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Medium Term Budget Policy Statement

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Speech

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Minister of Finance

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Honourable Speaker
Mister President
Mister Deputy President
Fellow Cabinet Colleagues and Deputy Ministers
Governor of the Reserve Bank and Governor-Designate
MEC's of Finance
Members of the Diplomatic Corps
Directors-General
Heads of the Finance family
Guests, Ladies and Gentlemen

It is my privilege to present to this House and fellow South Africans the first Budget Policy Statement of President Zuma's government.

This is indeed a difficult time – for most of the world and for South Africa. But it is also a time of opportunity – a time to face down adversity and proclaim that we will overcome its challenges. We will adapt to the new circumstances. We will not hesitate to do things differently and to act boldly! That is our essential message.

A recession, triggered by unconstrained greed and poor financial regulation, has wreaked havoc across the world. No country has been spared. It has swept across South Africa as well.

It has left economic devastation and human tragedy. While the rich have become less rich – the poor, working people and smaller businesses have been seriously damaged.

In South Africa, 500 000 people have lost their jobs. The Unemployment Insurance Fund, under Minister Mdladlana's trusteeship, has seen monthly claims double since April last year. Businesses have come under strain. The banking sector understandably become risk averse and clamped down on credit.

Economic distress is not a statistical trajectory, but a very human, very real, often painful, series of shocks. Men and women have lost their jobs. Households cannot pay the rent or food bills. Companies face the threat of liquidation.

There are now signs that economic recovery is under way, there is some glimmer of hope – the leading business cycle indicator has improved by 6.8 percentage points since its low-point in March and there is renewed buoyancy in the markets. But we also recognise that vulnerability and poverty are deep-rooted in our society, and these structural challenges require sustained, broad-based transformation of our economy, beyond the present recovery.

South Africans from all walks of life know what it means to be both resilient and sensible in the face of adversity. We are a remarkable people. We will succeed in our long walk to a better life for all our people.

Medium term priorities

Honourable Speaker, this Medium Term Budget Policy Statement presents the fiscal framework within which the Cabinet will work to deliver on the five priorities of this government:

- Creating jobs;
- Enhancing the quality of education;
- Improving health outcomes;
- Emphasizing Rural development;
- Fighting crime and corruption.

The MTBPS updates the revenue, spending and borrowing projections for the current fiscal year. It reflects the collective understanding of Cabinet on the economic and budgetary challenges that lie ahead.

The MTBPS has a special place in the Parliamentary programme, because it enables legislators and the public, business and civil society leaders, workers and citizens, to consider government's budget plans several months ahead of the Budget itself in February next year.

In this policy statement we have five clear assurances for all South Africans:

- Firstly is that we will sustain our delivery of services and developmental programmes;
- Secondly we will carefully prioritise and focus our efforts;
- Thirdly we will be diligent in the management of the public finances – and not burden future generations unduly;
- We will vigorously pursue savings within all spheres of government; and
- Lastly we will ensure consistency in policy, while creating room for engagement and review.

These are commitments that flow from values embedded in our Constitution. But for us to succeed we need a shared compact, across all the divides in this House, and indeed across the nation:

- We will not tolerate corruption;
- We will act forcefully against wastage;
- We will insist on value for money for the billions that we spend;

As I said in the Press conference, we will not have pick pocketing from the fiscus.

- We will clean up the procurement system and take strong action against those who feed selfishly off the state!

Inkohlakalo ngeke siyibekezele!

Empowered by these values, Honourable Speaker, even under circumstances of adversity, strong leadership yields extraordinary results. Not everything is gloomy, and we need to emphasize it. We can celebrate remarkably effective schools even in poor rural villages, major advances in transport infrastructure, and community initiatives that are contributing to food security and local job creation.

Broad-based economic and social development is about commitment, hard work and initiative in government, and in the private sector and civil society. It is about shared values and how we work together, whether in business, government services or voluntary organisations; whether you are a manager, a worker or an advisor.

Can we do this? Can we work together, to meet five shared, national, social and development goals? To borrow a phase - Yes we can! Next year, as we invite the world to join us in a great festival of football, we will demonstrate that we can take on a giant project, work to a plan, complete major construction projects, reconfigure city transport systems, energise a uniquely South African diversity of hospitality arrangements. Of course there were sceptics – there were those who said we couldn't do it, who talked about the lights going out, who spread dark rumours of plan B somewhere else in the southern hemisphere – but those voices are now silent.

