South Africa's Budget 2015: the full text

Read the full text of South African Finance Minister Nhlanhla Nene's inaugural national Budget speech, the fifth in the country's democratic Parliament, delivered on 25 February 2015.


South Africa's Minister of Finance Nhlanhla Nene. (Image: Department of Communications)

"I have the honour to present the first budget of our fifth democratic Parliament.

Over the past 20 years we have built houses, delivered water and electricity, improved access to schools and health care. Yet there are people living in shacks, there are schools without sanitation, there are patients without care.

We have made progress in dismantling apartheid divisions. Yet there are still fault-lines across our social landscape. We have agreed on a National Development Plan. But there is still hard work ahead in its implementation. Though we continue to register positive growth rates, many businesses have struggled to maintain profitability, unemployment remains high and government has had to adjust to slower revenue growth.

Today's budget is constrained by the need to consolidate our public finances, in the context of slower growth and rising debt.

And so we must intensify efforts to address economic constraints, improve our growth performance, create work opportunities and broaden economic participation. We need to achieve these goals if our National Development Plan is to be realised.

On the one hand, our development path is limited by the resource constraints of the current economic outlook. On the *other hand, it seeks to lift these constraints by strengthening public institutions, investing in infrastructure and our people, supporting innovation and making markets work better. The 2015 budget is aimed at rebalancing fiscal policy to give greater impetus to investment, to support enterprise development, to promote agriculture and industry and to make our cities engines of growth.*

Strategic priorities for growth and development

As outlined by President Zuma in the State of the Nation Address on 12 February, Cabinet has agreed on nine strategic priorities to be pursued this year, in partnership with the private sector and all stakeholders. They include:

- *Resolving the energy challenge*
- *Revitalising agriculture*
- *Adding value to our mineral wealth*
- *Enhancement of the Industrial Policy Action Plan*
- *Encouragement of private investment*
- *Reducing workplace conflict*
- *Unlocking the potential of small enterprises*
- *Infrastructure investment*
- *Support for implementation of the National Development Plan through in-depth, results-driven processes, known as Phakisa laboratories. The first of these laboratories focused on the oceans economy, including off-shore oil and gas exploration and aquaculture opportunities. Already this has led to investment of R9.6-billion in Saldanha Bay.*

Strategies for improving primary health clinics have also been developed through a phakisa process. The mining sector will be next. These processes draw widely on the talents and expertise of South Africans, from the public and private sectors, and the scientific and research community.

In each of these areas, there are many programmes and interventions underway, and numerous stakeholders and institutions involved. Members of the House will appreciate, however, that having a plan and a series of activities is not enough. Intensive effort has to go into the details of implementation, understanding the risks and opportunities of changing market conditions as well as identifying institutional and financial options.

There are many possible plans and priorities: the challenge of governance is to choose wisely between competing alternatives. The budget plays a role in clarifying these options, probing their costs and assessing implementation modalities. It seeks to allocate resources systematically and fairly. This year, we received around 400 tips from fellow South Africans on the budget.

Quite rightly, there are two main areas of concern.

- *Many people have concerns about public service delivery. For example, Asif Jhatham advises that municipalities should follow SARS in adopting electronic payments systems. Marc de Chalain appeals for an improved work ethic and pride in a job well done in the public service. Mpumelelo Ncwadi suggests that youth-owned cooperatives should be supported to produce lettuce and herbs for local hospitals and schools.*
- *And then there is much advice to me on tax matters. Christopher Pappas suggests that fast foods should be subject to sin tax. Mandy Morris says it is time VAT was increased to 15%. On the other hand, Thabile Wonci proposes that young professionals should be exempt from tax for at least one year of work.*

I will return shortly to these tax questions.

The budget documents I table today are designed to make our budget choices and their implications transparent. The processes which follow in this House, bringing medium term plans and programmes under the scrutiny of portfolio committees and subjecting Ministers and officials to Parliamentary accountability, are essential disciplines in the translation of plans into service delivery programmes. And so in presenting this Budget to Members of the House, I am obliged to caution that it again comprises a weighty set of documents and explanatory papers. Members who feel that *the burden of after-hours reading is excessive are referred to my predecessors, Minister Gordhan and former Minister Manuel, who oversaw the of these instruments of accountability.*

Thankfully their advice to me is that it does not all have to be incorporated into the budget speech.

Allow me therefore to recommend this year's Budget Review for the further attention of Members. It is somewhat differently structured from the past. There is a new chapter on the financial position of public sector entities, and an annexure on progress in infrastructure spending.

Economic context

I turn now to the economic context within which the budget has been prepared. Global economic growth is expected to remain sluggish over the period ahead, rising from 3.3% in 2014 to 3.5% this year. There is considerable variation in economic performances between countries and economic trends are likely to be volatile. In the United States, 3.6% growth is expected this year, but in Europe the outlook remains weak, and could still be destabilised by disagreements between debtor and creditor nations. In emerging markets and developing economies, growth of about 4.5% is expected. China's growth is expected to slow to 6.8% this year. Amongst our neighbours in Africa, the recent shifts in commodity prices will benefit some countries and disadvantage others.

