CHECK AGAINST DELIVERY

Budget Vote 7: National Treasury

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Honourable Chairperson

In presenting the National Treasury's Budget Vote for the consideration of the House, allow me to begin with an update on the outcome of the 2014/15 budget. At the conclusion of the fiscal year, tax revenue was about R7.4 billion higher than the February estimate. We now estimate consolidated revenue for 2014/15 to be R1 102 billion, with the budget balance about R137 billion, or 3.5 per cent of GDP, R15 billion less than the February estimate.

The South African Revenue Service continues to do sterling work in raising the resources that are required for the delivery public services. However, economic growth remains lacklustre. We cannot continue to expand service delivery on tax collections alone. Stronger economic performance has to be the foundation of our development and better public services.

So it is right to emphasise that the National Development Plan sets the goals and provides the analysis for our medium term strategic framework, which is given practical effect in the budgets and plans of every department and public entity.

But it is not just what we do as government that counts in implementing the NDP. Development is fundamentally about broadening the participation in the economy, opening up opportunities for trade and social mobility and mobilisation of private investment. Much of the Treasury's work is focused on these larger objectives.

So, for example, Honourable Members:

- We are strengthening regulation and oversight of our banking and financial services sector, on the one hand to ensure that our financial institutions are well governed and on the other hand to ensure that customers are treated fairly.
- We have introduced tax incentives aimed at encouraging investment and technology enhancements, and at expanding employment, especially of young work-seekers.
- Through our City Support Programme, we are working with metropolitan councils to accelerate housing and public transport investment, promote more efficient urban landscapes and strengthen urban economic development.
- The Municipal Finance Improvement Programme contributes to addressing financial management challenges in many of our municipalities.
- We have expanded the capital base of both the Development Bank of Southern Africa and the Land Bank, to enhance their capacity to partner with other institutions in financing infrastructure investment and agricultural development.
- The Jobs Fund has launched its fifth Call for Proposals, focused on partnering with businesses and non-governmental organisations involved in agricultural development and support for emerging farmers.
- The Treasury continues to work with other departments on a wide range of economic development initiatives:
    - With the Department of Trade and Industry on manufacturing competitiveness enhancement,
    - With the Department of Telecommunications and Postal Services on investment in broadband communications,
    - With the Departments of Agriculture, Forestry and Fisheries and of Rural Development and Land Reform on support for agricultural investment and employment,
    - With the Department of Transport on moving people and goods more efficiently,
    - With the Department of Human Settlements on how to partner with banks in expanding housing investment and finance,

- With the Department of Energy on bringing independent power producers into the electricity network and addressing Eskom’s financing requirements.

These are just some examples. Implementing the NDP involves a very wide range of activities. Honourable Members, we need to do more to reinforce partnerships with the private sector and all stakeholders in building a more inclusive economy. But as the NDP emphasises, these activities need to be coordinated within a sustainable, long-term framework but also for broader participation and a more equal distribution of opportunities.

Economic outlook

Allow me to comment briefly on the economic outlook, Honourable Chairperson.

The National Treasury forecast for economic growth in 2015 remains unchanged at 2 per cent. This is partly a consequence of the sluggish global economic recovery. It is also a consequence of domestic constraints, including the continuing shortfall in our electricity generation capacity. Subdued business confidence therefore continues to hold back investment and growth. The Kagiso Purchasing Managers’ Index recently declined to 45.4, which is its lowest level in 11 months, indicating the vulnerable state of our manufacturing sector.

While the low oil prices are providing support to our economy, the fall in the prices of our export commodities such as platinum, coal, iron ore and gold is putting pressure on our mining sector and related industries. This reduces the profitability of investments and limits the growth and employment potential of the sector.

Over the period ahead we are likely to see some upward pressure on inflation, partly because of a reduced maize harvest, higher electricity prices and the weaker exchange rate.

These are reminders that we must remain focused on the critical constraints holding back our economic progress: electricity supply, administrative capacity, especially at the local level, skills and access to globally competitive technology, transport and communication networks and the effectiveness of our labour relations institutions.

The NDP also emphasises our links with the rest of Africa. We have been reminded in recent weeks of how important cross-border linkages are to millions of vulnerable people, both in our own communities and across the Mediterranean. There are many aspects to these challenges, which we have to address in our social development and employment strategies and in development partnerships with our neighbours and the international community. Our linkages with other African countries are growing, including investment by South African companies abroad which increases job creation both at home and elsewhere in Africa.

National Treasury Strategic Plan and APP

Honourable Chairperson, allow me to draw the attention of the House to the National Treasury's central organisational goals for the next five years, as set out in the Strategic Plan which was tabled last month.

These include:

1. Promoting economic policy coherence around the objectives of growth and jobs
2. Addressing risks on the public sector balance sheet
3. Executing a credible budget process that allocates resources sustainably to policy priorities, and is in line with spending plans
4. Exercising public finance management oversight responsibilities, including capacity building, that delivers value for money
5. Making the financial sector serve South Africa better
6. Building a happy and effective institution that is a centre of excellence, and
7. Implementing a strategic communications and outreach programme that addresses stakeholders.