Our preparation for the 2010 World Cup began with a vision, and a statement of intent. The MTBPS is our budgetary and fiscal declaration of intent. It begins with a review of the South African economy and the outlook for the period ahead.

Global crisis, economic transformation

Honourable Members, for the first time since 1994, we are indeed in a recession. The volume of production in the South African economy declined by 2 per cent in the first half of this year.

This followed an implosion of several major American and international financial institutions last year and a sharp deterioration in global trade and commodity prices. Production and earnings of our economy closely follow global trends, so a decline in South African industry and exports was unavoidable. Decoupling that some people thought would happen did not happen.

Internationally, a coordinated response to the crisis and collective efforts to reform the global financial system have been initiated by leaders of the G-20 economies, of which South Africa is an active member. Huge injections of finance by governments and central banks have assisted in restoring credit flows and rebuilding investor confidence. However, there is still considerable uncertainty about the pace and sustainability of the global economic recovery.

The recession requires us to make substantial changes to our fiscal projections and plans. It means that we have to achieve more, with less. We cannot spend money on wasteful extravagances and golf-days, we cannot tolerate unnecessary bureaucratic structures, and we must achieve greater value for money in contracting for goods and services.

Under President Zuma's leadership the entire Cabinet is united in this commitment to strengthen and accelerate the pace of transformation of our economy, even in the face of current economic setbacks.

The present crisis demands of us to extend our investment in job creation, and to embed it fully in our rural development strategy, social services and local infrastructure programmes. The crisis calls for a new blend of skills development and renewal of schools and colleges – as Nkosi Albert Luthuli often emphasised, there is nothing more important than education in building national consciousness and pride, and in meeting the needs of the people and our economy. The crisis challenges us to reconstruct a new deal for our young people, people who today have little hope, new opportunities for school-leavers, a new partnership between work seekers and employers, and responsible leadership in public service.

Restoring growth and improving financial regulation are the immediate challenges. In addition, Cabinet will ask questions about our longer-term development path under President Zuma's guidance:

- What kinds of investment will contribute to more rapid poverty reduction, and to a more balanced distribution of income and opportunity?
- How should we adapt to changing global trade opportunities, the realignment of east-west and north-south relations and the extraordinary dynamics of product innovation and technology change?
- How should we reform our economic regulatory framework – in banking, social security, financial services, health care, agriculture and food security?
- How do we address future energy, water and transport needs? How do we reduce our carbon emissions? How do we share the cost burden of these and other investments?

In exploring these and other questions, we should expect to find that some parts of our present policy framework are sound and should be reinforced. Others need to be dismantled and overhauled. We need to pursue options through a dialogue that respects a diversity of views and a plurality of methodologies. We need the humility to be open to different paradigms. This is our approach to our own South African challenges; and yes, we must seek, and demand, greater courage and greater humility also in the international quest for a just and more stable future. I believe that George Soros is right when he warns, for example, that the profits and bonuses earned by Wall Street banks are “hidden gifts” from the state – a consequence of unchecked greed and inadequate regulation.

But the global crisis is not just about credit derivatives and bankers’ pay packages, even though they are important; there are much deeper structural imbalances – in trade, in access to knowledge and resources, in the distribution of wealth and consumption. We are progressively tackling South Africa’s legacy of inequality, social exclusion and economic disadvantage. The global community must also address the need for a different, more inclusive and more just, economic model.

The unevenness we see in the world today is unnecessary.

The Medium Term Budget Policy Statement – principal themes

Honourable Speaker, this year's Medium Term Budget Policy Statement, given our circumstances, is not so much about how much more we propose to do. It is about what needs to be done differently.

There are both new initiatives and established programmes on which to build. In the Presidency we have a fresh approach to planning and a new urgency in measuring progress in service delivery, under the guidance of Ministers Manuel and Chabane.

This year already several steps are under way – Minister Doidge has been tireless in campaigning for greater participation of municipalities and government agencies in the Expanded Public Works Programme. Ministers Baloyi and Shiceka have clearly signalled that failures in public service management will not be tolerated – whether at national, provincial or local level.