South Africa will benefit from the lower oil price, but our major commodity exports have been negatively affected by the global slowdown. Our deepening trade and investment links with sub-Saharan Africa continue to offer favourable growth prospects. Exports to Africa grew by 19% in 2013 and 11% in 2014. However, our primary challenge is to deal with the structural and competitiveness challenges that hold back production and investment in our economy.

The most important of these is the security and reliability of energy supply. Electricity hold back growth in manufacturing and mining, and also inhibit investment in housing and raise costs for businesses and households. Mainly for this reason, our projected economic growth for 2015 is just 2%, down from 2.5% indicated in October last year. We expect growth to rise to 3% by 2017. Consumer price inflation peaked at 6.6% in June last year.

It has subsequently declined to just 4.4% last month, and is expected to average 4.3% in 2015, laying a foundation for economic growth. Higher growth is possible, if we make good progress in responding to the electricity challenge or if export performance is stronger. The best short-term prospects for faster growth lie in less energy-intensive sectors such as tourism, agriculture, light manufacturing and housing construction. These are also sectors that employ more people, and so they contribute to more inclusive growth. Efforts to support these sectors have to be intensified.

Progress in agriculture and manufacturing employment requires a constructive labour relations environment, and well-targeted support for emerging enterprises. While the manufacturing sector has largely underperformed in recent years, there has been an encouraging growth in investment since 2010, particularly in upgrading machinery and equipment. The turnaround in footwear and textiles is also welcome, and should boost job creation over the period ahead. In agriculture we have seen investment and export growth in horticultural products such as grapes, citrus and tree nuts.

Tourism and related services, oil and gas development, communications and information technology also offer many opportunities. Although our fiscal position is constrained, there are considerable financial strengths on which South Africa's growth strategy can build.

- *Interest rates have remained moderate, which reflects the credibility of fiscal and monetary policy and the favourable inflation outlook. The capital market rates at which government and the corporate sector borrow have declined over the past year, signalling continued investor confidence in the South African economy.*
- *The exchange rate depreciated by 11% against the US dollar in 2014, after declining by 15% in 2013. This coupled with low inflation contributes to our trade competitiveness, and partially offsets the deterioration in commodity prices.*
- *Our banks and other financial institutions are well-capitalised. South Africa has a buoyant capital market, is open to foreign investors and is a major contributor to foreign direct investment elsewhere in Africa. Our company law*

and tax frameworks are robust, and we have excellent property market institutions.

The first phase of implementation of the National Development Plan is elaborated in Government's medium term strategic framework. If we remain united and energized around its implementation - government, labour, business and all South Africans - we will continue to make progress towards a just and prosperous future.

Budget framework and fiscal policy

A sound budget framework is one of the enabling conditions for implementation of the National Development Plan. It has now been eight years since the global financial crisis began. In responding to low economic growth, government allowed for continued expenditure growth and a wider budget deficit to cushion the economy from a potential hard landing, resulting in an increased debt burden on the state. Fiscal room created during the economic boom leading up to the financial crisis cushioned against tax increases as a first response.

Our fiscal rebalancing has included cost containment measures and intensified efforts to improve efficiency in expenditure. These measures are yielding positive results. However, growth performance remains weak and substantial repayments of debt are becoming due. It is now clear that we can no longer postpone consideration of additional revenue measures. In choosing amongst our tax options, the financial health of households and businesses is a primary consideration.

As indicated in the Medium Term Budget Policy Statement, the key features of the budget framework for the period ahead are as follows:

- *A reduction in the main budget expenditure ceiling of about R25-billion over the next two years, compared with the 2014 Budget baseline,*
- *An increase in taxes amounting to R17-billion in 2015/16,*
- *Revised spending plans across the whole of government, aimed at greater efficiency, reduced waste and an improved composition of spending,*
- *A consolidation of government personnel numbers, and*
- *Financing of state-owned companies, where required, without raising national government's budget deficit.*

In the budget framework tabled today, a consolidated deficit of 3.9% of GDP is projected for 2015/16, falling to 2.5% in 2017/18.

Consolidated non-interest expenditure will rise from R1.123 trillion this year to R1.4 trillion in 2017/18, which is an average real increase of 2.1% a year. The share of personnel compensation is projected to remain about 40% of noninterest spending. Interest on state debt will rise from R115-billion this year to R153-billion in 2017/18.

Reductions in budget allocations have been targeted at non-critical activities. Cost containment and reprioritisation measures will limit growth in allocations for goods and services to 5% a year. Spending on catering, entertainment and venues is budgeted to decline by 8% a year, travel and subsistence will be cut back by 4% a year, in real terms. But allocations for critical items such as school books and medicine, for police vehicles' fuel and for maintenance of infrastructure, will grow faster than inflation.

Compliance will be reported by the auditor-general.

The budget framework includes an unallocated contingency reserve of R5-billion next year, R15-billion in 2016/17 and R45-billion in 2017/18. This could allow for new spending priorities to be accommodated in future budgets. It takes into account that the economic outlook is uncertain and that both weaker growth and rising interest rates are possible over the period ahead. We are also mindful that public service salary negotiations have still to be concluded. We hope that agreement will be reached in time for salary improvements to be implemented in April.

