

Description : MEDIUM TERM EXPENDITURE FRAMEWORK

Date : 11 AUGUST 1997

Speaker : MINISTER TREVOR MANUEL

SPEECH BY MR TREVOR MANUEL, MINISTER OF FINANCE: THE MEDIUM TERM EXPENDITURE FRAMEWORK, 11 AUGUST 1997.

Welcome Mr Chairperson, Ladies and Gentlemen I would like to welcome you, Chairperson, and your colleagues from the Joint Standing Committee on Finance. We are also honoured to welcome Jacques Modipane, the MEC for Finance from Mpumalanga and Shepherd Mayatula, the MEC for Finance from the Eastern Cape. Last, but certainly not least, I would like to welcome our eminent guest speakers at today's proceedings, Ruth Richardson, Murphy Morobe and Charles Simkins. It is encouraging to see so many people here this afternoon. I believe that the high level of interest demonstrates that the Medium Term Expenditure Framework is at the top of all our agendas.

I should like to spend a few minutes this afternoon explaining why I think that perception of the central role of the MTEF is absolutely correct. The central role of Reconstruction and Development Mr Chairperson, the Medium Term Expenditure Framework is a tool to deliver reconstruction and development. The RDP is at the heart of the Government's spending commitments:

- the budget this year reaffirmed our commitment to investment in human development and access to health services
- we are developing a broad social security net and a range of developmental welfare services
- we are promoting industrial growth, supporting urban and rural development and encouraging small business development
- we are building new infrastructure - infrastructure that our expanding economy needs for the next millennium
- and we are providing more for police and justice, to protect us from crime - building the institutions of a free and prosperous society.

We have known for some time that these priorities can only be delivered within the context of a strong and growing economy, sound economic policies, and proper financial discipline. The Medium Term Expenditure Framework is one among a number of reforms to the way the government does its business to ensure that we meet that challenge.

Medium Term Planning

These challenges, and our commitments to meet them, all extend far into the future, well beyond the planning horizon of a one-year budget cycle. So we have decided to adopt a 3-year forward planning framework. Medium term expenditure planning means:

- first, we can decide at a political level how to deliver improved public services and transformation within realistic projections of what we can afford to spend
- second, public services can plan over the medium term, in the knowledge of how their budget is likely to evolve, improving over time the value for money and so delivering more and better services
- third, we can assess new policy proposals as they emerge
- fourth, we can allow agencies to enter into forward commitments based on their budget projections, ending the insanity of having to bid for money this year that you know you are not going to be able to spend
- and fifth, we can set out to parliament, the public and the financial markets how we are going to go about achieving the fiscal policy targets that we have set ourselves.

Mr Chairperson, I think we should be in no doubt that medium term planning will bring significant improvements in the planning and management of public services.

Prioritisation

But the Medium Term Expenditure Framework is not just a matter of stretching the budget horizon from 12 months to 36. It is about putting our money where our mouth is. We have a huge agenda for the development of this country. We need to transform the delivery of public services.

We must make sure that the budget system supports those priorities. The Budget must reflect the priorities of the Cabinet, of the three tiers of Government, and of the nation. We cannot simply accept the budgets we have inherited. We must not address our priorities through small incremental changes from year to year. We must channel funds to our highest priorities. Inevitably that means we have to identify services we can do without, or which we can do more cheaply, or which we can scale down. That is why we are introducing the Medium Term Expenditure Framework. It is a mechanism for establishing our priorities, and ensuring that the money is found to meet them.

The judgements about the Budget that we take in Cabinet and in provincial Executive Councils depend on the integrity and quality of our information. So the first and most important goal of the MTEF is to strengthen political decision-making in the budget process. We will direct money to our priorities. The MTEF will ensure that we deliver reconstruction and development in the context of a sound and stable macro-economic framework. It enhances the transparency of the budget process. Better analysis In addition to matching budgets to priorities, the MTEF process will help us to understand the trends and pressures in public spending. What are the determinants of the costs of particular services? How can we work to deliver more and better services with the limited resources available?

Officials are working to develop models that identify policy choices and expose the budgetary implications of those choices. This is a co-operative process, designed to build a shared understanding between the departments of Finance and State Expenditure, and the line departments responsible for delivering services, of the implications of budgetary allocations. It is

also important that we all understand the need for sound financial management, appreciate the need to keep spending at a level that we as a country can afford.

The Departments of State Expenditure and Finance are responsible for ensuring that spending is kept to a level that is affordable, and advising the government on how to ensure that money is targeted on its broad priorities. They will do this through Medium Term Expenditure Framework. Making more with what we have I do not need to tell you that the adoption of a medium term perspective does not mean that there is any more money. We have to live within our means. We will live within our means. The challenge we face is to make every rand go further: to deliver better services, more infrastructure, more poverty relief, more reconstruction with the money we can afford.

Medium term planning will mean that we get more bang for our buck. We will analyse and interrogate spending. We will think more smartly and more critically about how we go about our business. We will learn from each other, and learn from best practice, to make sure that we are doing the best we can with what we have got. This is the challenge before us - we will not throw good money after bad. Tales of overspending and mismanagement will only make the Treasury more determined to put the money where it will be well spent. Failure and waste cannot be rewarded.

There will be no bail out. The link to outputs In the years ahead, the analysis underlying the MTEF will provide a tool which links expenditure inputs to service outputs. It will take some years to build the framework in full. All departments have been invited to begin to develop clear analyses of their polities and service delivery targets, within the context of government's macro-economic framework. Increasingly, as the MTEF develops, it will be built upon output-oriented reviews of all spending programmes and activities. Departments should begin this process now. In future years, we will not allocate money without a clear agreement about what that money is going to buy. This is nothing more than common sense.

Sectoral teams

For this year, we have decided to focus on six areas:

- health, education and welfare at the provincial level
- the criminal justice system and defence at the national level
- and the universal issue of public sector pay.

Sectoral teams will begin work on these issues at tomorrow's workshop. I want the teams to develop an understanding of how spending trends are related to policy choices and programme design. The teams are asked to show how we can meet our policy goals efficiently and equitably. They should make recommendations on the structure of medium term budgets. Most importantly, they should expose the key expenditure choices we face as we seek to deliver reconstruction and development.

Wider issues in financial management

We are also addressing a number of other issues in the financing and management of public services:

- We are still developing the co-operative relationships between national and provincial governments
- We are transforming the public service
- we are benefiting from public-private partnerships, using the skills and expertise of the private sector to ensure the delivery of public services
- We are reforming public sector procurement and tender procedures.

And alongside the introduction of a medium-term framework, I will be tabling further proposals for budget reform and financial management. I hope that you will use this conference to debate these issues, not as abstract themes in a discursive critique of the state, but as concrete proposals that will contribute to government going about its business better. There are seven months left before we table our first set of three-year forward estimates. We face tough budgetary choices and this conference has an important role to play in ensuring that we make these choices wisely.

Conclusion

In conclusion, I would like to say how pleased I am to see such interest and enthusiasm in the Medium Term Expenditure Framework. This conference brings together national and provincial officials, from both treasuries and line departments, involved in and responsible for Government's budgets. You carry heavy financial responsibilities and an immense volume of work goes into preparing budgets and managing expenditure.

This year, the work-load is that much heavier, as we introduce for the first time a three-year framework. You have had to work frantically to get departmental submissions in. And the work is far from over. I know I speak on behalf of my colleagues in Cabinet and I know that my provincial counterparts are with me when I say: the MTEF is possible because of your skills and dedication; its success depends on your efforts. I thank you all.