Building strong government institutions and the evolution of a dynamic economy are complex, uneven processes and the required turnaround in public service delivery will take hard work. But we know that motivated by a clear sense of purpose, real and visible progress can be made. Better lives for our children will be built on the foundations we lay in the next and medium term of this administration.

Framework of response to economic crisis

In framing proposals for next year's budget, we have been able to draw on the framework for South Africa's response to the economic crisis, developed earlier this year under the guidance of Deputy President Motlanthe and facilitated by the National Economic Development and Labour Council (NEDLAC). Several aspects are discussed in more detail in the MTBPS:

- A counter-cyclical fiscal and monetary policy stance;

- Continued public infrastructure investment and support for investments in industrial capacity and competitiveness;
- Re-skilling of workers;
- Support for industries in distress or undergoing restructuring;
- Encouragement of innovation, including a focus on climate change challenges.

Implementation of these initiatives, coordinated by Minister Patel, will gain impetus as part of a deeper and sustained economic development strategy.

Adjustments to the 2009/10 budget framework and appropriations

Revised revenue projections

Before turning to proposals for the 2010 Budget, Honourable Speaker, allow me to outline the changes in the 2009/10 framework and appropriations.

Consolidated budget revenue is now expected to be R658 billion in 2009/10, which is considerably lower than the February estimate.

- Income tax paid by companies will be R21 billion less than anticipated in the February budget, because of lower earnings;
- VAT receipts will be R31 billion lower, because of reduced consumption ;
- Customs and excise duties will be R9 billion lower, due to the decline in imports.

The fall in customs revenue will negatively affect Southern African Customs Union members, which highlights the urgency of completing the proposed review and revision of the SACU revenue-sharing formula. In total, tax revenue is expected to be some R70 billion less than the February budget projection.

2009/10 expenditure and the borrowing requirement

Consolidated government expenditure, on the other hand, will rise from R715 billion last year to an estimated R841 billion this year, or some 35 per cent of gross domestic product.

In comparison with last year, expenditure is projected to increase by R127 billion, while revenue declines by R34 billion. The net result is a widening borrowing requirement: the consolidated budget deficit will amount to R184 billion in 2009/10, or 7.6 per cent of GDP.

Taken together with the financing requirements of Eskom, other state-owned enterprises and municipalities, the overall public sector borrowing requirement this fiscal year will amount to R285 billion. Last year, by comparison, the public sector borrowing requirement was only R89 billion.

Budget deficits have increased in many countries across the world, but our fiscal response to the economic downturn is one of the largest. Whereas in other parts of the world spending is being cut and projects cancelled, we are able to continue our investment plans, because we entered the economic downturn with a budget surplus and a healthy fiscal position. And whereas the response in other countries has been dominated by financial transfers to banks and other businesses, our spending growth is strongly driven by real physical investment – road and rail construction, new power stations, housing, water and sanitation systems.

We are accustomed now to seeing Ministers Ndebele, Peters, Hogan and Sonjica in hard hats, with concrete dust on their shoulders as they go through construction sites! Even Minister Stofile has become an expert on arches and engineering load factors: you will see that he is a happy and relieved man, because we will have ten magnificent football stadiums ready to welcome the world to the FIFA World Cup next year.

Adjustments to the 2009/10 appropriations

As in the past, there are various changes to the appropriations for the current year that I wish to table for Parliament's consideration. These are set out in the Adjustments Appropriation Bill, and the revised appropriations by vote are explained in the Adjusted Estimates of National Expenditure.

We are in the midst of a realignment of responsibilities that involves several departments and votes. In some cases, function shifts have already been effected, and the funds are transferred between votes in the Adjustments Appropriation. In other cases, new departments will take responsibility for their budget votes from next April. The adjustments include some R562 million in additional expenditure associated with the new national government structure and functions, including R250 million for Minister Nkwinti's rural development responsibilities.

In total, the adjusted expenditure level for this year is R14 billion more than the February budget estimate.

