

Description : GAUTENG FINANCE LEKGOTLA

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Speaker : MINISTER TREVOR MANUEL

**KEYNOTE ADDRESS BY MR TREVOR MANUEL, MINISTER OF FINANCE,
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Thank you for the opportunity to address the Lekgotla today. Whilst the focus of the meeting is undoubtedly on the Province itself, the occasion also provides us with a valuable opportunity to build on co-operative governance between all three spheres of government. I say this not only because it is a Constitutional requirement, but more importantly from a political and delivery perspective, because delivery can only be maximised if there is full co-operation and an alignment of policies between all three spheres of government.

CO-OPERATIVE GOVERNANCE

Whatever policies we adopt, we must ensure that all spheres are committed to implementing these policies. More importantly, we must ensure that all spheres fully understand the reasons why such policies have been adopted. The danger with a three-sphere system like ours is that each sphere begins to adopt a rather narrow and one-sided perspective; worse still, where each sphere implements policy in a half-hearted manner because it does not feel fully committed to that policy. This brings us to the hard bit. Since no sphere can exist or implement policy without the necessary finances, the financial policies of the government play a central role in ensuring that we deliver on our RDP objectives. Given the 300 years of deprivation, there is a huge demand for limited funds, forcing us to prioritise and phase in our policies in a considered way so as to ensure that we maximise delivery to as many of our people as possible. In this sense, it becomes a crime to waste funds, or to overestimate our capacity to spend and therefore hold on to funds which one department cannot spend when another department could do so. We have the responsibility, both in law and in fact to ensure that appropriate systems are developed across all of government to maximise the allocative efficiency of resources. GEAR But, we have to recognise that adequate systems without adequate resources do not score any points with the electorate. If we are to address the enormous backlogs, and, on a continuing basis, address development needs, we will have to grow the economy substantially and sustainably. This is our only guarantee for resource adequacy. In addressing the challenge, we have to understand that we seek to transform the economy at a time of rapid change across the globe, in a world which is increasingly interdependent. We need to understand

- the huge shifts in what is produced and how things are produced
- the huge shifts in what is traded and how goods are traded
- the shifts in sources of wealth from minerals to technology; and
- the accumulated wisdom in the best practice of governance.

More importantly, in South Africa we have set down in the RDP the benchmarks we have to attain in order to effect socio-economic justice. These are the circumstances which gave rise to the programme for sustainable growth and development. We set down a few basic objectives, namely:

- a competitive, fast-growing economy which creates sufficient jobs for all workseekers
- a redistribution of income and opportunities in favour of the poor
- a society in which sound health, education and other services are available to all
- an environment in which homes are secure and places of work productive.

GEAR is essential the alignment of policies at a macro level in order to create a set of outcomes which approximate as closely to those four elementary objectives as possible. GEAR underpins the RDP - it cannot replace it. It creates a sound platform for the detailing of a range of micro-economic policies in areas such as industrial development, labour market policies, infrastructure development and enterprise development. Macro-economic policy cannot, on its own, deliver socio-economic development - for that we need detailed policies in areas such as health, housing, education, welfare and land reform. What macro-economic policy does provide is the anchor which will render all of the other policies credible and workable. We have learnt many valuable lessons in the discourse around GEAR over the past thirteen months, and we remain convinced by the approach which argues, "an important foundation for the growth and redistribution policy South Africans choose has to be the maintenance of market confidence although that, itself, is an elusive task." Laurence Harris in the Political Economy of South Africa's Transition. GEAR also asks of us to examine the role of government in the economy. It calls on us to repeatedly ask what we do, take direct responsibility for, what we can catalyse in respect of other actors in the economy and, more precisely what we spend resources on. For example, we have inherited a huge debt-servicing bill. We have inherited a national debt of R309 billion, 55% of our total income or GDP. Our debt servicing for this year is about R38.5 billion out of a total budget of R188.9 billion for 1997/98. This is the second biggest item on our budget, but the one item that has been rising fastest, and will overtake education's R40.2 billion if we continue to borrow at higher levels than 3% of GDP, in the future. We raise R161.9 billion from taxes, and borrow R24.77 billion, or 4% of GDP. In other words, for every R1 we spend, we raise just under 86c and borrow just over 14c. We spend 20.6c on interest, and so are left with only 79.3c to spend on anything else. Our total capital expenditure at national and provincial level is only expected to be R14.8 billion, or 20,4% of the total national and provincial budgets. We cannot get higher growth if we are going to be spending less on capital and more on recurrent expenditure. So GEAR is important if we want higher growth to generate more jobs, and if we want to be able to spend more of the funds we raise on RDP instead of interest. If we want to be part of the global economy, we have to accept that there are costs that we have to bear if we want to benefit.

