

**2012**

**Budget Speech**

**Minister of Finance**

**Pravin Gordhan**

**22 February 2012**



## 2012 Budget Speech

ISBN: 978-0-621-40580-4

RP: 03/2012

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Honourable speaker

It is my privilege to introduce the third budget of President Zuma's administration.

Mister President, you have given us a clear and historic challenge to "write a new story about South Africa – the story of how, working together, we drove back unemployment and reduced economic inequality and poverty."

This budget has been crafted at a challenging but hopeful time. We have to say to our people that economic uncertainty will be with us for some time, yet we have a programme of economic change that can steadily roll back unemployment, poverty and inequality.

We have demonstrated excellent resilience during the post-2008 crisis. We now need to introduce a new dynamism among all South Africans.

It requires an extraordinary national effort from all role-players, committed not just to identifying the barriers to progress, not just to proposing solutions, but also working together, over the long haul.

Our new story, our period of transition, is about building modern infrastructure, a vibrant economy, a decent quality of life for all, reduced poverty, decent employment

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opportunities. It is a story that must be written by all of us. Not just by government. Not just by business. Not just by unions. By all of us, South Africans from all corners of this country.

The legacy of our past is not only that of difficulty and despair. We can draw pride from the celebration of the ANC's centenary, and build on this past to get things done today. The idea of unity in action, working together to realise practical goals, must be revived. The idea of an active citizenry, drawn into motion by dedicated activists and inspired by a compelling vision of the future, has to be renewed.

Every one of the last hundred years has seen our nation overcome obstacles that seemed insurmountable. Some may have been beyond our control, the result of changes to the environment to which we were compelled to adjust. Some were the result of our failure to act, even when the solutions were known to us. Others were the unintended consequences of our own successes.

A towering leader of our movement, Walter Sisulu, wrote from his prison cell on Robben Island, "In a certain sense, the story of our struggle is a story of problems arising and problems being overcome. It is understandable that many of the problems should generate much controversy and emotion. However cool and detached we may strive to be in our analysis, the fact remains that we are deeply involved and interested parties and the solutions we adopt are solutions we ourselves have to implement."

We will not turn away from our challenges. We must confront them boldly, and with hope. In harnessing all the resources at our disposal, we have to do more, with less; we have to work smarter and harder. South Africans must focus on our strengths and opportunities, to identify and activate the levers of economic and social change at our disposal.

Mister President you have given effect to the wisdom of Walter Sisulu; through the work of the Planning Commission this country now has a 20 year vision, through your initiative we now have a massive infrastructure programme also extending over 20 years, which will increase the growth and job creating potential of our economy.

## Overview of the 2012 Budget

We remain steadfast in addressing the challenges of creating jobs, reducing poverty, building infrastructure and expanding our economy.

In brief, Mister Speaker, today's budget advises the following:

- The global environment remains highly uncertain. While there are signs of a revival in the US economy, much of Europe is in recession, and significant financial risks cloud the global economic outlook.
- South Africa's finances are in good health. A budget deficit of 4.6 per cent of GDP is projected in 2012/13. We plan to reduce the deficit to 3 per cent of GDP in 2014/15, and public debt will stabilise at about 38 per cent of GDP.
- An expansion in infrastructure investment is one of the central priorities of the 2012 Budget.
- Special emphasis is given to improving competitiveness in industry, investment in technology, encouragement of enterprise development and support for agriculture.
- Total spending will reach R1.1 trillion next year, representing some 32 per cent of GDP.
- Education, health and social assistance will remain the largest categories of expenditure, sustaining and expanding the social wage over the MTEF period ahead. Investment in people is at the centre of our growth and development strategy.
- The budget continues to support job creation, with a particular focus on unemployed youth.
- The budget provides for personal income tax relief of R9.5 billion, with further measures to increase tax compliance.

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- Measures are proposed to invigorate household savings.
- We will strengthen financial management in the public sector, pursue value for money with the greatest possible vigour and ensure that taxpayers' money is well used.
- Fraud and corruption will be combatted through changes to procurement policies and practices and tough enforcement of the law.

Giving the budget practical effect cannot be a project of government alone. In Setswana, we say “Mabogo dinku a thebana” meaning “we have to work together to achieve more”. Government has supported the recovery from the 2008 recession, but as we expand infrastructure investment over the period ahead we have to see business investing in our future as well. Government has expanded social assistance to households over the past decade, but employment and economic growth have to be the main future drivers of income growth and poverty reduction. Government is responsible for developing effective municipalities and broadening access to services, but business, civil society and organised labour have to be partners in building cohesive communities and promoting social solidarity.

And so Mister Speaker, in tabling the 2012 Budget we have to say: this is what we undertake to do, not just as government, but as a nation. Our development requires every one of us to ask – what can I do for my country, my people, our future!

### **The global environment**

Allow me to reflect briefly, Mister Speaker, on the global environment and the historic shift in economic power that is taking place.

- In 2012, global output is projected to expand by 3.3 per cent. Advanced economies are expected to grow 1.2 per cent, while developing Asia will grow by 7.3 per cent during 2012, and Sub Saharan Africa by 5.5 per cent.

- Negative growth is forecast for the Euro area, impacting on trade in many other economies.
- In the last 5 years, the Chinese economy has expanded by 60 per cent and India by about 45 per cent. Advanced economies barely show positive growth. A recent World Bank study argues that “new growth poles are redefining the global economic structure”. This study predicts that emerging economies will grow on average by 4.7 per cent a year, while advanced economies will grow by about 2.3 per cent between 2011 and 2025.
- The speed of transformation is unprecedented and places emerging economies at the centre of the global economy. Emerging market multinationals are playing an ever increasing role in reshaping global industry, including marked increases in South-South investment and foreign direct investment.