I will not detail all the changes, but let me share with the House some of the main changes:

- "Rollovers" of unspent monies from last year amount to R1.5 billion, mainly for infrastructure and building projects;
- A total of R16.4 billion in unforeseeable and unavoidable expenditure and adjustments has been recommended by the Treasury Committee this year, of which R12 billion will pay for higher-than-budgeted salary adjustments;
- Allocations are also made to assist municipalities to meet emergency water supply requirements, to respond to several cholera outbreaks, and to assist farmers affected by drought in the Eastern Cape, flooding in the Western Cape, locust outbreaks in Limpopo and foot and mouth disease in Mpumalanga;
- Municipalities will receive R509 million more to meet the increased cost of electricity supply to poor households;

- R200 million will go to the SABC to meet short-term liquidity requirements;
- R900 million goes to the Department of Health to take account of the increased uptake of HIV and Aids treatment programme;
- A R1 billion recapitalisation goes to the Land Bank, which has made good progress in turning around its financial position; and
- A saving of R1.5 billion has been declared on the Defence vote, associated with delays and foreign exchange cost adjustments in defence procurement programmes. Let me take this opportunity to congratulate the Defence Minister, Minister Sisulu on their completion of support for the Burundi peace process, for which a final allocation is made.

South Africa and the global economy: next three years

GDP projections, trade and investment

I turn now to our projections for the three-year period ahead, in preparation for the 2010 Budget.

Against the background of the global economic decline, the outlook for the South African economy is significantly weaker than projected in February.

- Real GDP is expected to be 1.9 per cent lower this year than in 2008, and growth of 1.5 per cent is projected for 2010, rising to 2.7 per cent in 2011 and 3.2 per cent in 2012;
- Exports and imports have both declined by about 20 per cent in volume terms this year, reflecting the sharp downturn in world trade. We expect a recovery in trade of about 4 per cent next year, accelerating moderately in subsequent years;
- Gross fixed capital formation is expected to average 6 per cent growth over the period ahead, supported by continued public sector infrastructure spending and a recovery in private investment.

There is considerable uncertainty in these numbers – a faster global recovery could improve prospects for next year. But South Africa's recovery lags behind global trends to some extent, mainly because households carry a substantial overhang of debt, which holds back more robust consumption expenditure.

Balance of payments and the exchange rate

Partly because of large imported equipment requirements of our transport and power generation investment projects, South Africa imports considerably more than we export. Payments to non-resident investors have also remained high. The deficit on the current account of the balance of payments will be about 5 per cent of GDP this year, rising somewhat over the medium term.

We therefore rely on capital inflows from abroad, which have continued to exceed the current account shortfall. The exchange rate has strengthened in recent months as a result of these inflows. This is a matter of concern, as it impacts negatively on South African business. The Treasury will support the ongoing accumulation of foreign exchange reserves by the Reserve Bank, which assists in moderating the appreciation of the rand. Official reserves have reached US$40 billion, equivalent to over 12 per cent of GDP.*Inflation and monetary policy*

For the last two years, consumer price inflation has exceeded the target range of 3 to 6 per cent. We expect CPI inflation to average 6.3 per cent next year and 6 per cent in 2011.

Members of this House will be aware that the moderation in consumer price inflation over the past year has enabled the Reserve Bank to lower interest rates by 5 percentage points.

Our inflation targeting framework is an important element in macroeconomic coordination. It has assisted in lowering inflation expectations, and in preventing inflation from undermining our competitiveness. Monetary policy has to take account of the lag of some 18-24 months between interest rate changes and their effect on demand, and a range of external influences on inflation that cannot be controlled directly.

We recognise that alongside inflation reduction and financial stability, we must seek faster development and employment creation. I welcome public debate on this issue, and have agreed with the Governor of the Reserve Bank, and the Governor-designate, Ms Marcus, that monetary policy should also support our aim of balanced and sustainable growth.

Governor Mboweni has steered the Reserve Bank's supervision of our monetary system with great wisdom – Members of the House will join me, I know, in thanking him for a decade of sound monetary leadership. We look forward to a constructive partnership with his successor, Ms Gill Marcus.

Exchange control reforms

The economic crisis has exposed risks embedded in the global financial system, and the failure of regulators to work together in supervising multi-national financial institutions. Under the guidance of the Financial Stability Board and the G-20, various countries are now implementing macro-prudential approaches to financial regulation, reviewing capital adequacy requirements of banks and adopting more stringent standards of disclosure and governance.

