2016 Budget Vote: National Treasury

Opening Address

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Minister of Finance

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Honourable Members

In tabling the budget vote for the National Treasury for consideration of the House, I need to express my appreciation to the Chairs and members of the Finance Committees who have engaged constructively with the challenges we face.

The world economy remains a difficult and uncertain environment. From trade agreements to climate change negotiations to financial stability arrangements to international tax cooperation, progress is too slow and the gaps between rich and poor nations are not narrowing rapidly enough.

Making the right choices in these circumstances requires tough and resolute leadership, and an honest engagement on many issues – growth, employment trends, the distribution of wealth and opportunities, market concentration, export opportunities, regional development and the quality and reach of our public services.

The programmes and activities of the National Treasury and the entities that comprise the finance family are set out in our strategic and performance plans for the period ahead.

Sound management of our public finances is a cornerstone of our development plans. The institutional strength of the National Treasury, which is rooted in the constitution, is therefore a national asset, in which we can all take pride. Monetary policy remains under excellent stewardship of the Reserve Bank, and macroeconomic coordination is managed through ongoing interaction between the finance family institutions and other policy departments.

I know that Members of the House will want to join me in expressing appreciation to Director-General Lungisa Fuzile for his leadership of the Treasury, and for agreeing to serve another two years in this position.

I am pleased to confirm that the revenue and expenditure outcomes for 2015/16 were in line with the estimates presented to the House in February, bringing the budget deficit for last year to 3.9 per cent of GDP. Over the next three years the deficit will be reduced to 2.4 per cent, stabilising debt as a percentage of GDP and confirming the resilience of our public finances.

Stronger economic growth remains our most pressing challenge. By improving investment and growth in our economy, we will be able to raise revenue sustainably and expand public services.

Our growth performance has rightly come under the spotlight in the discussion of several budget votes over the past weeks. In portfolio committees and in public discussion, the same question has come up in so many different contexts: How do we build more houses, how do improve safety and security, how do we strengthen food security and meet household water needs, how do we improve the quality of health and education services – if we are not able to expand budget allocations, if there is no money for new projects and new initiatives?

The answer is not just that we need faster growth.

We also need a growth strategy that is more inclusive, that creates work opportunities for all, that opens trade and business opportunities across a broader landscape. We need to take advantage of the technologies and innovation that enhance industrial productivity and reduce the costs of communication and learning.

The Economy

When we tabled the national budget in February, we indicated that the South African economy would grow at 0.9 per cent in 2016, recovering to 1.7 per cent in 2017. Since then, several observers have lowered their growth expectations even further. We have also seen an increase in consumer price inflation, partly because of the impact of drought conditions on food prices.

We remain confident that our fiscal targets for the period ahead will be met.

Yet it is clear that bold steps need to be taken to address structural barriers to faster growth. Our efforts have to be focused beyond this year's growth recovery. We have to implement the reforms and measures needed to achieve the long-term growth and employment creation envisaged in our National Development Plan.

This encompasses national and sectoral policies and programmes, and initiatives of our cities, provinces and municipalities – and engagement with social partners nationally, regionally and locally.

There is progress on several fronts:

- The power supply constraint has eased considerably, as Eskom adds new capacity to the grid and renewable energy projects come on stream. Coal IPP and gas projects will get under way shortly.
- The New Development Bank is now operational, and has announced its inaugural projects. Eskom is the first South African entity to receive funding from the Bank, with a loan of US$180 million for transmission lines to connect around 670MW of renewable energy to the grid.
- Work is in progress on jointly financed infrastructure projects to support Southern African growth and trade.
- We continue to benefit from rising tourism numbers and effective marketing of South African fruit and wine, despite difficult global trading conditions.
- Invest SA and initiatives of various government departments are addressing regulatory barriers to investment.
- Urbanisation is a strong driver of social change, improved living conditions and development. To strengthen urban growth potential means we must undo the fragmented, low density spatial legacy of apartheid. Precinct investment plans have been finalised in 18 large townships, and over 352 investment projects have been funded with a value of over R4.6 billion. Investment in our cities is central to building a more diversified, modern productive economy.

- Discussions at Nedlac are proceeding to introduce a national minimum wage and improve the framework for resolution of workplace disputes.

In the second half of this year, Honourable Speaker, we expect to see an improvement in the growth numbers together with a moderation in consumer price inflation. The lingering effects of the drought may still be with us, but as the energy constraint eases and household debt moderates we will see a steady recovery in confidence and investment.

Budget Reform and Expenditure Reviews

Honourable Speaker, in the immediate aftermath of the financial crisis in 2008, the government accommodated the economic strain through allowing wider budget deficits. This room to manoeuvre has shrunk, bringing the need for consolidation to ensure fiscal and debt sustainability.

In the current constrained environment, we have taken additional steps to improve spending efficiency.

The expenditure ceiling that we have set ourselves in the last few years requires efficiency in the management of public finances whilst ensuring that there is value for money in all our spending. This calls for in-depth analysis of what we are spending money on.