The evolving world we face presents us with both challenges and opportunities.

Financial commentator Martin Wolf recently wrote: “Shaping this new world into a cooperative and flourishing order is going to prove extraordinarily challenging. History suggests that such times of transition, however inevitable and however just, are fraught with conflict and instability. Today, the western dominance of at least two centuries is under severe challenge. This period of transition is unlikely to be any less fraught than those that preceded it.”

To succeed in this environment, we have to seize the opportunities presented by this changing world.

As a major mining economy, we should be benefiting more from the continued buoyancy in commodity markets internationally. We also need to take advantage of rising demand for agricultural and manufacturing goods. Some 85 million manufacturing jobs in China will shift to other countries over the years ahead. Do we have the right policies, conditions and boldness to enable South African businesses to gain from these immense shifts in the patterns of production and trade?

There are expanding opportunities on our own continent. Africa is the second fastest growing region in the world. This growth is sustained by high commodity prices, but also reflects a youthful, increasingly educated population, rapid urbanisation and a new entrepreneurial spirit. Ten years ago there were fewer than 10 million internet users on the continent. Today they number almost 100 million.

As well as developing South African business interest in the continent, we should use the strength and sophistication of our financial system to turn our country into a true gateway for investment into, and development of, Africa.

Both the National Development Plan and the New Growth Path recognise that to compete in the global economy requires flexibility, innovation and leadership, in government and the private sector. We have to build a more adaptable economy. This requires more effective and dynamic partnership between government, the private sector and civil society.

At the same time, the crisis and its aftermath have revealed intractable problems in the old system. Growing inequalities in income and wealth have undermined economic growth and social well-being. The difficult task of moderating and reversing inequality requires active government intervention. Unregulated capitalism is clearly in crisis.

### **Economic outlook**

In building partnerships that will take us through this crisis, Mister Speaker, we have to implement a strategy for faster and more inclusive economic growth. We are not doing well enough in growing our economy and creating jobs for our young people.

- The South African economy has averaged about 3 per cent growth a year since 2009. Against the background of the slowdown in the global economy, real GDP growth is likely to fall to about 2.7 per cent in 2012.
- We expect a recovery to 3.6 per cent and 4.2 per cent growth in 2013 and 2014, but these are modest rates of expansion relative to the social and

developmental challenges we face and the opportunities that our mineral wealth and human capabilities offer.

- On present trends, the deficit on the current account of the balance of payments will widen from 3.3 per cent in 2011 to 4.4 per cent GDP in 2014.
- There was a welcome recovery in job creation during 2011, but employment has not yet returned to its 2008 peak and the unemployment rate remains high at 23.9 per cent.

### **Vision for the economy in 2030**

Mister President through your leadership we are able to say to South Africa and the world that we have a vision for our country and our economy – where we want to get to in the next 20 years.

Our New Growth Path recognises that special employment initiatives have to be a priority in our present circumstances, while in the longer term growth in agriculture and manufacturing, and investment in a knowledge-based economy must be prioritised. The draft National Development Plan identifies several key objectives:

- Lowering costs for both households and business
- Increasing public infrastructure spending
- Growing our manufacturing and agricultural sectors
- Raising mining output
- Improving the functioning of the labour market, particularly to help young people access work; and
- Raising competitiveness and exports.

In each of these areas there are steps proposed over the three-year period ahead.

Our development strategy requires a capable state, and active citizens. We need parents to work with the state to deliver quality education, community leaders that will help protect neighbourhoods; business leaders and trade unions to grow the economy; investors to create jobs. In isiZulu, “Uzothola kanjani uhleli ekhoni” meaning how far will you get if you are sitting in your corner.

### **The levers of economic change**

Mister Speaker, if we are to succeed in putting our economy on a more rapid and inclusive growth path to 2030, we need to effectively direct and manage the levers of change – levers that activate both public and private sector energies and capabilities.

These include:

- Our public-sector infrastructure programme
- Support for industrial development and special economic zones
- Investment in science and technology
- Support for emerging farmers and land reform beneficiaries
- Expansion of employment programmes
- Improvements in further education and skills development.

### **The fiscal framework**

A sustainable fiscal framework, based on the principles of counter-cyclicality, debt sustainability and intergenerational equity underpins our growth strategy.

Mister Speaker, we can be proud of the collective wisdom and will of our government in making the tough decisions that have kept our fiscus on a sustainable track. Reprioritisation, savings, haircuts – these have been executed with singular determination.

The consolidated resources available to the state over the MTEF period amount to some R4.5 trillion, taking into account the investment plans of state enterprises and development finance institutions. Key features of the budget framework include:

- Real growth in non-interest expenditure averaging 2.6 per cent over the medium term, bringing spending in line with long-term revenue trends.
- Additional allocations of R55.9 billion over the next three years, including R9.5 billion for an economic support package.
- Tax revenue stabilising at about one-quarter of GDP.
- A reduction in the budget deficit from 4.8 per cent in 2011/12 to 3 per cent in 2014/15.
- A public-sector borrowing requirement of 7.1 per cent of GDP in 2011/12, declining to 5 per cent in 2014/15 before rapidly rising again as the infrastructure programme of government accelerates.