South Africa's financial system proved to be highly resilient during the global financial crisis, partly because of the phasing in of prudential regulation of foreign exposure over previous years. This approach is in line with best international practice, and government is in a position to announce further reforms to lower the cost of doing business, while managing risks in a volatile international environment.

Proposed changes include

- increases in the rand thresholds applicable to outward investments by South African companies;

- removal of various restrictions on rand conversion of export proceeds and advance payments for imports, and
- increases in foreign capital allowances for resident individuals.

Details will be released by the Reserve Bank. In support of regional economic integration, we are further relaxing the approvals required for investing in Southern African Development Community (SADC) countries. The current exchange control regulatory framework for approving inward investment in South Africa is also in need of review – I intend to table proposals for modernisation of this system early next year, after appropriate consultations.

Towards a new growth path

These are reforms that will contribute to South Africa's attractiveness as an investment destination, and to South Africa's role as a financial centre in Africa. But Members of the House will appreciate that it is not enough to modernise our financial system – there are several other aspects of a new growth and employment path that we wish to table for consideration under President Zuma's guidance.

Economic development is in part about financial and sectoral coordination. Working together with Ministers Nkwinti, Shabangu, Nyanda, van Schalkwyk, Davies, Pandor, Patel and other members of the economic cluster, we have to explore options for promoting the development of our mining industry, lowering costs in telecommunications and transport, expanding tourism, enhancing technology and developing further trade opportunities, drawing where appropriate on international experience.

In order to generate some discussion the recent report by the Commission on Growth and Development chaired by Professor Michael Spence offered the following summary of the strategies followed by thirteen countries that succeeded in expanding national output and incomes by over 7 per cent a year for at least 25 years:.

- They fully exploited the world economy… *"They imported what the rest of the world knew, and exported what it wanted";*
- They maintained macroeconomic stability, by focusing on keeping inflation low and budget deficits moderate;
- They mustered high rates of saving and investment to finance economic growth;
- They let markets allocate resources, including in economic downturns, and provided appropriate training and skills development to enable people to move from declining to rising sectors; and
- They had committed, credible, and capable governments that held public agencies accountable and sought to achieve long-term targets that were publicly articulated.

Minister Chabane's work in the Presidency on development targets and improving accountability across government is clearly central to an effective growth strategy, and complements our approach to budgeting for improved service delivery.

We know that our growth path has to include enhancement of the labour-absorbing capacity of the economy – for employment brings the best prospects for permanent reductions in poverty. Young people need to enter a labour market that can provide jobs and skills development. Workers need to be able to advance in the workplace or move between firms, based on relevant skills and growing demand across all sectors.

To succeed in global markets requires South African firms to achieve new levels of productivity on a continuous basis. This quest has to be supported by effective public policies and public institutions.

Honourable Speaker, the world is a very unequal place, and structurally imbalanced. Yet there is reason for hope in the severity of the shock-waves that have reverberated through global systems over the past year. This is not the arrival of a new, more just, world. But perhaps it is the beginning of a new global dialogue and contestation about growth and development, to which we as South Africans can contribute, in the G-20, the United Nations, the World Bank, the Copenhagen climate change consultations amongst many other forums.

I know that Minister Nkoana-Mashabane will agree with me when I say that what we achieve at home speaks loudest in our international diplomacy. We must prepare to do extraordinary things – the ordinary will not deliver the jobs that are sought by young school-leavers, shelter for those who are homeless, training for those who need skills, new opportunities for businesses in difficulty, or an environmentally responsible development path.

Medium-term priorities and the fiscal framework

2010 Budget framework and revenue outlook

Let me outline, in brief, the framework proposed for the 2010 Budget.

We begin with the revenue at our disposal.

I have already indicated that tax revenue is sharply lower than expected this year. Our projection is that as economic growth picks up, it will recover – from an estimated R589 billion this year to over R800 billion in revenue in 2012/13, from about 24.5 per cent of GDP this year to just over 26 per cent.

Let us compare that to a year ago where our GDP was 29% - it is going to take a while to get back there.

The money doesn't just flow automatically, Honourable Speaker, it is the outcome of broadening the tax base through policy measures, and continuous improvements in the law. We also rely on hard work in the revenue administration. But the honesty and integrity of taxpayers is crucial..