Over the next three years, government's gross debt stock is projected to increase by about R550-billion, to R2.3 trillion *in 2017/18. Redemptions on debt issued over the past decade will add R190-billion to the medium term borrowing requirement. Net loan debt of the national government is expected to stabilise at less than 45% of GDP in three years' time. South Africa's liquid capital market and our standing in international markets enable us to meet this borrowing requirement. But we are mindful that debt sustainability requires a prudent budget framework and improvements in both saving and investment.*

Our fiscal policy stance recognises that state-owned companies and municipalities will continue to face substantial investment requirements over the period ahead. Moderation in the main budget deficit creates space in the wider capital market for infrastructure financing of both the wider public sector and private businesses. In addressing these and other fiscal challenges, government is firmly resolved to steer a responsible and sustainable course.

Medium-term expenditure and the division of revenue

Our Constitution requires an equitable division of nationally collected revenue between national, provincial and local government. This is set out in the Division of Revenue Bill and its accompanying Explanatory Memorandum. The allocations are explained in the Budget Review and elaborated in the Estimates of National Expenditure.

In preparing these proposals, we have benefited from recommendations of the Financial and Fiscal Commission and Parliament's committees. As is required by section 7 of the Money Bills Amendment Procedure and Related Matters Act of 2009, a report is included in the Budget Review which responds to concerns raised by the finance and appropriations committees, and in portfolio committees' budgetary review and recommendation reports. We greatly appreciate these contributions of Parliament to the rigour and integrity of our budget process.

The national share of non-interest expenditure is about 48%, provinces receive 43% and 9% goes to municipalities.

Allocations to basic services provided by municipalities have been prioritised, despite the constraints of the budget framework. A new approach is proposed for cities, to support their growth and restructuring and strengthen infrastructure investment. A review of local government infrastructure grants is in progress, which will lead to simplification and consolidation of the financing arrangements.

Over the longer term, progress in municipalities requires local economic growth, property development and revenue capacity, alongside national support. These are key elements in the "back to basics" municipal development strategy.

Economic development

Our support through the budget for economic development is wide-ranging, as it must be if we are to diversify our growth and broaden participation. Innovation and technology change are at the heart of this development strategy. Support for the oceans economy has been allocated R296-million over the next three years. This will enhance our climate change research and management of ocean resources. South African science and technology also continues to benefit from our leading role in the Square Kilometre Array astronomy partnership, which will spend approximately R2.1-billion over the next three years. Minister Pandor is guiding our science councils towards more effective partnerships with industry and academic institutions.

R2.7-billion has been allocated over the medium term under the Mineral Policy and Promotion programme to promote investment in mining and petroleum beneficiation projects. R108-million has been allocated for research and regulatory requirements for licensing shale gas exploration and hydraulic fracturing.

Government will continue to strengthen support for agricultural development and trade, under Minister Zokwana. The projected conditional allocation to provinces over the medium term is R7-billion. Access of emerging farmers to finance will be expanded, in collaboration with the Land Bank.

Since the inception of the recapitalisation and development programme in 2008, 1 459 farms have been supported, and 4.3-million hectares has been acquired for redistribution. A further 1.2-million hectares will be acquired over the next *three years, and R4.7-billion is allocated for recapitalisation and development of farms. Establishment of the Office of the Valuer-General in Minister Nkwinti's department will assist in the orderly implementation of land acquisition and redistribution activities.*

Employment and enterprise development

Unemployment remains our single greatest economic and social challenge. Government continues to prioritise measures aimed at generating employment. These include tax incentives for employment and investment, support for enterprise development, skills development and employment programmes.

R10.2-billion has been allocated over the MTEF period to manufacturing development incentives and support for growing service industries, such as business process outsourcing. Under Minister Davies' oversight, the manufacturing competitiveness enhancement programme will spend R5.4-billion and will assist 1 450 companies with financial support to upgrade facilities and skills development. Special economic zones are allocated R3.5-billion over the medium term, mainly for infrastructure development. The work of Minister Hanekom's department in promoting tourism continues to be supported. Over the MTEF period, Minister Zulu's new Department will spend R3.5-billion on mentoring and training support to small businesses.

The Jobs Fund will spend R4-billion in partnership with the private sector on projects that create new employment, support work-seekers and address structural constraints to more inclusive growth. The community work programme will be extended to all municipalities. Its allocations increase by 21% a year. The Department of Environmental Affairs has an allocation of R11.8-billion to fund more than 107 000 full time equivalent jobs and 224 000 work opportunities through environmental EPWP programmes.

A total of R590-million has been allocated to the Green Fund over the medium term, for strategic environmental projects in partnership with the private sector.

Health and social protection

Expenditure on health and social protection will continue to grow steadily, contributing to better life expectancy and household income security. Health spending will reach R178-billion in 2017/18. We have seen a marked reduction in child mortality over the past five years, supported by improved access to antenatal services.

Our antiretroviral treatment programme now reaches 3-million patients. The motherto- child transmission of HIV has decreased from 20% a decade ago to 2% last year, and is expected to decline further over the period ahead. In this budget, R1.5-billion is shifted from provincial budgets to the national Department of Health to enable the National Institute of Communicable Diseases to be directly funded. This will be offset by lower tariffs for services provided by the National Health Laboratory Service. Port health services have also been shifted from provinces to the national department.