By phasing in our fiscal consolidation over the medium term, we avoid the social and economic dislocation associated with more rapid adjustments, while still stabilising the fiscal position without burdening the economy and future generations with excessive debt.

## **Funding of infrastructure**

The Presidential Infrastructure Coordinating Commission has made considerable progress in identifying projects and clarifying long-term investment plans to drive economic change.

The *Budget Review* lists 43 major infrastructure projects, adding up to R3.2 trillion in expenditure. Over the MTEF period ahead, approved and budgeted infrastructure plans amount to R845 billion, of which just under R300 billion is in the energy sector and R262 billion in transport and logistics projects.

These projects are funded in various ways:

- The fiscus meets the costs of public-service facilities such as schools and courtrooms, hospitals and rural roads.
- Public entities such as Eskom and Transnet finance their investments from internally generated surpluses and borrowing from the capital market. This means they have to generate sufficient revenue from tariffs and charges to repay debt over time, and cover operating and maintenance costs.
- In some cases, a mix of tax finance and cost recovery is appropriate – we make budget contributions to the costs of commuter transport services and electricity and water service delivery to low-income communities, for example.
- Private sector investment plays a substantial role in several sectors. Access to telecommunications services is financed by private operators, and our airlines industry has several private sector players. The first round of over 1 200MW of renewable energy projects was recently successfully tendered to independent power producers. Private sector capacity can also be mobilized through construction and operating concessions, for example in the management of industrial development zones, freight logistics and ports operations.
- The Development Bank of Southern Africa will play a coordinating role in raising finance, in partnership with multilateral finance institutions, foreign

investors and other investment funds. The Industrial Development Corporation similarly invests directly in income-generating projects, in partnership with other investors.

South Africa has deep and liquid capital markets, through which long-term capital can be raised at competitive rates by government, state enterprises and the private sector. Our development finance institutions are capable of raising capital and co-financing investments of the private sector, state entities and municipalities. These are considerable strengths – they mean that we do not have to rely on expensive external finance or complex structured arrangements.

But the key consideration, Mister Speaker, is the impact and economic viability of our infrastructure investments. The PICC will ensure expert project assessment, subject to appropriate standards of review and public accountability – a critical requirement before investment decisions are taken.

No good project will be short of funding.

### **Infrastructure implementation**

We are aware of several weaknesses in the state's infrastructure capacity. In the past, spending has lagged behind plans. Our estimate is that in 2010/11, R178 billion was spent out of a planned R260 billion, or just 68 per cent. We have to do better than that – state enterprises, municipalities and government departments all need to improve their planning and management of capital projects.

In addition to long delays, we have often experienced significant cost over-runs in infrastructure projects. So we shall step up the quality of planning, costing and project management, so that infrastructure is delivered on time, and on budget.

This means that government departments and municipalities that do not spend, under-spend or mis-spend their allocated funding, will be at risk of losing the allocations. The relevant officials will also be held liable for such misdemeanours. National Treasury will be pro-actively monitoring the spending of grants to ensure value for money,

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adherence to Expanded Public Works Programme (EPWP) targets and implementation of operational and maintenance programmes.

Several measures are in place to improve infrastructure project implementation and build management capacity.

- Within state-owned entities, development finance institutions and the private sector, considerable capacity is already mobilized in project planning and management.
- The Infrastructure Development Improvement Programme assists national and provincial departments, focused largely on education and health projects and support for provincial public works departments. The Construction Industry Development Board has played a key role in developing standards and procedures for government tenders.
- A new Cities Support Programme will get under way this year, initially in eight metropolitan authorities, focused on improved spatial planning, public transport systems and management of infrastructure utilities.
- The Municipal Infrastructure Support Agency will be established by Minister Baloyi this year, focused on rural municipalities that lack planning capacity.
- Technical assistance to municipalities is also provided through the neighbourhood development programme, which supports over 220 projects aimed at catalysing business investment in township partnership projects.
- The infrastructure skills development grant supported 150 graduate interns in engineering and spatial planning in 2011/12, and will be extended to a further 43 municipalities over the period ahead.
- Special attention will be given to the procurement processes for major infrastructure projects, to ensure both value for money and development of local suppliers and support industries.

Training and mentorship programmes have a critical role to play in addressing capacity constraints of departments and municipalities. But professionalism, hard work and commitment to value for money are preconditions for successful project delivery. There can be no compromise on the basic principles of sound financial management in ensuring that resources are mobilised efficiently to serve our people.

A capable state focussed on delivery requires a passionate and patriotic public service – without those few individuals whose only desire is to profit from the state.

## **Revenue estimates and tax proposals**

I turn now, Mister Speaker, to the revenue estimates and tax proposals. The underlying principles are that the tax system should be fair, efficient, transparent certain – and, where possible, uncomplicated.

Tax revenue recovered during 2010/11 and 2011/12, following a decline in 2009/10 during the global recession. Although tax revenue is slightly lower than our estimate in February last year, the revised estimate for 2011/12 of R739 billion is R10 billion higher than projected in last year's *Medium Term Budget Policy Statement*.

This year's tax proposals are as follows.

### *Personal income tax relief*

Personal income tax relief of R9.5 billion is proposed, which takes account of inflation and provides modest real tax relief.

### *Tax treatment of medical expenses*

As from 1 March 2012 the tax credit for contributions to medical schemes will be introduced, at a rate of R230 a month for the first two beneficiaries and R154 each for additional beneficiaries. Taxpayers 65 years and older and people with disabilities will be included in the second phase of this reform, which will be implemented in 2014. These reforms will significantly improve the fairness of the personal income tax system.