Through its compliance model and increasingly as a benefit of its modernisation programme, the South African Revenue Service has the tools to narrow the tax gap, pursue non-compliance, and ensure that everyone pays what is due.

- Earlier this month SARS announced the implementation of sterner administrative penalties for those with outstanding tax returns. This will begin on 23 November this year with those who repeatedly have failed to submit returns. (I mention this, Honourable Members, because there may be one or two listeners who have just 27 days left to ensure that they do not receive an early Festive Season greeting card from SARS.); and
- Other forms of non-compliance will also come under the SARS spotlight in coming months, including complicated tax structures and the use of offshore tax havens designed with the sole purpose of avoiding tax, under the false guise of “limiting liability”.

As I am sure you all know that tax havens are becoming a thing of the past.

Commissioner Magashula and the 15 000 women and men of SARS are building an efficient and effective enforcement capability, not just to target dishonest taxpayers, but to reduce the burden on honest taxpayers by ensuring that the responsibility of fiscal citizenship is shared by all.

Budget deficit and borrowing

We are also able to raise money through borrowing, which passes the tax burden unfortunately onto future generations. We will borrow carefully, given the circumstances.

Two years ago, we ran a budget surplus, because economic conditions were unusually favourable and we knew we should be saving ahead of more difficult times.

Those difficult times are now with us and have been with us for a year. This year we will borrow 7.6 per cent of GDP. Taken together with the funding requirements of public entities, municipalities, Eskom and other state enterprises, the public sector borrowing requirement will be R285 billion, which is 11.8 per cent of GDP.

I need to point out that on these projections government debt will increase from 23 per cent of GDP in March this year to 41 per cent by March 2013. Interest on state debt will increase from R54 billion last year to just under R100 billion in 2012/13. In our response to the global crisis, we will raise some R640 billion in debt over four years, to sustain investment in job creation, in education, in health care, in rural development and in fighting crime.

This means that national debt will begin to rise again, and debt service costs will increase for a time as a share of government spending. We will bring the borrowing requirement down again in the years ahead, as economic growth improves.

The framework proposed for the next three years has a consolidated budget deficit of 6.2 per cent next year, declining to about 4.2 per cent by 2012/13.

This fiscal response is possible, because we began the economic decline with our finances in such excellent health. Special appreciation is therefore due to Minister Manuel for his sound stewardship of our public finances. In a very real sense this has made possible the substantial shifts in the budget framework that the Cabinet tables before this House today.

Higher borrowing is the right thing to do, in these times. But we will also support our spending on priorities by vigorously conducting a campaign to reduce waste.

Saving

The budget process this year has therefore given emphasis to identifying savings. National departments have identified savings of R14.5 billion over the next three years, and an estimated R12.6 billion will be reprioritised from redundant, ineffective or over-priced activities in provincial departments to finance core education, health and infrastructure requirements as a provincial level. Let us congratulate our bureaucrats. In municipalities and government agencies, similarly, spending on unnecessary travel and entertainment, unfocused consultant contracts, procurement supplies at uncompetitive prices and layers of administrative paperwork that interfere with getting the job done, will be cut.

Today, Minister Baloyi, Minister Chabane and myself as mandated by Cabinet are releasing our first report on saving and value for money. This is the initial step in a longer term review of public expenditure. We will also focus on specific programmes and public entities in which there are opportunities for doing things differently, and required reforms in supply chain and procurement processes.

Medium term expenditure framework

Members of the House will know that the MTBPS sets out a preliminary framework for the period ahead; specific allocations will be tabled in February next year. Budget preparation is nonetheless well under way, and Cabinet has agreed to a division of resources that enables national and provincial departments to complete their spending plans.

The main budget makes available an additional R78 billion over the next three years, of which R40 billion will go to provinces, mainly to accommodate higher personnel costs and for spending on education, health and housing. Municipalities will receive over R12 billion over the next three years, for spending on infrastructure and to accommodate the effect of rising electricity and water costs on basic service delivery to poor households.

Employment

Funding for government employment programmes will be stepped up in several areas:

- R2.4 billion has been set aside by the National Skills Fund and the Unemployment Insurance Fund for the training layoff scheme;
- Public work programme allocations are included in funding flows to municipalities and various departments, aimed at creating 4.5 million job

opportunities over the next five years. Funds have been set aside for local community works projects in rural villages; and

- In addition options for supporting job creation by the business sector are under review, through better use of existing spending programmes, small business support agencies and tax incentives, where that is appropriate.

