ADDRESS TO THE NATIONAL ASSEMBLY ON THE INTRODUCTION OF THE ADJUSTMENTS APPROPRIATION BILL AND THE 2001 MEDIUM TERM BUDGET POLICY STATEMENT

TREVOR A MANUEL, MINISTER OF FINANCE

30 OCTOBER 2001

Madam Speaker
Honourable Members

Introduction

Today we place before this House both the Adjustments Appropriation Bill and the Medium Term Budget Policy Statement.

The Bill invites Parliament to consider changes to spending estimates for this financial year, set out in more detail in the *Adjusted Estimates of National Expenditure*. We know that changes to budgets in the course of the year are almost inevitable, as budgeting is not a perfect science. In many ways, preparing the February Budget may be likened to a farmer plowing and sowing the field. She looks ahead to harvest time calculating the yield of the crop that holds much promise. Good rains and favourable omens allow her to harvest a crop that exceeds her greatest expectations. Too much or too little rain may cause her to review her prospects when planning ahead for the next season. Equally, when preparing the Budget it is impossible to foresee all events that may affect spending during the year.

The *Adjusted Estimates of National Expenditure* that we table today revises the Estimates set out in the February Budget. This is a new format for the Adjustments Budget, combining the various explanatory memoranda prepared for each national vote in previous years. I know that members will find the new format both convenient and informative.

Indeed, I hope that a careful review of the information provided by departments here will become a standard part of the intelligence-gathering role of all portfolio committees, alongside their interrogation of departments' annual reports, the main *Estimates* published in February and strategic plans due to be tabled for the first time in March next year.

Alongside the *Adjusted Estimates*, we lay before the House the *2001 Medium Term Budget Policy Statement*. This is the framework that we will use when finalising the Budget that will be tabled in February next year. The Statement sets out our economic forecasts for the next few years and the fiscal framework within which the 2002 Budget will be compiled. It outlines policy matters that shape next year's Medium Term Expenditure Framework and proposes a division of revenue between national, provincial and local government for the next three years.

Let me say first, Madam Speaker that both these documents have benefited greatly from constructive comment and advice emanating from this House.

The revised format of the *Adjusted Estimates* is largely the result of recommendations made at this time last year, when the 2000 Adjustments Budget was considered by the Portfolio Committee on Finance and both this Assembly and the National Council of Provinces. In keeping with the spirit of the Public Finance Management Act, the changes to departmental budgets provided for in the Adjustments Appropriation Bill are now more fully explained against the background of the aim, objectives and programmes of each vote. While the PFMA sets strict limits to the kinds of spending for which additional funds may be appropriated, it also provides for various other changes – mainly the rollover of unspent monies from the previous year and shifting or "virement" of funds from one purpose to another. These are all explained in a single consolidated document.

In the case of the *Medium Term Budget Policy Statement*, the guiding influence of Parliament is much greater. Since the first MTBPS was published in December 1997, the annual debates on its proposals have increasingly shaped the prioritisation and policy reviews that accompany the budget process, and the Medium Term Expenditure Framework is increasingly an outcome of the legislative and policy oversight role that this House and the National Council of Provinces play.

I am particularly pleased that this year the *Intergovernmental Fiscal Review* has attracted such careful and considered attention in the National Council of Provinces. You will find echoes of the issues raised in these hearings in several chapters of the MTBPS. I know that when budgets are tabled both here and in the nine provincial legislatures next year filling in the details of the 2002 MTEF, the profound contribution of Parliamentary review to shaping our budgetary and spending plans will be that much more evident.

The *Medium Term Budget Policy Statement* will be explored in detail this week and next by a new Budget Committee, with joint representation of the National Assembly and the NCOP. In establishing this Committee, Parliament takes a giant step forward in its fiscal responsibility and oversight role. I am particularly pleased that it begins its life with a review of the annual MTBPS – although the Statement does not contain all the detail that the Committee will in due course want to examine, it is entirely appropriate that its work should begin with the broad framework, with the wider economic context and with the fiscal policy objectives and medium term goals of government as a whole, including the national, provincial and local spheres.

The 2001 Adjustments Appropriation Bill

Madam Speaker, allow me to say a few words about the Adjustments Appropriation before returning to the broader medium term framework.

