



## 2018 Budget Vote: National Treasury

Opening Address

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Minister of Finance

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### ***INTRODUCTION***

Honourable Members

It is my honour to present the Budget Vote for National Treasury. National Treasury is the custodian of the long-term prosperity of South Africa, a mandate it derives from none other than the supreme law of the land, the Constitution. This mandate is further fleshed out in the Public Finance Management Act, the PFMA.

The Constitution calls for the establishment of a national treasury to ensure:

- Transparency;
- Accountability; and
- Sound financial controls in the management of the country's public finance.

The PFMA expands on this, mandating National Treasury to:

- Promote national government's fiscal policy and the coordination of macroeconomic policy;
- Ensure the stability and soundness of the financial system and financial services;
- Coordinate intergovernmental and fiscal relations;

- Manage the budget preparation process; and
- Enforce transparency and effective management of the revenue and expenditure, assets and liabilities, public entities, and constitutional institutions.

### ***COMMITTED TO INCLUSIVE GROWTH, INVESTMENT AND TRANSFORMATION***

President Ramaphosa in his State of the Nation Address (SONA) called on us all to encourage significant new investment in our economy to create jobs, reduce poverty and inequality and transform the economy.

The best way we can respond to President Ramaphosa's call is to remain true to our mandate, and to do so without fear, favour or prejudice. Our single most important contribution to a more prosperous South Africa is to ensure fiscal sustainability, which together with sound monetary policy implemented by an independent central bank, forms the bedrock of confidence in our economy, allowing our citizens, businesses and households to make plans for and invest in the future.

We must strengthen our fiscal resilience. While faster economic growth will ease the revenue pressures, we must not waver in our commitment to continue with spending reforms across all spheres of Government. We must pursue with a greater sense of urgency the governance and financial reforms aimed at restoring to financial health our state-owned entities. We need to rebuild confidence and trust that Government and our public entities exist to serve the people of South Africa, and that they strive to do so effectively, efficiently and honestly.

National Treasury is supporting transformation through the Preferential Procurement Policy Framework Act (PPPFA) and its regulations, which increases aggregate demand of locally manufactured products, enhances competitiveness in the domestic market, and supports growth and job creation through the use of local content designation, transversal contracts and set asides for SMMEs.

We are hosting the financial sector summit this year to boost transformation in the sector and its role in supporting transformation in the economy more broadly.

## **RAISING FISCAL RESILIENCE TO SUPPORT GROWTH**

The budget deficit for 2017/18 is expected to be marginally narrower than what was projected when we tabled the Budget in February. Lower-than-expected spending outcomes mean that the expenditure ceiling has not been breached, despite R16.2 billion of additions to non-interest spending in 2017/18. Government remains committed to the central adjustments to the fiscal framework announced in February this year.

The outlook for tax revenue collection remains unchanged for now. The revenue measures, including the increase in VAT from 14% to 15%, introduced in February have now taken effect. May I take this opportunity to thank fellow South Africans who have continued to pay their taxes. I am also grateful to the staff of the South African Revenue Service (SARS) and the Acting Commissioner for all their hard work during the most trying of times.

Any tax revenue collection agency must, like Caesar's wife, be above suspicion. The next major step therefore towards strengthening public finances is to restore public confidence in SARS. In this regard, President Ramaphosa is finalising the appointment of the Commission of Inquiry into SARS.

### **VAT**

We have established an independent panel of experts to review the list of 19 zero-rated food products and consider how best for government to mitigate the impact of the VAT increase on poor and indigent households. I have also requested the Panel to consider whether key poverty-alleviating expenditure programmes like the School Nutrition Programme might be better at supporting the vulnerable. The Panel is expected to submit an initial set of proposals to me by the end of June this year. We will continue to engage all relevant stakeholders to ensure that the VAT increase will not have an adverse impact on poor and indigent households.

## **PUBLIC FINANCES OF NATIONAL GOVERNMENT: THE COMPOSITION OF SPEND**

Government must deliver more services with less. In this regard, the Office of the Chief Procurement Officer is assisting by targeting efforts in strategic procurement in two of the most critical areas for service delivery: health and education.

Belt-tightening is difficult, and it is a challenge for all countries to safeguard investment spending, while keeping compensation budgets in check.

In response to this, Cabinet directed National Treasury, the Presidential Infrastructure Coordinating Committee secretariat and the Department of Planning, Monitoring and Evaluation to jointly arrange/establish the Budget Facility for Infrastructure (BFI).