Education and training

Education is our largest budget commitment, comprising over R140 billion this year, increasing to R185 billion by 2012/13.

Building on the recently completed restructuring and recapitalisation of further education colleges, Minister Nzimande aims to increase participation to 20 per cent of young people aged 18-24 over the next five years. A cumulative target of 350 000 industrial and related apprenticeships and scarce skill learnerships has been set.

Under Minister Motshekga's leadership, a new workbook programme was introduced this year, which will provide supplementary learning materials to 5.5 million school learners by 2012, aimed at improving literacy and numeracy in the foundation phase of schooling. Funding for the primary school nutrition programme will again be increased, to reach 8.6 million children in 2012/13.

Social protection

I am also pleased to confirm that the budget framework for next year will provide for extension of the child support grant as Cabinet announced up to the age of 18, over the next three years. Ministers Molewa and Mdladlana and I are in discussion with the heads of SARS, the UIF and the Compensation Funds, the South African Social Security Agency (SASSA), the Financial Services Board and other members of the interdepartmental team on the wider reform of the social insurance system. The aim is to achieve both better income protection for contributing employees and a rationalisation of the institutional arrangements. These are reforms in which unions and employers have substantial interest, and we need to draw on advice from all stakeholders.

Health services

Initiatives to strengthen public health services are important in laying the foundation for a national health insurance system. Public health expenditure is set to rise from R90 billion this year to R115 billion in 2012/13.

Minister Motsoaledi has asked me to emphasise that the restructuring of our health system comprises a ten-point plan, beginning with leadership and consultation amongst all interested parties. It includes an overhaul of management systems, improved human resource planning, better procurement of medical supplies, and investment in health infrastructure.

Next year a vaccination campaign will be undertaken to reduce the incidence of measles and extend immunisation coverage. Government expenditure on the HIV and Aids programme will receive an additional R5.4 billion over the next three years. Improved salaries have been agreed for medical personnel. Public-private partnerships in the health sector will be stepped up, and a new quality assurance system will monitor service delivery improvement and compliance norms and standards.

Rural development

Cooperation with the private sector and centres of research excellence will also be central to our agriculture and rural development strategy, under the leadership of Ministers Joemat-Petterson and Nkwinti. Our programme seek to improve training and productivity alongside rural infrastructure investment and enhanced support for beneficiaries of land restitution and land reform. At provincial level, total spending on rural development is projected to rise from about R6 billion at present to about R8 billion in 2012/13.

The built environment

Government continues to prioritise spending on housing and municipal infrastructure, in support of Minister Sexwale's goal of eradicating informal settlements. An additional R1 billion will go to the housing grant programme, and R2.5 billion is proposed for municipal infrastructure grants. Our total expenditure on housing and community amenities will rise from R69 billion this year to over R98 billion in 2012/13. Spending on transport will be over R65 billion a year over the MTEF period, including completion of the Gautrain project, major improvements in the Gauteng road network and initiation of public transport improvement programmes in 12 cities and metropolitan areas.

Fighting crime

Public order and safety accounts for R78 billion this year, growing to over R100 billion in the next three years. The budget will provide for an additional 22 400 police personnel, aimed at strengthening detective services and crime intelligence. Policing is part of an interconnected chain in crime prevention and the criminal justice system – Ministers Radebe, Mthethwa and Mapisa-Nqakula share a collective responsibility for the security cluster, while Ministers Dlamini-Zuma and Cwele also have particular duties around that table. We are profoundly conscious of the enormity of these challenges, and the daily risks that tens of thousands of security personnel face on our behalf every day.

Ministers Mayende-Sibiya and Xingwana would remind us that our fight against crime is also part of the broader challenge of building social cohesion and creating opportunities for young people. Crime has a major impact on our economy and is undermining the ability of business and institutions to function. Normally our efforts have to include better vigilance in both the public and private sectors against corruption and financial mismanagement.

Towards a new social compact

Honourable Speaker, we have stated our five strategic priorities for the medium term:

- Creating jobs;
- Enhancing education and skills development;
- Improving health services;
- Rural development and agriculture; and
- Intensifying the fight against crime and corruption.