Revised Estimate of Expenditure

In the 2001 Budget tabled in this House on 21 February, we anticipated total expenditure this year of R258,3 billion. The revised estimate is R261,1 billion, or R2,8 billion more than the main estimate. However, the Adjustments Appropriation provides for a total of R8,5 billion in addition to the amounts voted in the main Appropriation this year. The arithmetic is as follows.

- The Treasury Committee has recommended unforeseeable and unavoidable expenditure of R2,8 billion for national departments, R1,5 billion to go to provinces and R328 million for local government. Against the contingency reserve for the year of R2 billion, therefore, there is an additional R4,6 billion recommended, which raises the expenditure level by R2,6 billion.
- The House is requested to agree to rollovers of unspent monies from last year's appropriations of R2,2 billion. Against these rollovers, we anticipate that aggregate underspending this year will be just under R2 billion, which results in a net contribution to the expenditure level of R0,2 billion.

- The Adjustments Appropriation also provides for R1,7 billion in spending on infrastructure, flood damage repairs and poverty relief announced in the main Budget but not yet appropriated. This does not add to the spending level – in fact, there is a net saving of R70 million, mainly because of projects that will extend beyond the present year.
- Other adjustments yield a net saving of R14 million. These include self-financing expenditure of R30 million, an increase of R9 million in the remuneration of judges, which is a statutory appropriation, a reduction of R50 million in the expected proceeds of the skills development levy and a saving of R3 million on the Housing vote.

And so the Adjustments Appropriation of R8,5 billion adds just R2,8 billion to national budget expenditure. If only all our arithmetic worked out like this.

Unforeseeable and unavoidable adjustments

I do not propose to detail all the adjustments made, but Members are entitled to an explanation of some of the larger amounts. Let me deal first with additional amounts recommended by the Treasury Committee for unforeseeable and unavoidable expenditure.

This year's public service negotiations led to an average increase in salaries of 6,58 per cent, whereas the original budget provided for an average of 6 per cent. The difference is taken into account in the additional allocations to provinces and national departments, except where our review of in-year spending trends indicates that national departments will be able to meet the revised personnel costs without further assistance. For budgetary purposes, I know that my provincial colleagues will join me in expressing appreciation to the Minister for Public Service and Administration but also to public service unions for reaching an agreement in time for the Adjustments Budget. This means that we can budget with greater certainty for personnel costs next year, and civil servants will receive their increases in July 2002 and not October.

The provincial share of the additional amounts for personnel costs is included in the proposed supplement to provincial equitable share allocations of R1,2 billion. Also taken into account here is the rapid progress made in registering beneficiaries of the Child Support Grant and the need to clear backlogs in rank and leg promotions, particularly in provincial health departments.

The Adjustments Budget also provides for R300 million to go to Mpumalanga as part of an intervention in terms of section 100(1)(a) of the Constitution, following an approach by the province after it experienced a cash flow problem. Steps to put financial management on a sound footing are well-advanced.

For local government, the 2001/02 year has of course been something of a watershed. The entire municipal landscape has been swept clean, the boundaries have been re-drawn, new authorities have been constructed and there is a new momentum to the extension of basic services to low-income communities. The Adjustments Appropriation provides R108 million as a once-off transitional subsidy for remuneration of councillors and R200 million to supplement free basic service delivery. The additional allocation to local government will address unforeseeable transitional issues that have emerged in this financial year, including the funding of municipalities that have weak fiscal and institutional capacity relative to their service delivery responsibilities.

Amongst national departments, the largest adjustments go to Foreign Affairs, Statistics South Africa, Public Enterprises, Social Development, Defence, Safety and Security, Communications, Labour, Land Affairs and Transport.

- Foreign Affairs receives R79 million to compensate for the effect of the depreciation of the rand on the costs of maintaining our overseas diplomatic capacity. In addition, R215 million deals with the inclusion of foreign service allowances in the taxable income of personnel working abroad.