*Retirement funding and savings*

Reform of the tax treatment of contributions to retirement funds is also envisaged, to take effect in 2014.

To encourage voluntary savings, consideration is being given to the introduction of tax-exempt short and medium-term savings products. The proposal is that individuals should be permitted to save up to R30 000 a year, with a lifetime limit of R500 000, in registered savings or investment products that would be free of tax on interest, dividends or capital gains. The current tax free interest income thresholds will be reviewed and possibly phased out as part of this reform.

Full details of the proposals are in the Budget Review.

*Dividends tax*

The secondary tax on companies will be terminated on 31 March 2012 and a withholding tax on dividends will be implemented on 1 April 2012. This will align South Africa's tax treatment of dividends with that in most other countries. Pension funds will benefit from this transition as they will receive dividends tax free. The dividend tax will be introduced at 15 per cent.

*Capital gains tax*

The introduction of capital gains tax in October 2001 was an important step in broadening the tax base.

In order to reduce the scope for tax arbitrage and broaden the tax base further, the CGT inclusion rate for individuals and special trusts will be increased with effect from 1 March 2012 from 25 to 33.3 per cent, and for companies and other trusts from 50 to 66.6 per cent. To mitigate the impact on middle-income earners, the various exclusion thresholds are increased.

*Relief for small businesses*

Mister Speaker, I am pleased to advise that there will be further tax relief for small businesses and micro-enterprises.

- The tax-free threshold for small business corporations is increased to R63 556, the 10 per cent rate is reduced to 7 per cent and the threshold up to which this rate applies is increased to R350 000. For taxable income above R350 000, the normal 28 per cent corporate rate applies.
- With effect from next month, qualifying micro-businesses (within the R1 million turnover limit) will be able to pay turnover tax, VAT and employees' tax twice a year. This means that the number of returns and payments a year will be reduced from about 18 to just two.

*Corporate tax measures*

Several measures are set out in the *Budget Review* to improve the corporate tax environment, Mister Speaker:

- Further steps will be taken to limit excessive debt financing
- Amendments to the mark-to-market taxation of foreign currency and other financial instruments will be phased-in
- The governance and tax treatment of property loan stock entities will be aligned with the present treatment of regulated property unit trusts
- Tax relief is proposed for housing developers and employers who provide housing below R300 000 a unit.

*Special economic zones*

The Minister of Trade and Industry has published draft legislation to provide for the creation of special economic zones. Tax relief is under consideration for businesses

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that invest in these zones, including a reduction in the corporate income tax rate and support for employment and training expenses.

### *Carbon tax*

A revised policy paper on a carbon tax will be published this year for a second round of public comment and consultation. As set out in the Climate Change Response White Paper approved by Cabinet in 2011, the need to price carbon emissions and the phasing in of a tax instrument for this purpose are accepted.

### *Electricity levy*

The levy on electricity generated from non-renewable sources will increase by 1c/kWh as from 1 July 2012 and will replace the current funding mechanism for energy-efficiency initiatives such as the solar water geyser programme. There should be little overall impact on electricity tariffs.

### *Fuel levies*

The general fuel levy on petrol and diesel will be increased by 20c with effect from 4 April 2012, and the Road Accident Fund will increase by 8c to 88c/l.

### *Square Kilometre Array*

Members of the House will know that under the guidance of the Minister of Science and Technology, South Africa is bidding to host the Square Kilometre Array (SKA), an international collaboration to build the world's largest radio telescope. I am happy to confirm that the project will qualify for VAT relief, which will surely give Minister Pandor the winning edge in this contest.

### *Tax on gambling*

Following the 2011 Budget proposal on gambling, it is proposed that a national tax based on gross gambling revenue should be introduced effective from 1 April 2013, as

an additional 1 per cent levy on a uniform provincial gambling tax base. A similar base will be used to tax the national lottery.

*Excise duties on tobacco and alcohol products*

Dhiveshan Naicker has offered the following tip, Mister Speaker: "Raise the tax on alcohol and cigarettes so that people will stop drinking and smoking too much". This is good advice.

The increases in duties on tobacco products will be between 5 and 8 per cent this year.

In respect of beer and spirits, an increased benchmark tax burden is proposed, to be phased in over two years. The excise on spirits will increase by 20 per cent to R36 for a 750 ml bottle this year, the tax on beer goes up by 10 per cent to R1.01 for a 340 ml can and wine will contribute 8 per cent more to the fiscus.

*Tax on financial transactions*

South Africa has a financial transaction tax on securities transfers, at a rate of 0.25 per cent. It is proposed that the current exemption for brokers should be abolished. Transactions for the broker's benefit will be taxed at a lower rate. The inclusion of financial derivatives in the base of the securities transfer tax is also under consideration.

*Ad valorem excises*

With effect from October this year, an ad valorem excise duty at a rate of 7 per cent will apply to small aeroplanes and helicopters with a mass below 5 000 kg. A duty of 10 per cent will apply to motorboats and sailboats longer than 10 metres.

## **Tax administration**

Mister Speaker, whereas several nations around the world are confronting severe austerity measures and significantly higher taxes, we are able to propose tax relief of

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R2.3 billion overall, in part because of the strength of our tax policy and administration, and in part because millions of South Africans pay their taxes and duties in full and on time.