NEW CONSTITUTION

This brings us to our constitutional responsibilities. In terms of the new constitution, provinces and local government are entitled to a share of nationally-raised to enable them to deliver basic services and perform their functions. (These functions are set out in schedule 5 and 6 of the constitution.) One of the important factors to take into account when determining the equitable share is the fiscal capacity of each province and local government, as well as the efficiency of their collection and spending. Hence areas not collecting their due and ensuring the success of Masakhane cannot expect to get more money; similarly for those not reprioritising their expenditure to enable them to deliver on RDP. For this reason, since provinces do not have very significant powers of taxation, their entitlement is significantly more than government. The nine provinces received close to R90 billion this year, whilst local government received approximately R4 to 5 billion. We have a Budget Council made up of MECs for Finance and the Minister, where consultation with provincial governments on their equitable share takes place. I have met with SALGA to set up a forum to consult with local government to determine its equitable share.

FINANCIAL MANAGEMENT

Receiving funds introduces new responsibilities. We have a public duty to properly spend the money that our people entrust to us. Section 215 and 216 of the constitution obligate the Finance Minister to introduce legislation for treasury controls to ensure proper financial management. Government will therefore be introducing a new bill early next year. This bill will ensure that there are effective sanctions against accounting officers who overspend and hence undermine the democratically-accepted budgets at all spheres of government. We do not want a continuation of the practices of the previous regime and its Bantustans. The Public Accounts committees in Parliament and all the provinces are looking at measures to ensure that problems raised by the Office of the Auditor-General are followed through. I want to point out given the different systems operating for national/provincial governments on the one hand, and that for local government, we are striving for an approach that is consistent and uniform in its principles. The present Local Government Transition Act applies to local government, whilst the various Exchequer Acts apply to national and provincial governments. It is our intention to try and replace all these Acts with one Treasury Control Act some time next year.

DIVISION OF RESPONSIBILITIES

Given the spirit of co-operative government and the provisions of Chapter 13 of the Constitution, the Minister and MECs for Finance have a responsibility to exercise the necessary oversight over the finances of all spheres of government. Whilst forums like the Budget Council have ensured some consistency between national and provincial government, this has not been the case for local government. This sphere is more complicated, given that there are over 850 local authorities, and that the new order here is relatively young. All spheres of government must operate within a macro-economic framework that is determined at a national level. Hence the Local Government Transition Act (LGTA) was amended last year to empower the Minister to set

expenditure limits for both municipalities. The Department of Finance monitors that municipal budgets do not exceed these limits, nor run operating deficits. It is imperative that accounting officers in national, provincial and municipalities act responsibly and in terms of the law. The heads of Departments in provinces, and the Town clerks or CEOs of municipalities must take their budgets seriously, and not allow themselves to be pressurised into over-spending. Councillors and MPLs, Exco members must all support their chief officers in sticking to their budgets. The departments of Finance and Constitutional Development are in the process of discussing the lines of responsibility between national and provincial governments, and in the province, between the local government departments and the provincial treasuries. However, a few points need to be borne in mind in this respect. Given that local government is an independent sphere, information and oversight over its finances are critical to the success of the system of government in SA. Whilst Councils have the primary responsibility over the finances of their municipality, provinces have an important oversight role in terms of section 139 of the Constitution. In conclusion, we face the daunting task of transformation. Along the route we are going to have to take some unpopular decisions - not to become unpopular but in order to transform. We will be tested on our ability to ask and answer difficult questions; on the soundness and credibility to drive change. Essentially, we have to fall back on each other - the spirit of co-operative governance is what should dominate. But that there were an easier walk to freedom.