- Statistics SA is allocated supplementary funding for Census 2001. The costing of the census was initially based on the 1996 census experience. However, on the advice of the Statistics Council, Statistics SA has increased the number of enumerator areas, substantially improved census management, strengthened checking of census returns and invested in new equipment to accelerate the processing of information. The Treasury Committee has recommended an additional R140 million and R155 million is included as a rollover of unspent funds from last year. The overall cost of Census 2001 will be the equivalent of $2,50 a person – which compares favourably with costs in countries as diverse as Botswana ($3,40), Namibia ($5,33), Hungary ($3,70) and the United States ($20). I know that Members will want to be assured that this expenditure will deliver a reliable count, and so let me take this opportunity to commend the many thousands of census workers who have successfully completed the count in most enumeration areas. In some metropolitan areas, counting has again been slow and – for those who have not yet been counted – please be patient – I have agreed to the Statistician-General, Mr Pali Lehlola's request that enumeration can continue for the next week in those neighbourhoods where gates, walls, dogs, out-of-date street maps, incomprehensible family structures, poor communication and other unforeseeable and unavoidable circumstances have led to delays.
- The Public Enterprises vote receives additional allocations of R70 million for the unanticipated costs of the Telkom initial public offering and R94 million to deal with pension fund shortfalls of the SA Forestry Corporation.
- Safety and Security receives R250 million to enable rank and leg promotion backlogs to be cleared.
- An amount of R600 million is recommended for the Communications vote to finance a R300 million a year subsidy for the Post Office for the present year and last year. Government has accepted that a new programme of reorganisation will be required in order to achieve a sustainable balance sheet and operational structure for the Post Office and its banking arm. The Communications vote also receives additional funding to meet costs incurred by the Independent Communications Authority of SA to prepare for the licensing of a second national telephone service operator.
- On the Labour vote, R605 million is recommended to meet the accumulated shortfalls of the Unemployment Insurance Fund. The UIF is a key component of our social security system, providing relief to many people who lose their jobs in the course of industrial restructuring and also maternity and death benefits to workers. The UIF is funded by employer and employee contributions, and it should not need supplementary allocations. However, in recent years contributions collected have lagged behind while benefits claimed have continued to escalate. Recognising the important role of the UIF in contributing to the income security of the poor, the restructuring of the Fund has been prioritised. Legislation presently under review and reorganisation of the management of the Fund will in due course return it to a self-sustaining financial position.
- Against the background of an unanticipated acceleration in the Government's land restitution programme, an additional R50 million is recommended for the Land Affairs vote. Projects targeted for completion this year include Alexandra and District Six.
- The Treasury Committee has recommended an additional R250 million for the Transport vote to meet shortfalls in bus subsidy payments and the operational budget of the SA Rail Commuter Corporation. These are in part related to cost escalation associated with higher fuel costs and unforeseeable events, such as rail accidents and restructuring within the bus service industry.

Madam Speaker, these and other adjustments – and the resulting changes to the overall allocations by vote – are set out in the published *Adjusted Estimates of National Expenditure*. As in the past, the Treasury Committee has evaluated a wide range of requests for additional funding against the criteria for unforeseeable and unavoidable expenditure set out in the PFMA and its regulations. In some cases, such as the UIF and Post Office allocations, the amounts recommended are substantial and Government recognises that further work needs to be done to ensure that programmes or agencies involved are put on a sound and sustainable footing.

In a number of other cases, the Treasury Committee has found itself evaluating requests for minor adjustments or specific commitments that, while satisfying the unforeseeable and unavoidable test, nonetheless represent items that could be accommodated if departments had appropriate provision for contingencies in their forward planning and budgeting. Now that the PFMA requires formal evaluation of risks and a risk management framework to be in place, we expect fewer requests to Treasury Committee for additional funds in future.

Revised revenue and the budget deficit

The House will be pleased to know that the additional expenditure recommended can be accommodated without anticipating higher government borrowing. This year's harvest has exceeded our expectations and based on the robust trend in the first half of the year, we expect that revenue this year will exceed budget projections by some R4,8 billion. The deficit for the year is expected to be R22,8 billion, or 2,3 per cent of GDP, compared with a February estimate of 2,5 per cent.

Madam Speaker, I am pleased to commend the Adjustments Appropriation Bill for the 2001/02 year to this House for consideration.

The Medium Term Budget Policy Statement

Let me turn now to the *2001 Medium Term Budget Policy Statement* and the economic context within which next year's Budget will be framed.