The recent Voluntary Disclosure Programme has attracted approximately 18 000 applications, and has yielded almost R1 billion in additional tax so far. It has also provided useful insights into areas of non-compliance that will receive focused attention, including:

- Under-declaration of income such as rental and foreign income and capital gains
- Claiming of excessive income deductions
- Under-declaration of VAT outputs and inflating of VAT inputs
- Abuse of share incentive schemes by corporate executives
- Abuse of benefits granted to foreign persons employed in South Africa
- Non-payment of PAYE and failure to submit PAYE returns by employers.

Poor tax compliance is also apparent in respect of trusts and in parts of the construction sector, and the role of tax practitioners and other intermediaries will come under scrutiny. Analysis of compliance among the country's 34 000 tax advisors shows practitioners owe over R260 million in outstanding taxes and have more than 18 000 income tax returns outstanding in their personal capacity. If that is their attitude to their own tax compliance, one shudders to think what advice they are giving to their clients!

Within the trade environment, customs officials will continue to focus attention on under-valuation of imports, especially in textiles, using a reference price database which industry is helping to update. During the current financial year, SARS has already confiscated 3.4 million articles of clothing and footwear valued at almost R580 million.

In addition SARS has seized drugs worth R139 million and 683 million sticks of cigarettes valued at R180 million.

Since April over 230 taxpayers have been successfully prosecuted for a range of tax-related offences resulting in sentences totalling 370 years and nearly R5 million in fines. A further 1 500 tax-related cases are awaiting prosecution with the National Prosecution Authority.

Since 1 April 2011 SARS has issued over 700 000 taxpayers with administrative penalties for failing to submit an income tax return on time as required. These and other measures have helped increase the proportion of on-time submission. SARS received almost 5 million returns during the most recent tax season – a 23 per cent increase over the year before.

The Tax Administration Bill has been approved by Parliament. It incorporates the common administrative elements of current tax law into one piece of legislation, and makes further improvements in this area. The bill is expected to be promulgated and most of its provisions brought into force in 2012.

During 2012, South Africa will establish a dedicated ombud for tax matters. The office is intended to provide taxpayers with a low-cost mechanism to address administrative difficulties that cannot be resolved by SARS.

### **Nedlac consultation**

Mister Speaker, in preparing for the budget, various consultations occur (including a wide range of tips from the public). This year, a pre-budget consultation was held with the Nedlac constituencies. Issues raised included:

- The need to shift expenditure towards investment, rather than consumption activities
- Sustainability of increases in the public-sector wage bill

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- Rapid increases in administered prices
- Reinforcing taxes on luxury goods and more effective taxation of the super-rich
- Budgetary support for rural development and more effective strategies for eliminating poverty
- Financial transactions tax
- Improving financial management
- Support for the community works programme
- Responding to rising food prices.

Many of these recommendations find resonance in the contents of the budget and our spending proposals.

### **Medium-term expenditure proposals**

In our spending recommendations, Mister Speaker, we have taken advice from Amanda Mzulwini. “I think that you should spend money on things that matter, like improving healthcare, building more schools in the rural areas and building clinics”.

#### *Job creation*

Job creation is a central priority of government. An additional R4.8 billion over the 2012 MTEF period is provided for the expanded public works programme, bringing its allocations to a total of R77.8 billion.

- The community work programme receives an additional R3.5 billion, which gives it a total of R6.2 billion, enabling the number of people employed to increase to 332 000 in 2014/15 from 90 000 in March 2011. We will continue to increase allocations to this programme over time.

- Working for Water and Working on Fire receive an additional R1.1 billion (a total of R7.7 billion) providing for a total of 135 000 jobs over the medium term.
- The non-state sector programme receives an additional R345 million (a total of R1.1 billion).
- The National Rural Youth Service Corps receives an additional R200 million (a total of R900 million) over the next three years
- R300 million is added to the arts and culture sector for job creation.

### *Education*

Spending on education will grow from R207 billion in 2012/13 to R236 billion in 2014/15. Additional allocations of R18.8 billion over the medium term are accommodated, including equalisation of learner subsidies for no-fee schools and expanded access to grade R. An amount of R235 million is added to the baseline of the national department over the three-year spending period to extend the national assessments system. An additional R850 million is allocated to improve university infrastructure, including student accommodation facilities.

### *Health and social protection*

Medium-term priorities in health spending include hospital infrastructure, the comprehensive HIV and Aids treatment and prevention programme, and expanding health professional training. Progress in these areas will strengthen the public health system, paving the way for the introduction of national health insurance.

The health sector is allocated an additional R12.3 billion over the next three years. R1 billion is allocated for national health insurance pilot projects and increasing primary health care visits. To improve health infrastructure, R450 million has been provided to upgrade about 30 nursing colleges. A further R426 million is allocated for the initial work on rebuilding five major tertiary hospitals. To accommodate provision of antiretroviral treatment at the CD4 threshold of 350, an additional R968 million is made available over the medium term.

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Social welfare priorities include early childhood development programmes and the Isibindi childcare and protection programme. These are initiatives which have strong community-based employment benefits, and they are allocated an additional R1.4 billion over the MTEF.

Expenditure on social grants will grow from R105 billion in 2012/13 to R122 billion in 2014/15. At present, nearly 16 million South Africans receive social grants. With effect from April:

- The monthly state old age pension and the disability and care dependency grants will rise by R60 a month to R1 200, or R1 220 for pensioners over the age of 75,
- Foster care grants will increase by R30 to R770,
- The child support grant will increase to R280.