The Office of Health Standards Compliance has been listed as an independent legal entity with a budget rising to R125-million in 2017/18. Under Minister Motsoaledi's direction there has been progress over the past year in preparing for the transition to national health insurance. A discussion paper on financing options will be released shortly by the National Treasury, to accompany the NHI white paper.

I have also agreed with Ministers Dlamini and Oliphant that we will jointly publish the long-outstanding discussion paper on social security reform. Both health insurance and social security are vital concerns of all South Africans, and we look forward to public debate and engagement between stakeholders. Social grants play an important role in protecting the poorest households against poverty. Social assistance beneficiaries numbered 16.4-million in December 2014. In order to accommodate the growth in numbers, the budget proposals include an additional R7.1-billion on the Social Development vote.

I am also pleased to be able to announce adjustments to monthly social grants with effect from 1 April:

- *The old age, war veterans, disability and care dependency grants will increase by R60 to R1 410.*
- *Child support grants increase to R330.*
- *Foster care grants increase by R30 to R860.*

In consultation with the Department of Social Development and taking into account consumer price inflation, we will review the possibility of further adjustments to grant values in October.

Education, sport and culture

Over R640-billion will be allocated to basic education during the next three years.

Under Minister Motshekga's oversight, personnel planning for schools is currently under review, to ensure that learner-teacher ratios are maintained at appropriate levels.

The number of qualified teachers entering the public service is projected to increase from 8 227 in 2012/13 to 10 200 in 2017/18. To support teacher training, R3.1-billion will be awarded in Funza Lushaka bursaries over the next three years. We will print and distribute 170-million workbooks at 23 562 public schools over this MTEF period. Each learner in Grades R to 9 will receive two books per subject each year in numeracy, mathematics, literacy, language and life skills.

The school infrastructure backlogs programme is allocated R7.4-billion for the replacement of over 500 unsafe or poorly constructed schools, as well as to address water, sanitation and electricity needs. The education infrastructure grant of R29.6-billion over the medium term will enable all schools to meet the minimum norms and standards for school infrastructure by 2016.

The budget also includes R4.1-billion over the MTEF period to build and support public libraries. School and community sport programmes and sports academies will receive R1.7-billion in conditional allocations to provinces.

Post-school education and training

Allocations to post-school education and training exceed R195-billion over the medium term, increasing at an annual average of 7.1%. University operating subsidies will amount to R72.4-billion. Transfers to universities for infrastructure of R10.5-billion are proposed, including R3.2-billion for the new universities of Mpumalanga and Sol Plaatje.

We are mindful of the pressures on student financing at our higher education institutions. The National Student Financial Aid Scheme is projected to spend R11.9-billion in 2017/18, up from R9.2-billion in 2014/15. This will support a further increase in university enrolments and in technical and vocational colleges. Progress in the quality of post-school education programmes is clearly critical. Under Minister Nzimande's direction, the 21 sector education and training authorities and the National Skills Fund will continue to provide work placements for students and graduates. Raising the number of trainees who qualify as artisans is a special priority. Options for improving the skills funding system will be reviewed in the period ahead.

Transport, energy and communications

We have all been reminded of the importance of infrastructure investment and maintenance over the past year. It is not just an inconvenience when the lights go out, there is a cost to the economy in production and income and jobs foregone.

Many South Africans regularly experience other kinds of infrastructure failure: unreliable water supplies, roads that are impassable when it rains, trains that break down or poor telecommunication linkages.

These are large, long-term, costly challenges, and so the work of Minister Peters, Minister Joemat-Pettersson, Minister Cwele, Minister Mokonyane and Minister Patel in securing maximum value out of available funds is especially critical. We are able to make substantial contributions through the fiscus to infrastructure services over the MTEF period:

- *R1.1-billion is allocated for the upgrade of the Moloto Road to improve safety and mobility on this road.*
- *The Passenger Rail Agency's R53-billion 10-year renewal programme is now in progress. The first 44 new train sets, or 528 coaches, will be delivered over the next three years.*
- *Over R80-billion is allocated to over 220 water and sanitation projects and for local roads.*
- *R105-billion will be spent on housing and associated bulk infrastructure requirements.*
- *Over R18-billion in electrification funding will provide for 875 000 households to be connected to the grid or to receive off-grid electricity.*
- *R1.1-billion is allocated for broadband connectivity in government institutions and schools.*

I need to emphasise that not all infrastructure services qualify for budget funding. Cost recovery from users is a key foundation of infrastructure sustainability, together with fiscal support for access to essential services. I therefore wish to endorse the Deputy President's carefully balanced approach to resolving the Gauteng Freeway financing matter. Concerns regarding the socioeconomic impact of toll tariffs have been heard, and revised monthly ceilings will shortly be proposed.

We will include a national contribution to meeting the associated cost in the Adjustments Appropriation later this year. Measures will also be taken to ease compliance and improve enforcement. But cost recovery from road-users will continue to be the principal financing mechanism for this major road system.