Macroeconomic policy and outlook

Since the 2001 Budget was tabled in this House in February this year, an already deteriorating international economic trend has been rocked by attacks against the United States and the resulting war in Afghanistan. The slowdown in world growth has deepened and financial markets have experienced a flight from risk and to safe havens. The rand has weakened sharply.

But our trade performance in the first nine months of 2001 has remained impressive, government revenue has grown strongly and there has been a recovery in capital spending. Although we now expect growth of 2,6 per cent this year – down from our February Budget estimate of 3,5 per cent – we expect South Africa to avoid the dislocation that many other emerging economies are presently experiencing.

Indeed, South Africa's healthy balance of payments, declining inflation and sound public finances allow us to propose fiscal policy adjustments that will sustain and reinforce the momentum of our growth and development. The *MTBPS* reaffirms Government's firm intent to address our social and development challenges within a consistent, growth-oriented fiscal and budgetary framework.

When we tabled the Budget in this House in February, we said,

'This Budget tells the story of the choices and decisions we have made and which have advanced the transformation of our country and its economy to the point where we can now begin to enjoy its fruit. It tells the story of a young and proud democracy hard at work to improve the lives of all its people'.

In a world where so many economies are already in recession, where millions of workers are being retrenched, where tens of thousands of firms are closing down, where governments are battling to collect the taxes necessary to fund even basic services, we must pause to consider the correctness of the tough decisions that we took earlier. If we compare our situation now to that in 1998, when in response to a global financial crisis interest rates rose by more than 7 per cent, little money was available to support the policy choices of departments, pensions and grants could not be increased to keep pace with inflation. All of the pressures we faced were very real then.

The present global economic crisis is much worse. The rand has depreciated by the same margin as in 1998, but our economic base is now far stronger.

Key features of our economic performance include the following:

- Growth of 10,4 per cent in merchandise export volumes in the first half of this year compared with the same period in 2000, while services exports grew by some 15 per cent over the same period,
- A decline in the net open forward position of the Reserve Bank – representing uncovered future claims on foreign exchange reserves – from US$9,5 billion in January to US$4,8 billion in September,
- Steady growth in most sectors of the economy this year, and particularly in wholesale and retail trade, financial services and the transport, storage and communications sectors,
- An improvement in domestic investment across a broad range of industries, including real growth in both public and private sector capital formation,
- A modest recovery in domestic saving, accompanied by an encouraging reduction in household debt relative to incomes,
- Steady declines this year in both producer and consumer price inflation.

In September, the consumer price index less mortgage costs – CPIX – increased by 5,8 per cent, within the target range set for next year. Our expectation is that it will average 5,5 per cent next year.

Taking into account the lags involved in monetary policy implementation, it is necessary to set inflation targets for the medium term. Accordingly I have consulted with the Governor of the Reserve Bank and we reached full agreement on all issues. I therefore presented a proposal to the Cabinet, reflecting this common position. Having considered the matter, Cabinet agreed with our proposal. I am therefore mandated by Cabinet to make the following announcement, covering the years 2003 to 2005.

The inflation target will remain an annual average increase of between 3 and 6 per cent in CPIX in 2003. For the 2004 and 2005 year, the target will be 3 to 5 per cent.

There has from time to time been speculation on the flexibility of the inflation targets in the event of large external shocks the impact on price trends. In order to remove uncertainty, we have agreed with the Reserve Bank on an "escape clause" dealing with such events, which is set out in Chapter 2 of the *MTBPS*.

Our expectation is that inflation will steadily ease over the years ahead, reaching about 4,5 per cent in the third year of the new MTEF framework. Economic growth of 2,6 per cent in 2001 will result in growth for the fiscal year of about 2,4 per cent, followed by growth averaging 3,5 per cent over the forthcoming three-year period.

We need to remind ourselves, as we did in February

> '…*And its fruits gradually acquire*

the sweet taste of liberty….'

Fiscal policy and the budget framework

Our fiscal policy stance plays a role in supporting this projected recovery in growth. The *MTBPS* outlines a bold programme of further tax relief and strong real expenditure growth, building on the firm foundations of fiscal consolidation in recent years.