This facility is intended to improve the quality of planning and management of large infrastructure projects. As part of this reform, government is considering mechanisms for bringing in private sector finance. The 2nd Phase of the BFI has been launched and projects flowing from the BFI will be considered as part of the 2019/20 budget process. The February Budget set aside R6 billion for drought relief and public infrastructure – some of which may be allocated towards projects that have complied with BFI requirements.

National Treasury continues to monitor departments' implementation of Human Resource Budget Plans so that the expenditure ceilings on compensation budgets, set out in the 2018 Budget, are adhered to. The wage negotiations are being finalized. Moving forward we will have to ensure that the spending choices we make continue to contribute to the improvement of the lives of South Africans.

### ***LOCAL AND PROVINCIAL GOVERNMENT FINANCES***

National Treasury allocates grants and provides oversight of the financial management of both municipalities and provinces, who are the coal face of service delivery for South African households and businesses.

Here, our primary focus has been on ensuring sound financial management, and supporting efforts to improve service delivery, given existing weaknesses in capacity and governance failures.

For example, National and Provincial Treasuries have been coordinating a series of expenditure reviews through the Government Technical Advisory Centre to help Provincial Finance MECs pinpoint areas for improved efficiency. These results can now be used by departments to improve performance of various programmes by line departments, particularly in health.

A new grant will be introduced in the 2019 MTEF to support turnaround strategies in municipalities which have been poor performers but who demonstrate a commitment to implementing the necessary reforms to turn themselves around.

Since our cities finance most of their budgets from their own revenue, national government is committed to further strengthening their ability to raise additional funding. This is a precondition if they are to be able to invest in the infrastructure needed to overcome the spatial inequalities of apartheid and ensure true transformation. This year we will table an amendment to the Municipal Fiscal Powers and Functions Act to allow for improved regulation of development charges. We are also reviewing our policy on municipal borrowing, to support responsible borrowing for long-term infrastructure investment by credit-worthy municipalities.

Financial solutions alone cannot, however, compensate for those municipal councils that allow corruption, mismanagement and non-delivery.

To ensure better accountability and strengthen financial oversight of municipalities, National Treasury and Department of Cooperative Governance and Traditional Affairs have signed a Memorandum of Understanding to clarify their roles and responsibilities. Monitoring, oversight, support and reporting on audit outcomes for municipalities now resides with National and Provincial Treasuries. Efforts to raise capacity and ensure legal alignment are being undertaken.

## ***REINFORCING ETHICAL BEHAVIOUR AND ETHICAL LEADERSHIP.***

As a guardian of the national purse, National Treasury has a critical role to play in enforcing ethical behaviour. National Treasury will therefore continue to support the Commission of Inquiry into State Capture in its endeavour to determine the extent and nature of the plundering of state resources, and to contribute to rebuilding trust in state owned entities.

We provide advisory services to law enforcement agencies such as the National Prosecuting Authority (NPA) and the South African Police Service in the investigation of complex commercial crime cases. Our world-class financial sector requires that South Africa remains at the forefront of fighting financing crime. The Financial Intelligence Centre continues to implement key reforms to combat illicit financial flows, thanks to the measures introduced in the FIC Amendment Act.

## **PUBLIC PROCUREMENT**

Government procurement of goods and services stood at approximately R900 billion in 2017/18. The Office of the Chief Procurement Officer (OCPO) ensures that not only is this expenditure directed to support empowerment, but that it is spent legally. The implementation of the electronic central supplier database has made it possible to identify and expose state employees who are conducting business with government. We urge organs of state to utilise the central supplier database to verify whether any of their state employees are involved in tenders prior to making awards.

To strengthen the sanction of companies that break the law, National Treasury has increased collaboration with law enforcement agencies. This includes collaboration with competition authorities to ensure that any companies found guilty of anti-competitive practices are restricted from doing business with government.

The OCPO will continue to use technological innovations to modernise supply chain management, raise transparency and reduce the costs of doing business with the state.

It also continues to find improvements in our existing guidelines and practices. The management of deviations and expansions is being reviewed to eliminate so-called

“evergreen contracts” and reduce barriers to entry for new firms. National Treasury is currently rolling out the strategic procurement framework that provides for a differentiated procurement approach for different commodities including infrastructure procurement and other cost containment measures.

National Treasury is monitoring late payments and expects Executive Authorities to take appropriate action.

### **UPDATE ON THE INTEGRATED FINANCIAL MANAGEMENT SYSTEMS (IFMS)**

Efforts to replace aging and fragmented Financial, Supply Chain and Human Resource management systems include the (IFMS) programme, which is jointly delivered by the National Treasury, the Department of Public Service and Administration and the State Information Technology Agency. Recently National Treasury has had to address challenges in the management and administration of IFMS, transparently and promptly taking accountable actions to ensure there are no further impediments on this project. Areas that have been strengthened include development of an integrated programme blueprint, strengthening of the oversight function and the introduction of more robust monitoring and evaluation controls. .