In collaboration with the Department of Planning, Monitoring and Evaluation, a series of programmatic expenditure reviews has been undertaken, contributing to better understanding in wide range of spending areas, from housing investment to student financial aid to land restitution. This work contributes to the annual inter-departmental consultations of the medium term expenditure planning process. There is also public interest in these reviews, and I propose to publish summary findings in due course.

In the period ahead, we will look closely at government accommodation leases and remuneration trends in central, administrative and policy departments and in public entities.

High on the agenda now, is the review of government incentives. We are undertaking these reviews to improve our understanding of the impact and effectiveness of both tax and spending incentives, so that our support for businesses can be better targeted and its impact on growth, jobs and investment optimised.

Also under review is our approach to capital budgeting and major infrastructure projects that require multi-year commitments. We need to ensure that major projects are properly costed and evaluated before decisions are taken, that both capital and operating costs are affordable and that they form part of coherent and agreed regional and sectoral plans.

Procurement Reform

The Treasury remains firmly focused, Honourable Speaker, on value for money and accountability in supply chain management. Procurement of goods, services and works over the next three years will amount to R1.5 trillion across all spheres of government. This is an enormous amount of money. Wisely and efficiently spent, it can be a great force for good.

It can ensure that those in need receive services, that infrastructure like roads and ports is built and maintained, that schools are well-equipped and that health services are widely available. It can also spread wealth to hard-working entrepreneurs who successfully tender for government contracts and, in doing so, create jobs. Even those not directly involved in public procurement can benefit, as suppliers to government source their supplies and materials from manufacturers, farmers and many others.

The Office of the Chief Procurement Officer has put in place measures to accelerate the modernisation of the SCM system and enforce greater discipline and effective controls. I plan to table a single public procurement bill addressing all the legislative and regulatory requirements of the system, and to consult on this by August 2016. The Public Procurement Bill will ensure that the SCM system is fair, equitable, transparent, competitive, and cost-effective, in line with section 217 of the Constitution.

Measures to avoid unnecessary purchases, reduce waste and to contain costs continue to be prioritised.

These include:

- Reviews of the top 100 contracts, which will lead to an estimated saving of R1.4 billion a year;
- Review of the government travel regime and the introduction of a national travel policy for government, which will save R1 billion a year;
- Review of mobile and fixed telecommunication services, with potential savings of R500 million a year;
- Renegotiation of government leases aimed at savings of R2.8 billion over the next three years;
- Savings of R650 million a year through the phasing in of the eTender Portal, and R750 million a year through the Central Supplier Database.

By 2018/19 the OCPO plans to register savings in government procurement of R25 billion a year. In addition:

- We will review SOE procurement practices, processes and contracts. Their procurement plans are also subject to our transparency and disclosure reforms, and will be published on the eTender portal.

- The OCPO is also targeting the non-payment of suppliers by government departments. In some cases suppliers are owed for over 3 years. This irresponsible practice must stop immediately.

- The OCPO has also reviewed the PPPFA Regulations to accommodate support for SMMEs, township and rural businesses, youth and women owned businesses, and localisation. The revised Regulations will take effect during June 2016 and will enhance opportunities for SMMEs to access government business.

- Eliminating barriers to do business with the state, reducing red tape and improving the ease of doing business with government are essential reforms. The Central Supplier Database, the eTender Portal, gCommerce and eProcurement will result in reduced administrative burdens for both government and business while enhancing the monitoring of prices and procurement patterns.

Financing provinces and municipalities

Honourable Speaker, our Constitution requires an equitable division of nationally collected revenue between national, provincial and local government. Functions of provinces and municipalities include critical redistributive and basic services, such as education, health, social development, water and sanitation, and electricity.

We have made significant progress in implementing the Joint Action Plan agreed to earlier this year with the Provincial MECs for Finance.

- A key element of this Plan is the control of personnel expenditure. Provincial treasuries have agreed to implement controls of personnel headcounts and remuneration.

- Cooperation between Offices of the Premiers and Provincial Treasuries has been strengthened as part of this reform.
- Work is in progress to clarify the role of provincial public entities, improve and standardise their reporting requirements and address governance and financial management shortcomings.
- Guidelines have been developed to assist provinces with improving revenue collection. Provincial workshops are in progress to ensure a smooth transition to the new approach.
- Improvements have also been made to the reporting model for provincial infrastructure projects. This will also improve transparency and timeous reporting and will provide stakeholders with real-time information on project status, supporting accountability to Parliament and provincial legislatures on performance against targets and plans.

The provision and maintenance of municipal infrastructure is a key concern for all South Africans. Over a three year period, the Infrastructure Skills Development Grant (ISDG) has enrolled 435 graduates across 16 participating municipalities. To date, 124 graduates have successfully completed training and many have moved on to public sector employment.