Expenditure increases over the next three years will be focused on health services and social grants, municipal infrastructure and housing, improved police and justice services and critical administrative services to citizens. Budgetary provision for the electrification programme will also be stepped up.

We have made provision for shortfalls in the operating budgets of the Post Office and the Unemployment Insurance Fund over the next three years, allowing for a period of restructuring in order to restore self-sufficiency.

Moderate easing of the overall tax burden will continue, with relief particularly for low- and middle-income wage-earners. Enhancing the capacity of the SA Revenue Service continues to be a key priority in the budget.

Spending on public infrastructure is expected to grow by 8,8 per cent a year in real terms over the next three years, boosted by several public-private partnerships and other projects of public enterprises and extra-budgetary government agencies.

Following several years of consolidation bringing the budget deficit down to 2,0 per cent of GDP last year, a deficit of 2,3 per cent is projected for the current year. It is anticipated that the budget deficit will increase to 2,6 per cent of GDP in 2002/03 before falling to 2,2 per cent by the end of the new MTEF period.

At this stage, preparatory work for Telkom's initial public share offer is well advanced. But we recognise that the regulatory and institutional work that needs to be completed is formidable and market conditions at present are unattractive. For budgetary purposes, we have shifted the anticipated proceeds to the fiscus to the next year.

Despite the moderate increase of the budget deficit expected next year, debt will continue to fall as a share of GDP and debt service costs will continue to be reduced as a proportion of government expenditure, releasing resources for productive purposes.

Details of the revised budget framework and the outlook for revenue and tax policy are set out in Chapters 3 and 4 of the *MTBPS*. The new framework provides for an increase in spending over the forward estimates published in the 2001 Budget of R8,9 billion in 2002/03 and R11,8 billion in 2003/04. An additional R13,3 billion is made available to departments and provinces in 2004/05, above the baseline 6 per cent increase over their 2003/04 estimates.

Madam Speaker, the national budget framework reflects a large part, but not all of Government's spending commitments. The *MTBPS* summarises the accounts of our social security funds, which fall outside the main budget numbers. In addition, we draw attention to a range of new infrastructure projects that will contribute to social and economic development in the years ahead, and will be largely self-funding and hence are outside of the main budget.

- Water projects under consideration include the Skuifraam Water Scheme to supplement water supply in the Western Cape, and further developments in several other regional water schemes.
- Negotiations have been completed for the "platinum highway" toll road concession, linking the N4 north of Pretoria with Botswana.

- A substantial rehabilitation and realignment of the east coast road linking East London, Umtata, Port St Johns and the Port Shepstone-Durban highway is under review.
- Industrial development zones being planned include the Coega port near Port Elizabeth, Richards Bay and East London.
- A gas pipeline from Mozambique to South Africa is a major investment in ensuring an affordable energy source for Southern Africa over the next twenty years.
- A rehabilitation of the Rail Commuter Corporation's rolling stock is in progress. A commuter rail link is planned for the Khayelitsha community in Cape Town.
- A high-speed rail link between Johannesburg and Pretoria is under investigation.
- Investment in telecommunications will be boosted by the recent issue of a third cellular network licence, the proposed issue of a second national operator licence and further upgrading of Telkom's network and services following its public share issue.
- New emergency call centres are being built by the Department of Communications in Cape Town and Johannesburg.

In some of these projects – notably the toll road concessions and further investment in telecommunications – private investment will provide funding through direct equity participation or public-private partnerships. In other cases, funds will be raised against the balance sheets of our public corporations. Taking these investment plans into account, however, the consolidated public sector borrowing requirement is expected to remain modest over the years ahead, rising from an estimated 1,6 per cent of GDP next year to about 2,4 per cent in 2004/05.

Investing in the future

Our fiscal framework also provides for a marked increase in investment in human resources. Education remains far the largest category of spending on the consolidated national and provincial budgets, rising from an estimated R58,6 billion this year to over R70 billion projected for 2004/05. In addition, the national budget now includes the skills development programme funding through a payroll levy on employers. In its first year, R970 million was transferred to the National Skills Fund and sectoral education and training authorities (SETAs), and this year about R2 billion is expected to be transferred out of available funds of about R3,4 billion. The funding for skills development is now in place – for grant disbursements to accelerate, employers need to take up the opportunities available. Our strategy rests on a vibrant partnership between government, employers and workers – the challenge here is to see skills development not just as a tax to be paid, but as an investment in future productivity and growth.