### ***RENEWAL AND ACTION: BUILDING TRUST IN PUBLIC INSTITUTIONS***

State-owned companies have a substantial impact on perceptions of the sustainability of public sector debt in South Africa - and as a result, confidence and growth momentum. Perhaps most critically, though, we must acknowledge the impact of SOCs on the cost structure of the economy and our overall competitiveness.

Minister Gordhan detailed in his Budget Vote speech the interventions the Department of Public Enterprise has put in place being put into place. These will mitigate the risks to financial stability in these enterprises and will begin to help improve the link between economic outcomes and SOC efficiencies. National Treasury will support these efforts, by leading implementation of specific interventions such as the “oversight forum initiatives on the South African Airways (SAA)” chaired by the Deputy Minister of Finance, the cabinet approved private

sector participation framework and the framework for costing the developmental mandates of State Owned Enterprises.

Intensive National Treasury interventions are specifically targeted at the liquidity positions of the SAA and Eskom and aim to stabilise their financial positions with the immediate intention of limiting government's exposure to these entities. Going forward, efforts are underway to enable these entities to operate on the strength of their own balance sheets.

## **PUBLIC ENTITIES THAT REPORT TO THE MINISTRY OF FINANCE**

National Treasury also continues to manage 18 entities reporting to the Minister of Finance. Even though the mandates of these entities varies, it is critical that they align their strategies with government policy. These entities are required to submit quarterly reports to the National Treasury to ensure delivery against the social and economic mandate that they agreed too.

The payment of suppliers within 30 days is a key performance indicator that is being monitored closely. A number of entities have corrective action plans in place to timeously resolve audit findings, which National Treasury continues to monitor closely. National Treasury will continue to require entities to exercise moderation in the awarding of future salary increases.

Let me briefly reflect on work some these entities have been engaged in during the past year.

### **The Development of Bank of Southern Africa (DBSA)**

The DBSA continues to implement a strategy that is designed to augment disbursements by focusing on its 'catalytic' role to enable sustainable infrastructure development. Through this strategy, the Bank is aiming at increasingly crowding in third party funding and growing impact across the spectrum of the infrastructure development value chain that includes financing, project preparation, planning, implementation support and maintenance.

During the 2017/18 financial year, a total of R8.7 billion was committed for funding, of which R3.5 billion was to municipalities and will impact approximately 77 580 households. The remaining R5.2 billion in commitments is in renewable energy and will finance about 42 Megawatts of energy.

In *planning* support to secondary and under-resourced municipalities, the Bank completed 13 infrastructure master plans that have an estimated project value of R26.7 billion and that will impact an estimated 776 474 households and 8 700 temporary jobs when implemented.

The DBSA provided *Implementation* support for the completion of 12 infrastructure projects in electricity, water, sanitation, roads and storm water to various municipalities during 2017/18 financial year. A total of 21780 households benefitted and 672 temporary job opportunities were created through the completion of these projects.

## **PUBLIC INVESTMENT CORPORATION**

The PIC plays a vital role in the economy through its investments by supporting the current and future sustainability of financial markets and SOEs, by financing infrastructure projects and by investing in strategic sectors that have a significant developmental impact on the economy. Through its investments, it aims to drive job creation and transformation in various sectors and it continues to play a critical developmental role in South Africa.

In terms of its clients' developmental or impact investment mandates and in line with the PIC's investment strategy aimed at growing and transforming the economy, the PIC is accelerating impact investing in all asset classes, by developing sector strategies for key sectors such as healthcare, student accommodation, education, affordable housing, as well as small, medium and micro enterprises (SMME's). The PIC will also increase the allocation of funds to its highly successful black fund manager programme.

## **THE LAND BANK**

The Land Bank is mandated to play a pivotal role in both the growth and

inclusive transformation of the agricultural sector. We are happy to note that the Land Bank continues to deliver boldly on its mandate, and that it continues to get stronger and stronger in both financial and institutional governance aspects.

Over the past twelve (12) months, the Land Bank has been highly successful in raising funding, on the strength of its balance sheet, from domestic capital markets, as well as funding lines from international sources.

Going forward, the Bank's committed to focus substantively on transformation investments in agriculture. In terms of its Corporate Plan, the Bank plans to invest over R2.5 billion in the Developmental and Transformative segment of agriculture.