The National Treasury has strengthened its collaboration with provincial treasuries in implementing a second phase of the Municipal Finance Improvement Programme, including support for provincial oversight of local and district municipalities.

The withholding of local government equitable share allocations in March 2015 was a bold step taken by National Treasury after persistent failures by municipalities to honour debts owed to Eskom, the Water Boards and other creditors delivering services to municipalities.

This action followed years of engagements and warnings to municipalities to pay for services provided. One of the key lessons of this experience is that poor municipal revenue management is at the core of the problem. In addition, overlapping functions between local and district municipalities interfere with development planning and service delivery. Addressing these challenges will be key priorities of the councils to be elected later this year.

The Treasury will soon launch an online portal that gives citizens direct access to municipal data. This is a significant step forward in broadening accountability over basic services – it invites all citizens to participate in ensuring that services are delivered as they should be.

Revenue issues

Allow me again, Honourable Speaker, to pay tribute to the management and staff of the South African Revenue Service and to all taxpayers whose contributions make the delivery of public services possible.

Although gross tax revenue in 2015/16 was R11.3 billion lower than the original 2015 Budget estimate, it met the 2016 revised estimate

Substantial efforts are under way to protect the corporate income tax base. This includes renewed and additional efforts to improve compliance with acceptable transfer pricing rules and procedures. At the same time the international agreements for the automatic exchange of information and the common reporting standards will help to limit tax avoidance and tax evasion. The implementation in future of country by country reporting by multinational companies will greatly assist in ascertaining whether such companies are contributing their fair share of taxes in South Africa, in line with their levels of activity here.

Financial Sector Regulatory Reforms

Honourable Members, the Financial Sector Regulation Bill was tabled in Parliament in October last year. It will result in the implementation of a comprehensive system for regulating the financial sector, prioritising the fair treatment of customers and the general stability of the financial system.

The Financial Services Board continues to do excellent work in supervising the non-banking financial industry, and in protecting the public from improper advice, abuses and mismanagement of funds. This year, the Insurance Laws Bill, 2016 will be considered by Parliament as a further step in applying best practice to the supervision of the financial sector.

The global financial crisis has taught us that a well regulated and strong financial system is a key foundation of any economy. It also reduces the likelihood of claims on tax-payer funds to bail out failing banks and other financial institutions. The envisaged twin peaks regulatory framework will result in the establishment of two authorities – a Prudential Authority within the South African Reserve Bank to supervise the safety and soundness of banks, insurance companies and other financial institutions; and the Financial Sector Conduct Authority (FSCA), to supervise how financial services firms conduct their business and treat customers. Once implemented, the framework will contribute to lower charges for financial services and better consumer protection.

The Financial Intelligence Centre Bill, 2016 which was tabled in Parliament last year seeks to make our regulatory framework on combating financial crime stronger. South Africa already criminalises money laundering, corruption and terror financing, and requires financial institutions to understand their clients to protect themselves from being misused in concealing the proceeds of financial crime.

International cooperation is steadily eroding the scope for illicit financial flows and the evasion of tax obligations through hidden offshore accounts.

Our financial institutions operate within a strict and transparent regulatory control. They may not discriminate unfairly between clients or prospective clients. Aggrieved clients have recourse to dispute resolution mechanisms and the courts.

Stabilisation, Consolidation and Governance of SOCs

An inter-ministerial committee (IMC), chaired by the Deputy President, is overseeing the implementation of these reforms. The Treasury is assisting in developing a framework for private sector participation and for explicitly costing the developmental mandates of SOCs. Good progress has been made in these assignments, and proposals are under discussion in the IMC.

As part of this reform process, work is in progress on a holistic resolution of the governance and financial issues affecting our state-owned airlines. A Terms of Reference for advice on the realignment of these enterprises and an appropriate group corporate structure has been developed.

Work is also in progress on the rationalisation of housing finance entities and the role of provincial development finance institutions. It is already clear that there is considerable potential for more effective use of financial resources and state capacity through more transparent mandates, consolidation of balance-sheets and disciplined financial management of state assets.

Conclusion

Allow me to conclude, Honourable Speaker, with a reminder that inclusive growth is a responsibility we share together – government, business, organised labour and civil society. All South Africans stand to gain from our progress in building strong institutions, under competent and principled leadership, motivated by integrity and the national interest.

The Treasury contributes to these efforts in several ways:

- Coordination with social partners and other departments in implementing the National Development Plan,
- Support for economically integrated cities and greater investment in urban infrastructure,
- Measures to strengthen financial management and make public sector procurement more efficient,
- Improved regulation of the financial sector,
- Cooperation with multilateral institutions and partner countries to enhance infrastructure and development financing, and
- Working with state-owned companies and our development finance institutions to strengthen corporate governance and improve coordination of investment and development efforts.

In commending the National Treasury vote to the House for approval, I know that I speak for the Department and all the finance family institutions in saying that we are committed to work tirelessly, and passionately to build a more prosperous, inclusive economy, supported by fair and effective public services.