Adding further to this investment in people, it is proposed that the wage incentive announced in the 2001 Budget should initially take the form of a tax allowance to employers for learnership agreements entered into in terms of the new skills development and qualifications framework. More details and draft legislation will be released by SARS, National Treasury and the Department of Labour before the end of the year. The allowance will be retained for the next five years to enable learnership programmes to establish their rightful place in our human development strategy and to contribute to the creation of new work and training opportunities.

Against the background of the substantial reforms undertaken in the past two years, the 2002 Budget will herald a period of consolidation in tax policy. The personal income tax structure will again be lightened. Investment incentives amounting to R3 billion over the next four years will take effect. Further amendments to the list of public benefit activities will extend the range of organisations qualifying for tax exempt status. During the course of next year, a thorough review of the tax treatment of retirement saving will be undertaken. Some of the shortcomings of the income tax treatment of the banking sector will be addressed and effective tax rates in other sectors will be reviewed. Our cooperative work with other Southern African countries on customs administration, tax incentives and sharing lessons of tax reform and building effective revenue administrations will continue.

But the broad parameters of the tax law are now in place, and taxpayers can arrange their affairs with confidence in both the structure of the tax code and the steadily improving capacity of the revenue authority to ensure its impartial and effective administration.

The Medium Term Expenditure Framework

Madam Speaker, on the strength of a sound budget framework and robust revenue performance, we are able to plan for a bold expansion of public expenditure over the next few years. In shaping the policy framework for the 2002 Budget, Cabinet has been clear that addressing poverty and vulnerability remains the central challenge in setting budget priorities, preparing spending plans and building on our Reconstruction and Development Programme achievements of the past seven years.

Spending on social services continues to account for over half of consolidated national and provincial non-interest expenditure, amounting to R131 billion in the current year. In strengthening social service provision, we are able to target more resources to services that directly influence the lives of people in our communities.

By spending these monies wisely on schools and higher education, primary health care and hospitals, social grants, welfare services and housing, we are able to open up opportunities for economic development and reduce the physical and economic vulnerability of communities.

Over the next three years, spending on social services will grow by R15 billion, with growth averaging 8,7 per cent a year for welfare services and 8,2 per cent for health services.

Directed largely towards provincial governments, these monies will enable us to:

- Put money in the pockets of poor people by increasing the numbers of children benefiting from the child support grant to 3 million and providing inflation-related increases in the value of all social grants,
- Build better homes for more people as we raise the size and quantity of housing subsidies that are granted to people with low-incomes,
- Strengthen our capacity to provide health care services that respond appropriately to the challenges of HIV/Aids, tuberculosis, malaria and other health needs of our people,
- Expand initiatives to improve the quality of education through strengthening early childhood programmes and those aimed at learners with special needs.

Spending on economic services and infrastructure rises sharply up to 2004/05, reinforcing the commitment we made in February's Budget to expand economic infrastructure and build skills in the economy. Additional funding will go to a broad range of programmes:

- A targeted subsidy for the Post Office, recognising its importance in providing universal access to essential communication services,
- Stepping up the national funding of the electrification programme to expand connections in rural areas over the next few years,
- Investment in rail infrastructure and increasing subsidisation of commuter bus services, facilitating access to safe and affordable public transport,
- Investment in municipal water and sanitation services, increasing access to clean, safe water and sanitation facilities,

- Rehabilitation and maintenance of district and provincial roads, enhancing economic activity in rural areas in particular,
- Provision for the United Nations World Summit on Sustainable Development to be held in Johannesburg next year.

Justice, protection and security services will see growth of about 6,7 per cent a year over the MTEF period. Funding will be provided to phase in an additional 6000 policemen and to strengthen key court administration functions. Physical security at courts is being stepped up and additional allocations for vehicles, information technology and maintenance of infrastructure have been made to the Police Services.

Within the administrative services cluster, increased allocations are proposed for Foreign Affairs, Home Affairs and the Revenue Service next year, and provision is made in the outer years of the MTEF for the 2004 elections.