Our Strategic Plan notes three critical areas in which capacity is being enhanced within the Treasury over the period ahead:

- A new unit will be created to focus on analysis of financial market conduct, in line with the Twin Peaks regulatory framework,
- Within the Office of the Accountant-General, dedicated capacity is being built to oversee and implement the Integrated Financial Management System, in partnership with the Department of Public Service and Administration and the State Information Technology Agency, and
- Following establishment of the Office the Chief Procurement Officer, centralised coordination of procurement in government is being strengthened.

Our Strategic Plan also draws attention to the establishment of the Government Technical Advisory Centre as a public finance advisory and support initiative. GTAC works with other departments, provinces and municipalities on a wide range of organisational development and programme management activities, including support for public-private partnerships, strengthening of operational capacity and learning networks focused on project management and local economic development. Administration of the Jobs Fund has also now been consolidated into GTAC.

Details of the Treasury's programmes, activities, targets and performance indicators are set out in the Annual Performance Plan. The Departmental establishment for the current year comprises 1 153 posts. The National Treasury vote amounts to R27.0 billion this year, of which compensation of employees is R725 million. The Treasury also has the responsibility for the provincial equitable share and debt service direct charges, which amount to R382.7 billion and R126.4 billion respectively.

Time does not permit me to deal with all these plans and programmes in detail, Honourable Chairperson. But I will highlight a few key issues.

Limpopo intervention

A notable turning point has been achieved in the financial position of Limpopo Province. An intervention under the direction of the Ministry of Finance has been in progress since 2011, in terms of section 100 (1) (b) of the Constitution. This was necessitated by a precarious fiscal situation, including the province’s inability to finance a bank overdraft of R1.7 billion in December 2011 and accumulated unauthorised expenditure and departmental debts of R2.7 billion. Large departments such as Education and Health had been overspending their budgets continuously since 2007/08, and the number of unpaid invoices from service providers had reached over R2 billion.

As we speak, executive and accounting authority has been handed back to the provincial government and national government administrators are no longer in the province but they continue to issue directives under Section 100 (1) (a) of the Constitution.

Municipal debt to Eskom

Our more recent intervention to address municipal debt to Eskom is similarly achieving positive results.

Equitable share transfers were withheld this year in respect of 59 municipalities with long-standing arrear obligations to Eskom. In 20 municipalities, agreements have now been reached to enable the equitable share funds to be released. Discussions are in progress with the remaining municipal councils, with a view of resolving outstanding matters before the end of the municipal financial year on 30 June this year.

City Support Programme and Municipal Finance

Cities play a key role in driving economic growth and providing people with access to services and opportunities. To realise these benefits, cities must grow in ways that reverse the pattern of urban sprawl that sees new communities (and especially poor communities) located far from central business districts. It also requires substantial investment in the urban infrastructure required to provide services and support growth. Planning these investments is a formidable task for cities and so we have introduced the City Support Programme to assist cities to plan and implement these investments.

This programme already coordinates and supports the process through which cities identify areas for strategic investment in their Built Environment Performance Plans. Detailed planning for individual projects is then supported through a project preparation facility managed at the Development Bank of Southern Africa. This support helps cities to develop implementation-ready plans for developments that will change the face of our cities and support long term growth and development.

National Treasury is also working with the Department of Cooperative Governance to support the capacity of our cities to raise the funding needed and to attract private investment for urban infrastructure expansions.

In our meeting with Minister Gordhan and the Executive Mayors of the metros, we re-affirmed our shared commitment to ongoing improvements to governance and service delivery in metropolitan areas, so that population growth in our cities can provide momentum to reconstructing more inclusive, productive and sustainable urban environments. Our city leaders have committed to focussing their attention on the security of supply of critical urban services through enhanced maintenance and renewal of critical infrastructure, and to reorient their expenditure priorities to contain growth in personnel costs, reduce waste and obtain clean audits. Building on their own built environment plans, they will also accelerate the preparation of a series of well-located, catalytic land development projects that will be implemented in partnership with the private sector.

African Bank

I can also report that good progress has been made towards establishing a new African Bank. Yesterday, the National Assembly passed the Banks Amendment Bill which will provide the legal authority required to transfer identified “good assets” to a new bank, while enabling the curator to proceed with winding up of the remaining business.

In addition, a new Chief Executive Officer has been appointed, bringing appropriate expertise and experience to the leadership of a revitalised bank.

In its deliberations on this matter, the House has again highlighted concerns with unsecured lending and the pressures on many households associated with inappropriate and expensive credit. Cabinet has already agreed to a range of measures in response to this issue, including new regulations on reckless lending. In taking this forward, we have had the advantage of constructive support of the Ministers of Justice and Trade and Industry.

State-owned Companies

In addition to exercising general oversight of state-owned companies, the National Treasury has specific responsibilities relating to the Development Bank of Southern Africa, the Land Bank and South African Airways.