We are mindful that these increases may need to be reassessed if inflation continues to rise.

### *Transport, Energy and Communication*

The budget for transport, energy and communication services increases from R84 billion in 2012/13 to R98 billion in 2014/15, rising by an annual average of 8.4 per cent. A devolution of public transport services to metropolitan municipalities will be phased in over the period ahead, allowing for better integrated public transport networks including rail and bus rapid transit systems.

An additional R4 billion is allocated to the Passenger Rail Agency of South Africa to begin purchasing new coaches. The agency also receives R1 billion to build three depots and upgrade signalling in Gauteng, KwaZulu-Natal and the Western Cape.

Sentech will receive funding over the MTEF period for the dual illumination of analogue and digital television, and for digital broadcasting infrastructure.

In energy, the focus is on demand-side management to address the impact of limited supply until new generation capacity comes online. An additional R4.7 billion is allocated to complete the installation of one million solar water geysers. R600 million goes to municipalities to install low-energy lighting and equipment. R300 million is provided for the electrification of informal settlements.

*Human settlements and community amenities*

Investment in municipal infrastructure and human settlements will grow from R120 billion in 2012/13 to R139 billion in 2014/15. Additional allocations of R9.9 billion over the medium term are proposed, including informal settlement upgrading, a wastewater treatment plant in Sedibeng, bulk water systems in Sekhukhune and water systems in the OR Tambo district.

Financial support for housing development is expanded over the period ahead, additional funding is allocated for the finance-linked individual subsidy programme, and further capitalisation of our housing finance institutions is proposed. A mortgage support facility is under consideration.

*Economic services and environmental protection*

Additional allocations of R15.8 billion are provided over the MTEF period for economic services and environmental protection.

The Department of Trade and Industry receives the bulk of this funding – R5.8 billion for the manufacturing competitiveness enhancement programme and R2.3 billion for industrial development and special economic zones.

Additional funds go to SANParks for tourism infrastructure, and to the National Metrology Institute for equipment.

An additional R1.9 billion goes to the Department of Agriculture, Forestry and Fisheries to improve agricultural support services. The Land Bank receives R1 billion to conclude its recapitalisation. R150 million is made available for provincial and

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municipal agricultural colleges. The Department of Rural Development and Land Reform has prioritised the settlement of 4 000 restitution claims over the MTEF period.

### *Science and technology*

Total expenditure on science and technology increases over the MTEF period to R12.1 billion in 2014/15. Additional funding is proposed for the Agricultural Research Council for vaccines research and support for extension services, and for science council initiatives in support of industry and mining development.

### *General public services*

The Department of Home Affairs receives additional funding for an integrated information technology system and upgrading border post infrastructure and housing.

An amount of R350 million is earmarked for transfer to Alexkor for the finalisation of obligations to the Richtersveld Community joint venture.

### *Defence, public order and safety*

Spending on defence, public order and safety has increased by 9.7 per cent a year from 2008/09 to 2011/12, and will grow from R140 billion in 2012/13 to R158 billion in 2014/15. The sector receives additional funding of R7.6 billion over the MTEF period to cater mainly for improved conditions of service, additional personnel and infrastructure.

Additional funding of R300 million is allocated for court infrastructure, including new high courts in Polokwane and Nelspruit. The Office of the Public Protector and the Independent Police Investigative Directorate are allocated additional funds to expand capacity. Funds are provided to the defence force to increase personnel deployment for border protection. The budget includes R700 million in 2012/13 to recapitalise Denel Aerostructures.

## **National health insurance**

National health insurance is to be phased in over a 14-year period beginning in 2012/13. The new system will provide equitable health coverage for all South Africans. Over time, the new system will require funding over and above current budget allocations to public health. Funding options include an increase in the VAT rate, a payroll tax on employers, a surcharge on the taxable income of individuals, or some combination of the above. Alongside options for increased tax revenue, the role of user charges is also being investigated.

It is expected that an additional revenue source will be needed in 2014/15 amounting to about R6 billion in that year, which is not currently provided for in the MTEF. Achieving an appropriate balance in the funding of national health insurance is necessary to ensure that the tax structure remains supportive of economic growth, job creation and savings. A discussion paper will be published by end-April 2012.

## **Gauteng Freeway Improvement Programme**

Mister Speaker, I am mindful that the introduction of tolling to finance the Gauteng Freeway Improvement Programme has caused considerable public reaction. We have listened carefully to the various suggestions and appreciate the difficulties that might be faced.

The total debt associated with the project is R20 billion. In order to contribute to a further reduction in the toll burden, a special appropriation of R5.8 billion is now proposed, to be included in 2011/12 expenditure. This will reduce the debt to be repaid through the toll system, and will make a steeper discount possible for regular road users.

It is important to remember that road-user charges also serve an important demand management function on roads that are heavily congested. Users benefit through lower vehicle operating costs, time savings and improved safety. In addition, improved maintenance of regional and provincial roads is made possible by the additional revenue that our toll roads generate.

Going forward, government will carefully evaluate future road infrastructure funding. In addition, the further development of efficient and cost-effective public transport systems will receive the urgent attention of the Department of Transport.

## **Financial management and combating fraud and corruption**

Following on the announcements made previously to introduce measures to improve financial management and help combat corruption, I can report that there has been progress on several fronts.

The National Treasury has already issued new regulations which require departments to submit annual tender programmes, limit variations to orders, and require disclosures of all directives.