## **INDEPENDENT REGULATORY BOARD FOR AUDITORS**

The recent revelations about various instances of collusion with auditees as well as general lapses have cast a bad light on the whole profession and have tarnished the image of auditors in general. The Independent Regulatory Board for Auditors is working with the office of the Accountant General, housed within National Treasury, to amend the Audit Professions Act 26 of 2005 to restore the credibility of and public trust in the audit profession. The amendments include strengthening sanctions in line with international best practice, strengthening the regulatory board's powers in its investigations process, and reducing the complexity of disciplinary hearings ensure a swift, fair and due process.

## ***SUPPORTING ECONOMIC GROWTH THROUGH REGULATORY REFORMS***

National Treasury continues to work with sister Departments to ensure the Government undertakes the key regulatory and structural reforms to raise growth. This includes improving policy certainty, strengthening the role of economic regulators, encouraging the use of PPPs and enhancing the financial sector's contribution to savings, growth and transformation.

We have already seen some progress since the Budget – the outstanding projects under the renewable energy independent power producer programme have been concluded and will unlock investment of R56 billion and create around 58,000 jobs.

The Single Transport Economic Regulator, which will enable a more competitive transport sector, is being finalised. Restoring policy certainty in the mining sector has been made an urgent priority. The efforts by the Competition Commission to conclude critical market inquiries in private healthcare, the cost of communication and grocery retail will lower barriers to entry and create opportunities for new entrants to participate in our economic revitalisation. The Ease of Doing Business project, undertaken jointly by the World Bank and national government, with extensive support from National Treasury, is designed to address business regulatory challenges.

Our Cities Support Programme is working with 9 of the largest municipalities to improve their performance. If each of the 9 cities participating improves their performance to match the best performing South Africa city on each metric, we would be more competitive than most OECD countries. That is certainly food for thought.

Our Cities Support Programme goes beyond just looking at regulation. We are working closely with metropolitan municipalities to accelerate the implementation of investment in strategic projects that will bring greater integration to our cities and begin to reverse the spatial inequality legacy of apartheid.

National Treasury has taken this call to heart and continues to lead the CEO Initiative. Along with other government departments, we will build on recent achievements such as the launch of the YES Initiative and the finalisation of the private sector small business fund. Future work will focus on labour-intensive sectors such as tourism and agriculture to create more opportunities for young people to participate in the economy. We will continue to play a critical role in communicating with foreign and local investors as well as ratings agencies on the growth agenda – all of which provide important inputs into both the Investment and Jobs Summits.

## **GROWING IN THE WORLD AND IN THE REGION**

South Africa's push to increase our growth would be incomplete if we did not take into account the role we must play in the world and our continent in particular. We

are using our Chair of SADC and the BRICS to drive increased interest and investment in our own country and the region through the development of project pipelines, project preparation and public private partnerships. Furthermore, the South African Reserve Bank Governor has been elected as the Chair of the International Monetary and Financial Committee, the primary policy advisory body of the International Monetary Fund Board of Governors. This appointment is important for the developing world.

## ***CONCLUSION***

For the first time in a very long time, it appears that economic growth will be higher than projected at the time of the Budget Review. That is thanks to improved business and consumer confidence and a favourable global economic backdrop. This favourable momentum is an opportunity for us to build upon. But we should not be lulled into a false sense of security.

We must continue to rebuild our resilience to ensure that we can respond to exogenous shocks that may arise from geopolitical events, or volatile financial markets. We need to rebuild trust in our public institutions and the integrity that they should stand for. And we need to deliver on economic reforms, jobs and investment that South African households and businesses have entrusted us to deliver.

We remain mindful of the great expectations that fellow South Africans have of National Treasury. We are charting a course for a sustainable path of spending and borrowing. We are working hard to support better service delivery in provinces and municipalities. We are contributing to restore and “re-capture” our state-owned entities and supporting the drive against state capture. We are also driving transformation and growth through procurement reforms, the CEO initiative, and the financial sector charter reforms.

But we cannot do it alone. We need the cooperation of the rest of government to drive the efficiencies and innovations required to improve service delivery. Fellow South Africans must play their part too. So do our social partners.

Hope – a word that had seemed to die out from our lexicon, is now back on the agenda. But its back on the agenda in true South African style, with steel underneath; the tough mettle that we South Africans and the National Treasury embody. The toughness to do what is right, no matter how difficult and the toughness not to let down our guard when there is still much to do. We are reminded in this most auspicious year of celebrating the centenary birth of our national icon founding father and first democratic President, Nelson Rolihlahla Mandela, and one of the principal architects of our democracy Albertina Nontsikelelo Sisulu that this is what they stood for.

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

Thank you.