The DBSA aims to disburse R17.8 billion in 2015/16, rising to R26.4 billion in 2017/18, contributing to municipal infrastructure investment, public-private partnerships and regional development in the energy, transport, water, communication, health and education sectors. Of special importance is the Bank's support for addressing infrastructure backlogs in our cities, and deepening of the municipal debt market in order to facilitate greater private investment in urban renewal. The DBSA also coordinates implementation of the rural infrastructure strategic programme of the National Infrastructure Plan.

This year will see the Land Bank undergo an organisational review aimed at strengthening its role in agriculture financing. It plans to disburse over R2.2 billion in new development loans over the next three years, while supporting better coordination between agriculture initiatives, rural development and land reform.

In respect of South African Airways, we are now seeing the benefits in cost-reductions and improved operational efficiencies associated with the Board's 90-day Action Plan undertaken in the first three months of this year. This provides a platform for refining the 2013 Long Term Turnaround Strategy. A strong working relationship has been established between the airline and the National Treasury and we are confident that we will see further improvements in the airline's financial position.

New Development Bank

Honourable Chairperson, I am delighted to report that there is good progress in establishing the BRICS-led New Development Bank. This month, the Bank will announce its pre-management group comprising a President for the Bank from India and four Vice-Presidents from the other BRICS member countries. In the interim, an Interim Board of Trustees has been appointed to oversee the operationalisation of the Bank. With respect to the ratification process, the Agreements that we signed last year at the BRICS Summit in Fortaleza on the New Development Bank and the Contingent Reserve Arrangement are currently in Parliament. Once they are ratified, South Africa will be able to participate fully in these new initiatives. I hope that Parliament will be able to ratify the agreements before the end of May, and that the Bank will be ready for business in time of the BRICS Summit to take place in Russia in July.

Economic competitiveness

As emphasised in the Budget Review this year, the Treasury works closely with several other departments in promoting the medium term strategic framework objectives associated with economic growth, employment creation and infrastructure network investments. Tax measures to support industrial investment amount to some R19 billion a year.

Economic competitiveness is also advanced through various spending programmes, including the manufacturing competitiveness enhancement programme of the Department of Trade and Industry. Recent press reports have drawn attention to the growth in applications for this support. The Treasury will work with colleagues in

Trade and Industry to expedite implementation of the incentive programme and determine its cash-flow requirements, while ensuring value for money in these targeted appropriations.

Financial management reform

As part of our continuing strengthening of public finance management, revised Treasury Regulations will be published by 31 July 2015 to take effect on 1 April 2016. This follows an extensive process of consultation with departments and entities. The new regulations contain a number of important reforms in areas such as procurement and governance, areas in which government's performance has not been completely up to standard. A period of time will be allowed for departments and entities to implement the new reforms to ensure a smooth transition where required. Linked to the new Treasury Regulations are several measures to strengthen financial management. These include updated cost containment measures that will be published by 1 July which will introduce punitive measures where compliance is not satisfactory.

Public sector procurement will remain under the spotlight for the period ahead, not just because we need to contain costs but also because it contributes to both black economic empowerment and our industrial development objectives. The interaction between these aspects of our supply chain management policy is complex. The complexity, in turn, contributes to opportunities for corruption or leakages. So we need to step up our vigilance, and continue to enhance the regulations and systems through which procurement is managed. We have taken the first steps towards an e-procurement system and improved central coordination of supply chain management. Greater transparency and accountability will flow from these reforms, over time.

Public service wage negotiations

I can advise the House, furthermore, that progress is being made in the current round of public service salary negotiations. We need a settlement that is fair and reasonable, and that takes into account the overall position of the fiscus and the broader economy, and an appropriate balance between remuneration and employment growth.

Social security and national health insurance

Honourable Chairperson, I should also comment briefly on the constructive discussions which were held with business and organised labour under the auspices of NEDLAC regarding the February UIF relief proposal. While a UIF contribution reduction would provide temporary advantages to businesses and workers, it was agreed that a more comprehensive approach would be better, taking into account the surplus that has accrued in the Unemployment Insurance Fund, the financial position of other dedicated funds such as the Road Accident Fund and the broader challenges of social security reform. The decision not to proceed with the UIF relief proposal means that the consolidated deficit for 2015/16 will be somewhat lower than projected in February.

As indicated in the February budget speech, the interdepartmental work on social security reform will shortly be published. Our work on financial aspects of national health insurance is also ready for publication. These are important and challenging areas of social and fiscal policy, in which we look forward to active engagement with Parliamentary committees.

Conclusion

Honourable Chairperson, allow me to record my appreciation to the Standing Committee on Finance for its constructive engagement on the strategic and annual performance plans of the National Treasury and the South African Revenue Service, and its support for the entities of the Finance Ministry. Our financial and fiscal architecture is at the centre of our capacity to implement the National Development Plan, to accelerate growth and development and to transform our economy.

I thank you.