Investing to transform our urban space

National government is working closely with metropolitan municipalities to invigorate urban development. As the NDP emphasises, realizing the economic dividends of urban growth requires a new approach to providing infrastructure, housing and public transport services, while overcoming the spatial divisions of apartheid. This budget recognises the need to assist cities in mobilising the finance required for more rapid infrastructure investment and maintenance. Amendments will be proposed to the Municipal Fiscal Powers and Functions Act to clarify the rules surrounding bulk infrastructure charges, and ensure an equitable and transparent system of contributions by land developers.

The National Treasury has recently met the mayors and city managers of all eight metropolitan municipalities to discuss how to accelerate investment, improve infrastructure maintenance and strengthen financial management. Metropolitan councils will announce details of their investment programmes in their forthcoming budget statements. The Treasury, the Department of Cooperative Governance and the Development Bank of Southern Africa will host a conference on urban infrastructure investment later this year to enable private investors to obtain further details of financing opportunities that will arise from this new programme.

I have also been reminded of the role of tax measures in supporting urban development. With us in the gallery today is Mr Vuyisa Qabaka, a Cape Town entrepreneur and co-founder of an organisation called the Good Neighbourhoods Foundation. His advice is that "Government should encourage township investment. For instance, it could promote urban development and regeneration through accelerated depreciation allowances for new building constructions or refurbishment of existing buildings."

National allocations to municipalities continue to be equitably allocated and aligned with Minister Gordhan's "Back to Basics" strategy. The local government equitable share was protected from the baseline reductions, to ensure that service delivery to the poor is prioritised. Allocations for water, sanitation and electricity in rural municipalities have been increased substantially. R4.3-billion will be spent over the next three years to build capacity and strengthen systems for financial management and infrastructure delivery. The collaborative review of local government infrastructure grants will give special attention to the maintenance of infrastructure, so that the gains made over the past 20 years continue to be extended and enjoyed by all over the life of these assets.

Defence, public order and safety

We still confront unacceptably high levels of crime in our country. Government spending on public order and safety and on defence will therefore continue to increase, from R163-billion this year to R193-billion by 2017/18.Police services *receive about 48% of the total allocation.*

Effective and efficient courts, under Minister Masutha's oversight and Chief Justice Mogoeng's leadership, are central to constitutional democracy and the functioning of the criminal justice system. Over the medium term, a total amount of R492-million has been reprioritised towards improving access to justice. This will increase capacity for court support personnel, public defenders and prosecutors. In order to strengthen the independence of the judiciary, the Office of the Chief Justice has been established as a new department. It becomes fully operational on 1 April 2015, with a budget over the MTEF period of R5.2-billion.

The fight against corruption remains a central priority. Additional allocations have been made to the Public Protector and the Financial Intelligence Centre for increasing their human resource capacity. South Africa's defence force under Minister Mapisa-Nqakula will continue to be deployed for safeguarding our borders and in peacekeeping operations in several conflict areas. Budget provision for border safeguarding and regional security amounts to R2.8-billion and R4.5-billion, respectively, over the next three years.

The budget also includes R834-million for access of military veterans to health care and housing services.

Financial management: ensuring value for money

Better value for money in public service delivery depends on rigorous financial management, effective systems and an unrelenting fight against corruption. Supply chain management in the public sector is far from perfect. There are frequent allegations of corruption and inefficiency. Against this background, the National

Treasury has conducted a review of public sector supply chain management, drawing on the views and experience of government, business and civil society. The review was published last month, and is a candid reflection of our current state of public sector procurement, the reforms that are needed and the opportunities that an efficient, transparent SCM system presents. In consultation with the Minister of Basic Education, the following reforms are in progress:

- *All books delivered to schools from January 2016 will be managed through a centrally negotiated contract.*
- *With effect from May this year, all school building plans will be standardised and the cost of construction will be controlled by the Office of the Chief Procurement Officer. Too often, and for too long, we have paid too much for school building projects.*
- *Routine maintenance of school buildings and minor construction works will be decentralised. This will be accompanied by measures to combat inefficiency and corruption at district and school level.*

From April 2015, a central supplier database will be introduced. Suppliers will only be required to register once when they do business with the state. This will significantly reduce the administrative burden for business, especially small and medium-sized enterprises. The database will interface with SARS, the Companies and Intellectual Property Commission and the payroll system. It will electronically verify a supplier's tax and BEE status, and enable public sector officials doing business with the state to be identified. This intervention will also reduce the administrative burden for SCM practitioners and address many of the concerns raised by the Auditor-General every year.

In close collaboration with the State Information Technology Agency, a central etender portal will be implemented from April this year. It will be compulsory that all tenders be advertised on this portal, and all tender documents will be freely available there. Tender advertisements in newspapers and the government gazette will be phased out.