Significant progress is being made in identifying and dealing with those who have abused the system and whose activities fall within the category of priority crimes. The JCPS made an announcement on priority crimes and corruption statistics earlier this week. I want to thank Ministers Mthetwa and Radebe for the cooperation of departments and agencies under their control. Our joint multi-disciplinary approach to investigations is bearing fruit.

I also want to express support for the Cosatu initiative, CorruptionWatch. We call on ordinary South Africans not to sit back and accept bribery when you come across it, whether in the public or the private sector. Contact the hotlines in government departments. Contact CorruptionWatch. Don't accept bribery. Don't become part of corruption.

There are further steps National Treasury will soon take to improve our procurement capability.

- We will strengthen fragmentation in the system and strengthen the national procurement architecture.

- National Treasury will appoint a Chief Procurement Officer who will have overall responsibility for monitoring procurement across government.
- We will review the competencies and capabilities required to perform the procurement function and as said by the President, there will be strict vetting of all the procurement officers to be appointed.
- National Treasury plans to develop a national price reference system, to detect deviations from acceptable prices.
- The tax clearance system will be strengthened to ensure that those who have defrauded the state cannot do business with the state.
- The Minister of Public Works and I have agreed to undertake a joint review of the validity and cost effectiveness of all government property leases.
- Steps will also be taken to improve the ability of departments to set the specifications for tenders.

## **Provincial interventions**

During the past year, Mister Speaker, it has been necessary to take steps to address financial management weaknesses that have undermined service delivery and put financial sustainability at risk in several provinces.

The interventions in all three provinces are underway. The cash crises have been averted, I hope. We shall continue to work hard at building institutions and systems where weaknesses have been identified. We must do this in order to restore the trust of our people in our capacity to govern.

There are several lessons of general application from these interventions. We need stronger rules, as government, to ensure that legitimate creditors are paid within the legally prescribed 30 day period. We need better procedures to ensure that staff appointments are not made without the necessary budget allocations, and we need to

reduce administrative staff in favour of frontline teaching, nursing and service delivery personnel. We need to improve financial management capability across national and provincial departments. We need stricter oversight of supply chain management processes.

I wish to acknowledge the efforts of Cabinet colleagues who are addressing these challenges in their respective areas of responsibility, in collaboration with provincial MECs. They will report further on progress in their respective budget votes.

### **Financial sector development**

Mister Speaker, I am pleased to report that progress is being made on several financial sector reforms.

- There is now agreement between stakeholders on enhanced targets for empowerment financing and access to financial services. A revised financial sector charter code will be gazetted shortly for public comment by the Minister of Trade and Industry.
- More appropriate and balanced capital adequacy and liquidity standards are being phased in for banks, and similar reforms are planned for the insurance sector.
- As announced last year, we intend to shift towards a twin peaks system for financial regulation, where we separate prudential from market conduct supervision of the financial sector. Consultations will continue this year, with a view to tabling legislation in early 2013.
- Proposals will be published for simplifying and modernising procedures for cross-border investments in and out of South Africa. After taking public comments, treasury recognizes that some of the barriers identified also apply to domestic investors; we intend to consult further to explore how we can lower costs and barriers to all investment in South Africa.

- A series of discussion papers will be released this year on promoting household savings and reforming the retirement industry. Consultation with the industry, employers and trade unions will take place on these reforms. Among the issues are improved governance over pension funds, including more effective interventions to eliminate corruption and fraud and ways to improve preservation of retirement fund assets to ensure higher levels of income in retirement.

Fees for many products in the financial sector remain too high. High costs in savings products undermine the national objective of getting our people to save more. The financial industry must take more urgent steps to reduce costs and introduce more appropriate and transparent saving and investment products, including annuities. There is also much to be done to improve market conduct practices in the financial sector. The “treating customers fairly” initiative will be accelerated to protect customers more vigorously.

Our financial institutions should also recognize the important role of women in our economy. This progress needs to be more transparently reported.

We must all invest in our future. Vele hande maak ligte werk.

### **Support for business sector growth**

Allow me to return briefly, Mister Speaker, to the central policy challenges we face – growth of our economy, more rapid job creation and reducing poverty.

Initiatives in progress to strengthen support for business sector growth include the following:

- Small enterprise financing has been consolidated in a new subsidiary in the Industrial Development Corporation.

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- In October 2011, a Procurement Accord was signed with business and labour. Government procurement rules include incentives for both black economic empowerment and designated local supply sectors.
- The tax regime for small businesses has been simplified.
- A new competitiveness enhancement programme has been initiated as part of the industrial policy action plan, building on existing production incentives in the automotive and clothing and textile sectors. A support programme is being developed in the capital goods sector, leveraging large state procurement programmes.
- The National Tooling Initiative is under way, in support of accelerated apprentice training.
- A draft policy framework and legislation have been published for special economic zones.
- Technology investment is supported both through partnerships between science councils and industry and through R&D tax incentives.
- A venture capital incentive is available for junior mining companies.

Recognising that assistance to the private sector goes beyond the provision of incentives, government is looking at wider interventions to lower the cost of doing business. Improvements are being made to economic infrastructure such as ports, roads and electricity generation to cater for the needs of business. In addition, operational efficiency in ports and rail has been prioritised. There is a review of the regulatory regime and its effect on businesses in a number of sectors, as well as interventions in some institutions to speed up the issuing of licences and to improve transparency in government processes. Various strategies are also in place to deal directly with sector-specific issues.

