for all to read, to assist you to better understand how these changes and the processes will work. This is important so that service delivery continues.

Honourable members, our intergovernmental fiscal system has matured. We have relatively stable budgets and our financial reforms have deepened. Over the past ten years the budgets of provincial and local governments have grown in real terms and in some instances have more then doubled in size.

Great progress has been made on the delivery side. We have improved access to basic services like water, sanitation, refuge and electricity. All service delivery indicators point in the right direction, but what can we say about the quality of these services?

Education outcomes are not what they should be given the level of investment being made in the system. A great chunk of our school infrastructure does not create a conducive learning environment. The health system, particularly the hospitals, is under severe pressure due to management failures. The poor remain marginalised and are located in the periphery of our cities far from economic opportunity. What are the chances of these communities escaping the cycle of poverty?

Honourable members I am sure these things are not new to you. These examples show that government is simply not getting value for money given the enormous investment being made in these different functions.

National Treasury has in the past, and I will ensure that this tradition continues, provided this house with all the information it needs to discharge its responsibility. I now challenge this house to use this information to help us face the service delivery problems head on without any favour or prejudice.

Chairperson, when we tabled the budget we said that we will protect the poor, build capacity for long term growth, sustain employment growth, maintain a stable debt level and address sectoral barriers to growth and investment. The economic outlook has changed since then, but we remain committed to those objectives.

I want to take this opportunity to thank members of the NCOP for their commitment and dedication, and patience for persevering through the long process of considering the Bill. I also want to remind members that there will be many more long hours that lie ahead. In particular, I want to thank the Select Committee on Finance and Appropriation, ably chaired by Mr Charles de Beer for their thorough engagement on the amended Bill.

I thank you