A new approach to funding health and education infrastructure in provinces was introduced in 2013. Following a two-year planning cycle, the 2015/16 allocations for the education infrastructure grant and the health facility revitalisation grant reflect this new approach. On top of their base allocations, provinces that meet the minimum planning standards have been rewarded with additional allocations. For instance, the Eastern Cape receives an additional R233-million due to the quality of its plans for health and education infrastructure investment. Provinces that failed to meet the minimum standards will be prioritised for assistance through the on-going Infrastructure Delivery Improvement Programme. This allocation methodology will be expanded over the MTEF period so that all provincial departments continuously improve *their planning to be eligible to receive incentive allocations. The non-payment of suppliers on time is a perennial problem that needs serious attention. This practice works against government's efforts to grow the economy and develop the SMME sector. Payment of suppliers within 30 days will now be included among other SCM requirements in the performance agreements of accounting officers.*

Revenue and tax measures

In turning to the revenue proposals for the year ahead, Honourable Members, let me emphasise again that we are accountable to citizens and taxpayers for ensuring value for money in our stewardship of public resources. Our current projection is that tax revenue will amount to R979-billion in 2014/15, or about R14.7-billion less than the budget estimate a year ago. Including non-tax revenue, social security funds and other receipts, and after deducting R51.7-billion which goes to Southern African Customs Union partner countries, consolidated budget revenue will be R1 091-billion this year, or about 8.2% more than in 2013/14.

In the recent past, there has been considerable variation in customs union receipts, because of fluctuations in regional trade. The period ahead will also see large shifts in customs receipts, with potentially adverse implications for our partner countries. South Africa remains keen to see a revised and improved revenue sharing arrangement that would stabilise and safeguard these resource flows. Personal income tax remains a buoyant source of revenue, but the slowdown in business conditions is reflected in lower-than-expected company tax, value added tax and customs revenue.

Once again, the South African Revenue Service has done sterling work in difficult circumstances. In welcoming Mr Tom Moyane as the new Commissioner, I would like to convey my appreciation to all the personnel of SARS for their efforts over the past year.

Tax policy aims to raise revenue in a manner that is fair and efficient, while contributing to social solidarity and supporting long-term economic growth and job creation. Tax reforms since 1994 have considerably broadened the tax base, through inclusion of capital gains and closing of tax loopholes. As I indicated in the Medium Term Budget Policy Statement in October, even after lowering our expenditure ceiling, and taking into account the need for sustainability in managing our debt, there is a structural gap between our revenue requirements and projected tax proceeds. To bridge this gap we require additional revenue. In considering tax policy options, we have drawn on advice of the Davis Tax Committee and through the broader annual tax consultation process. In my view, the need to maintain the overall progressivity of the tax structure is a compelling consideration.

Tax proposals

The 2015 Budget tax proposals aim to increase tax revenues as required, limit the erosion of the corporate tax base, increase incentives for small businesses and promote a greener economy.

The main tax proposals are as follows.

Personal income tax rates will be raised by one percentage point for all taxpayers earning more than R181 900 a year. This raises tax by R21 a month for a taxpayer below age 65 with an annual income of R200 000. Those earning R500 000 would pay R271 a month more, and at R1.5-million a year the tax increase is R1 105 a month. However, tax brackets, rebates and medical scheme contribution credits will be adjusted for inflation, as in previous years. The net effect is that there will be tax relief below about R450 000 a year, while those with higher incomes will pay more in tax.

Honourable Members, an increase in the general fuel levy of 30.5 cents a litre will take effect in April. Following recommendations of the Davis Committee, a more generous tax regime is proposed for businesses with a turnover below R1-million a year. Qualifying businesses with a turnover below R335 000 a year will pay no tax, and the maximum rate is reduced from 6% to 3%. To complement this relief, SARS is establishing small business desks in its revenue offices to assist in complying with tax requirements.

The rates and brackets for transfer duties on the sale of property will be adjusted to provide relief to middle-income households. The new rates eliminate transfer duty on properties below R750 000, while the rate on properties above R2.25-million will increase.

Members of the House are advised that excise duties on alcoholic beverages and tobacco products will again increase:

- *the tax on a quart of beer goes up by 15.5 cents*
- *a bottle of wine will cost 15 cents more*
- *a bottle of sparkling wine goes up by 48 cents*
- *a bottle of whisky will be R3.77 more*
- *a pack of 20 cigarettes goes up by 82 cents*

Amendments are proposed to the diesel refund system which applies in the agriculture, forestry, fishing and mining sectors. Some of these changes will take effect this year and some in 2016.

The net effect of these proposals on 2015/16 tax revenue is an increase of R8.3-billion, which will bring tax revenue for the year to R1,081bn, or about 10.4% more than 2014/15 tax revenue.

Further tax proposals

I am also proposing a number of tax measures to promote energy efficiency, which will be discussed further with industry, the electricity regulator, Eskom and other interested parties.

The first proposal is a temporary increase in the electricity levy, from 3.5c/kWh to 5.5c/kWh, to assist in demand management. This additional 2c/kWh will be withdrawn when the electricity shortage is over. Secondly, an increase is proposed in the energy-efficiency savings incentive from 45c/kWh to 95c/kWh, together with its extension to cogeneration projects. Other measures under consideration include enhancing the accelerated depreciation for solar photovoltaic renewable energy.

In the absence of a carbon tax, the electricity levy serves both to promote energy efficiency and encourage lower greenhouse gas emissions. The introduction of a carbon tax in 2016 will provide an additional tool to deal more sustainably with the current electricity shortage, while lowering the electricity levy. A draft carbon tax bill will be introduced later this year for a further round of public consultation. To ensure that the burden is fairly distributed, steps will be taken to ensure that the electricity levy applies to all users, especially energy-intensive users, while ensuring that there are no double-payments.