The *MTBPS* sets out a Division of Revenue for the 2002 Budget in which an additional R4,0 billion goes to provinces next year and R5,4 billion in 2003/04. Recognising the critical role of provincial departments in providing social services to citizens, the provincial share of total allocations rises from 55,8 per cent this year to 56,4 per cent in 2004/05.

A marked increase in local government allocations is proposed, raising its share of the national budget to 4,3 per cent in 2004/05.

Intergovernmental finances

The final Chapter of the *MTBPS* summarises the intergovernmental budgetary framework. In addition to the equitable share allocations to provinces and local government, a range of conditional grant programmes provide earmarked funding for priority services or infrastructure investment programmes.

The Budget Council has advised that the weight for the social welfare component in the equitable shares formula should be increased by 1 percentage point, taking into account increased spending in this sector and the importance of sustaining adequate funding levels for the phasing in of the child support grant. The economic component will be decreased by a percentage point. In addition to this change, updated enrolment data has been used in calculating the education component of the formula. The phasing in of the present formula will be completed in 2003/04.

Following a careful review of the health sector grants, it is proposed that the central hospitals and redistribution of specialised services grants should be combined into a new National Tertiary Services grant. It will provide a more equitable funding framework for tertiary health care and will recognise tertiary services in 27 hospitals in all nine provinces, whereas just 10 hospitals were included in the previous framework. A new development component is also added to the Health Professions Training and Development grant to fund medical specialists and registrars in under-served provinces.

Further steps in the rationalisation and re-design of the local government funding framework are also outlined in Chapter 6 of the *MTBPS*. The equitable share will increase in the years ahead, providing additional support for the delivery of free basic services and ensuring that all municipalities are able to maintain sound administrations.

Allocations for municipal infrastructure are set to increase by some 18 per cent a year over the MTEF period, rising to R4,0 billion by 2004/05. This will primarily go towards basic infrastructure in low-income neighbourhoods.

Transfers to support municipal capacity building will also grow strongly, focused mainly on financial management reforms and development planning interventions.

A discussion paper detailing the proposals for the 2002 Division of Revenue Bill will shortly be released, providing an early framework that will allow provinces and municipalities to plan their 2002 Budgets properly and begin putting capacity in place to implement new projects and development programmes.

Concluding note

Madam Speaker, as in the past, the *Medium Term Budget Policy Statement* is the broad outline of a budget, it does not contain all the joints and ligaments. Within this framework, provinces and national departments have still to complete the details of their budgetary planning and there may be further adjustments to some of the numbers.

But Members of this House will appreciate that, taking into account the slowdown in the international economy and in our own growth rate that has been experienced this year, it is that much more critical that our allocations should be well-targeted and our spending programmes should be effective and well-managed.

The *MTBPS* is intended to assist Parliament and the people understand the economic context, the policy considerations, the constraints, the options, the plans and the spending programmes that make up the overall budget framework. I know that in exploring this framework and taking further its proposals and suggestions, the new Budget Committee has a unique and most challenging opportunity to contribute to the shape of our fiscal and budgetary future. I know that it will live up to this challenge fully, and I would like to thank you, Madam Speaker, and the Chairperson of the National Council of Provinces, for taking the lead in this exciting new Parliamentary initiative.

Finally my thanks are due to the President, the Deputy President, members of the Ministers' Committee on the Budget, colleagues in Cabinet and the MECs for Finance in our provinces for their many contributions to the long and robust engagement with policy choices, development challenges and spending options that leads, each year, to this Statement.

I am exceedingly grateful to staff of the National Treasury and SARS for their diligence and professionalism, for the quality of advice that the Deputy Minister and I receive. I hope that all Members of Parliament share with me in expressing appreciation for the quality of documents prepared by our staff to enable us to exercise our responsibilities for decision-making.

Lastly, I want to thank all involved in Parliament's Budget Reform Task Team, especially Honourable M J Mahlangu for the close collaboration and for the establishment of the new Budget Committee. I want to wish the members of the Committee every strength – I know the work will be hard but the work will be exciting and provide an opportunity for accelerated learning.

And thank you to all of you, for your patience in hearing me out.