These are goals that translate into many programmes and policies, and countless institutional plans and activities. There are tens of thousands of office-bearers, officials, service providers and partner organisations whose efforts contribute to our progressive realisation of these commitments. I have in mind, for example, Mr Nditsheni Ramugondo, Principal of Mbilwi Secondary School in Limpopo – which has, year after year, achieved 100 per cent pass rates in the matric examinations and extraordinary results in mathematics and science. Asked to explain this success, Mr Ramugondo said there is no miracle at his school, but rather commitment from teachers and hard work by learners that accounts for their success.

Sisonke singenza okuningi, kangcono nangalesisikhathi esinezi ntselelo ezingaka zomnotho!

Nkosi Albert Luthuli once said that "…you can only preserve human values by propagating them and creating a climate where these values flourish."

The struggle for liberation in SA was accompanied by a set of values and culture which permeated our society and movement. These included respect for all, regardless of race or gender, a deep understanding that leaders serve communities, that they receive their power from ordinary people and that the privilege of serving one's community must never be abused.

We are fighting a new struggle now – as Comrade Chris Hani once said, there is "another struggle to make freedom and democracy worthwhile to ordinary South Africans… We must build a different culture in this country and that culture should be one of service to the people."

We are particularly concerned about the number of government tenders, in all three spheres of government, that are tainted by corruption. Corrupt officials stand on one side, while on the other stand corrupt business people. A culture of gifts, wining and dining, and all manner of enticement has become pervasive in our society. We must act decisively against such a tendency, and we must do so together across the divider in this Chamber. Honourable Speaker, we are called upon to make a special effort to protect the values on which our democracy is founded. Only then will we experience real freedom in our country, for all people.

We recall former President Mandela's words at his inaugural speech in 1994 when he said, "…The task at hand will not be easy. But you have mandated us to change South Africa from a country in which the majority lived with little hope, to one in which they can live and work with dignity, with a sense of self-esteem and confidence in the future." This remains our task and our challenge.

Honourable Speaker, I need to express my appreciation to President Zuma for his leadership and guidance. Deputy President Motlanthe has also provided wise counsel. I am thankful for the support of the members of the Ministers Committee on the Budget, members of the Treasury Committee, Cabinet colleagues, Premiers and provincial Finance MECs – this year's budget adjustment process and the preparatory work for the MTBPS has been a rapid learning curve for many of us including me. A substantial decline in government revenue, alongside increases in spending requirements, has been something of a baptism of fire in the coordination of the public finances.

I know that the House will join me in paying tribute to the work of the Auditor-General, Terence Nombembe, and his staff, and those who serve on audit committees and internal audit teams throughout government. Ongoing progress in their efforts is the foundation of both sound financial management and the ethic of responsible leadership that must pervade our public service reforms.

Allow me also to commend Mr Thaba Mufamadi, Mr Sogoni, and Mr de Beer, who chair the standing committees on finance and appropriations, and the select committee on finance. They carry Parliament's responsibility to interrogate the public finances.

The broader finance family represented here today includes Murray Michel, Head of the Financial Intelligence Centre, and Paul Baloyi, Phakamani Hadebe and Brian Molefe, who head the Development Bank of Southern Africa, the Land Bank, and the Public Investment Corporation must be congratulated on the excellent work that they do. Under their leadership, our development finance institutions are adapting to new roles and responsibilities, consistent with our economic and development challenges.

We are also privileged to have the South African Reserve Bank represented by its Deputy Governors today, and I would like to welcome Ms Gill Marcus as the incoming Governor of the Reserve Bank. I would like to express again my appreciation to Governor Mboweni for his service to the nation and our economy.

It is my pleasure to introduce Commissioner Oupa Magashula to the House. He brings a new capability to the leadership of the South African Revenue Service.

I am fortunate to be able to share my duties with Deputy Minister Nhlanhla Nene, whose energy and insight are invaluable. Director-General Lesetja Kganyago leads the National Treasury with exemplary professionalism, and heads a team of which we can all be proud.

Honourable Speaker, I hereby submit the 2009 Medium Term Budget Policy Statement to Parliament, and I table the Adjustments Appropriation Bill for consideration of the National Assembly.