We are also taking further steps to combat financial leakages which deprive our economy of-billions of rand through erosion of the tax base, profit shifting and illicit money flows.

This is the advice I received from Durban businessman, Mr Wolfe Braude, who is with us today: "Action has to be taken to close tax evasion loopholes such as transfer pricing, and profit shifting strategies by SA corporates. I ask that South Africa continue its support for the recent G20 decisions in this regard and the implementation of actions in support of transparency and sharing of information. South Africa must similarly stand firm in the SADC against tax havens." The South African Reserve Bank and the Revenue Service work closely together to monitor capital flows. This assists in identifying movements of funds for tax reasons. Internationally, there is increasing collaboration between bank regulators and tax authorities, and so progress is being made to reduce both capital leakage and tax evasion. Drawing on advice of the Davis Committee, amendments will be proposed to improve transfer-pricing documentation and revise the rules for controlled foreign companies and the digital economy.

There are two further revenue proposals that I need to explain. They both arise from challenges in respect of earmarked taxes.

The first is a 50 cents a litre increase in the Road Accident Fund levy.

This is a substantial increase from the present levy of R1.04. It is required in order to finance the progress made by the RAF administration in clearing the claims backlog. But it also reflects the unsustainability of the current compensation system, which has accumulated a R98-billion unfunded liability. Legislation to establish the new Road Accident Benefit Scheme will be tabled this year, to provide for affordable and equitable support for those injured in road accidents. Once the legislation has been passed, the levy will be assigned to the new scheme.

The second special revenue proposal is a one-year relief measure in respect of Unemployment Insurance Fund contributions. Unlike the Road Accident Fund, the UIF has an accumulated surplus of over R90-billion. Improved benefits are now being introduced, but it is nonetheless possible to provide temporary relief to both employers and employees. The proposal is that the contribution threshold should be reduced to R1000 a month for the 2015/16 year. This means that employers and employees will each pay R10 a month during the year ahead, putting R15-billion back into the pockets of workers and businesses.

Financial position of public sector institutions

State-owned companies

State-owned companies play a key role in promoting economic growth and social development. Transnet's freight modernisation programme, for example, has raised the number of trains that run between Johannesburg and Durban to sixty a day, from fewer than 20 a decade ago.

State-owned companies will invest about R360-billion over the next three years, accounting for about 20% of South Africa's gross capital formation. However, the financial position of some state enterprises is unsatisfactory, undermining their ability to contribute toward development. Recommendations to make our public entities more relevant to South Africa's developmental needs have been made by the Presidential Review Committee chaired by Ms Ria Phiyega. Reforms are required to ensure that state companies contribute to building a competitive economy and are not an unnecessary drain on the fiscus, and that developmental mandates are appropriately financed and serve the national interest. Private investment and partnerships with state-owned companies are elements of our strategy for strengthening infrastructure investment and improving service delivery. As indicated in last year's Medium Term Budget Policy Statement, fiscal support to state-owned companies over the period ahead will be financed through offsetting asset sales so that there is no net impact on the budget deficit. The required turnaround in performance and delivery on government priorities will be closely monitored, under the Deputy President's oversight.

To stabilise Eskom's financial position, it will apply to the regulator this year for adjustments towards cost-reflective tariffs. In October 2014 we announced a broad package for Eskom, including a capital injection of R23-billion, governance improvements, operational cost containment and additional borrowing and support for required tariff increases. The fiscal allocation of R23-billion will be paid in three installments, with the first transfer to be made by June 2015. A special appropriation bill will be tabled, once the finance has been raised. If further support is deemed necessary, consideration will be given to an equity conversion of government's subordinated loan to Eskom.

Government has also stepped in to address the financial position of South African Airways. SAA reported a net loss of R2.6-billion in 2013/14, as a result of high operating costs, losses on several international routes and valuation adjustments.

We have made guarantees of R14.4-billion available to SAA, of which the airline has drawn R8.3-billion. Measures to achieve operational efficiencies and restore profitability are now in progress.

Guarantees have also been provided to the South African Post Office, subject to implementation of its turnaround strategy. This involves revised universal service obligations and delivery targets, taking into account the decline in the mail and courier business and the shift to digital communication. Minister Cwele has appointed an administrator to lead SAPO's turnaround.

Development finance institutions

One of the strengths on which implementation of our National Development Plan rests is the financial health and capacity of our development finance institutions.

At the end of 2013/14, their combined assets amounted to R250-billion, against liabilities of R107-billion. The Development Bank of Southern Africa, the Industrial Development Corporation, the Land Bank and other national DFIs will expand their loan portfolios by about 33% over the next two years, including substantial investments in renewable energy, agriculture, industrial infrastructure and beneficiation projects.