Given the current global economic context, there is understandable caution in the business sector about investment and future growth prospects. Many firms have

accumulated large cash balances instead of investing them or distributing to shareholders. The time has come to confront uncertainty – from government’s side, we are committed to an environment that will encourage business investment; from the side of business, we seek investment for the long term, enhanced competitiveness and training commitments.

## **Support for job creation**

In respect of job creation, a wide range of government programmes and policies have come under scrutiny over the past year. Expansion of further education and skills development is a key long-term priority, alongside improving the quality of basic education and broadening access to adult education programmes.

At this time last year, funding was allocated to a new Jobs Fund, aimed at supporting innovative public or private sector projects with potential to create sustainable job opportunities. The Fund began operating in June, and received over 2 500 applications in its first call for proposals. Project allocations of over R1 billion have been committed, and a second round of project applications will be announced shortly.

We released a discussion paper proposing a youth employment incentive last year. It is under discussion at Nedlac, where the labour constituency has expressed reservations. In our view these concerns can be addressed in the design and implementation of the incentive. We would all like to see greater urgency in resolving this matter.

There are many ways in which job creation for young people might be accelerated. Last year I asked the Nedbank/Old Mutual budget speech competition winners to participate in a second mini-contest, on the question how we might reduce youth unemployment. Several great ideas emerged. Salma Kagee argued that students should be offered practical internships as part of their curriculum, to narrow the gap between education and the work place. Mpho Mashishi suggested using communities to arrest youth unemployment by revitalising townships through gyms, sporting teams and leagues, tutoring projects and clean-up operations. Ian Mrozek offered an interesting variation on the idea of a youth subsidy - he proposes that it should go to

new business start-ups as a tax incentive, which would encourage entrepreneurs and business innovation.

It is right that we should look for many ways of supporting enterprise development, in many different settings and circumstances – in urban and rural areas, in agriculture, manufacturing and service sectors. We have to move beyond debate, and find the policy levers that will make a difference to the pace and dynamics of job creation across the whole of our economy.

### **Addressing poverty and inequality**

Reducing unemployment is the centrepiece of our approach to reducing poverty, Mister Speaker, but it is not the only measure.

Social spending comprises 58 per cent of government expenditure next year, up from 49 per cent a decade ago. The budget provides social grants to almost a third of the population, it pays for largely free services at public health facilities and no-fee schools for 60 per cent of learners, and it pays for housing, water and electricity in poor communities. The average value of the “social wage” for a family of four in 2012/13 is about R3 940 a month. This represents a substantial investment in household living conditions, financed through a broadly progressive tax structure.

Social security reform and the phasing in of national health insurance will improve the effectiveness and coherence of redistribution through the fiscus. But of course, redistribution is not a substitute for economic growth and job creation. And so the quality of the poverty reduction we achieve over the decades ahead will depend on our success in broadening development to include historically disadvantaged sectors and communities, as envisaged in our New Growth Path and draft Development Plan.

### **Conclusion**

Mister President, we have a budget that gives effect to the challenges you have set us – to accelerate growth, expand investment, support economic development and confront poverty and inequality.

My profound appreciation goes to President Zuma and Deputy President Motlanthe for their support and wise counsel in finalising the Budget and throughout the year.

I thank Cabinet colleagues for their backing, even when further haircuts have been proposed. The Budget is our collective statement, and it has benefited from many constructive contributions.

Members of the Ministers' Committee on the Budget have engaged with the policy choices that had to be made with vigour and wisdom. This has been a great team effort.

Deputy Minister Nene has taken on an expanded set of responsibilities over the past year, and is an indefatigable Deputy!

I am grateful for the efforts and support of the MECs for Finance, who oversee over 40 per cent of our spending. They know they have much to do!

Our thanks also go to:

- Governor Gill Marcus and the Deputy Governors of the South African Reserve Bank, for steadily managing the mandate of the Bank.
- Commissioner Oupa Magashula and the staff of the South African Revenue Service, for the excellent work they continue to do to sustain our fiscal sovereignty.
- Jabu Moleketi, chair of the DBSA, and CEO Paul Baloyi, who have a major contribution to make to the infrastructure programme.
- The Financial and Fiscal Commission and its acting chair Bongani Khumalo, for their useful advice.
- The leadership of the Public Investment Corporation, the Land Bank, the Financial Services Board, the Financial Intelligence Centre and the Government Pension Administration Agency.

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- NEDLAC, its Managing Director, Alistair Smith, and representatives of the business, labour and community constituencies on the Public Finance and Monetary Chamber.
- The Honourable Thaba Mufamadi and Charel de Beer who chair the Standing and Select Committees on Finance respectively, and the chairs of the Appropriations committees, the Honourable Elliot Sogoni and Tebogo Chaane, who continue to maintain rigorous oversight and encourage very constructive public participation.
- Our new Director-General Lungisa Fuzile, of Mnqanduli who has provided refreshing and frank leadership during his first budget!
- The National Treasury team, whose hard work makes the high standards of our budget documentation remain our pride.
- Staff of the Ministry who work absurd hours with unfailing good cheer.

Allow me also to thank my family, whose support is invaluable!

My sincere appreciation also goes to the many South Africans who provide the encouragement, criticism and ideas that keep us alert, and assist in making government work better and differently!

In former President Mandela's words, "The future of our country is in your hands. It will be what you make of it today. In the competitive international market place to which we are opening our economy, success and even survival of the nation will depend on you".