Several initiatives are in progress to strengthen the role of DFIs:

- *A review of provincial entities has been initiated, aimed at enhancing their effectiveness and sustainability.*
- *An organisational review of the Land Bank will be conducted under the leadership of the newly appointed Board and CEO, to enhance its support for emerging farmers and commercial agriculture.*
- *The DBSA will take the lead in developing South Africa's municipal debt market in order to accelerate both public and private sector investment in urban renewal.*
- *The IDC aims to mobilise R100-billion over the next five years to promote faster industrial development, mineral beneficiation and agro-processing. Of special importance is the Land Bank's collaboration with the Department of Rural Development and Land Reform to bring rural land restitution and redistribution projects to full production. This initiative will build on the Bank's success in supporting black farmers through its Retail Emerging Markets division, which has financed over 400 projects and created 7 000 employment opportunities to date, without any defaults.*

The DBSA will continue to manage the Infrastructure and Investment Programme for South Africa, which is a partnership with the European Commission to strengthen project preparation and co-funding arrangements. It also provides support to the Independent Power Producer Programme, which will be extended to include new generation capacity from hydro, coal and gas sources to complement Eskom's baseload energy capacity. Co-generation and demand management initiatives are also being supported.

South Africa signed a treaty last year to give birth to a new multilateral development bank to be based in Shanghai, China. We are excited to be part of this new venture, especially given the leverage South Africa will have on resources that will augment our infrastructure investment programme and those of Sub-Saharan Africa countries. The first regional office of the bank will be located in South Africa.

Public service pensions

I am pleased to be able to report that under the capable management of the Public Investment Corporation, the retirement funding assets of public service members and pensioners have grown strongly over the past year. The Government Employees Pension Fund remains well-funded and soundly managed. Pensioners of the GEPF, the Associated Institutions Pension Fund and the

Temporary Employees Pension Fund, as well as recipients of special and military pensions, will receive a 5.8% pension increase with effect from April 2015. We have noted that some civil servants are resigning from GEPF, driven by high levels of indebtedness or incorrect information on the retirement reform process. I want to assure civil servants that the pension reforms currently under consideration will not adversely affect benefits to members of the GEPF.

Financial sector reforms

I am pleased to confirm that with effect from 1 March 2015, the new tax free-savings accounts will be available. Significant progress has been achieved in relation to retirement reforms, and consultations with NEDLAC will continue. The first draft of default regulations will be issued shortly for public comment. These reforms have one central objective: to maximise the long-term benefits to retirement fund members, so that they can retire comfortably.

Our financial services sector is one of South Africa's strengths, but as noted in our recent market conduct policy framework document, it needs to do more to treat customers fairly.

The bill establishing two new regulatory authorities, the so-called "twin peaks" reform, will be tabled this year. We have strengthened regulations for banks, and will be doing so this year for insurers, derivatives and hedge funds. We will be taking steps to strengthen the supervision of large financial groups and collective investment schemes, particularly money market funds.

Under its curatorship, African Bank is now generating positive cash flows. We announced a R7-billion backstop last year, but our expectation is that the bank will be stabilised without recourse to taxpayer funds.

In December, the International Monetary Fund released its assessment of the South African financial system. It concluded that our financial system is stable and our regulatory system sound. The report indicates need to strengthen supervision of large financial groups and collective investment schemes, in view of the concentration and interconnectedness of our financial sector.

The problem of excessive household indebtedness remains a serious challenge. Approximately 45% of credit-active consumers have impaired credit records. This results in part from poor market conduct by lenders and financial advisors. We are engaging with the major banks on further steps to be taken to assist overindebted consumers. Government also welcomes initiatives of employers in the private sector who have audited garnishee orders applied to their employees, and have taken steps to identify illegally-issued orders.

Conclusion

Honourable Speaker, this has been a challenging budget to prepare, under difficult economic circumstances. The resources at our disposal are limited. Our economic growth initiatives have to be intensified.

Preparing a budget under difficult circumstances is a reminder that our public services are many and varied, and that we rely on the efforts and good judgement of many thousands of public servants, teachers, health practitioners and law enforcement officers, every day. And our economy comprises a great diversity of enterprises, factories, mines, service centres and shop-floors, welfare organisations, trade unions and industry associations. Our collective future depends on the energy and enterprise of all of us.

The 2015 Budget takes forward our National Development Plan and medium term strategic framework, recognising that the gains of our democracy have to be shared more equally and our economy has to be given greater impetus.

Allow me to thank you, Mister President, Mister Deputy President and all of my Cabinet colleagues, for your guidance and understanding of the challenges before us and the choices for which we have shared responsibility. Honourable Speaker, and Members of the House - these are our budget proposals, and I look forward to further engagement through our committees and the Parliamentary budget process. I am especially grateful to the chairs of the finance and appropriation committees, who have responsibility for steering consideration of the Division of Revenue Bill and the Appropriation Bill, and the revenue bills which will be tabled later in the year.

Preparation of the budget is the outcome of inputs and efforts of countless people, in Treasury, in government departments, in provinces and municipalities and in our public entities. I thank you all.

Implementation of the budget, Honourable Speaker, is the collective outcome of the activities of all South Africans: workers and businesses who contribute to economic activity, investors who make growth possible, savers and taxpayers, officials and service providers, protectors, advisors, those who work on our farms, those who care for the young and elderly. It is my privilege to table these proposals for the consideration of all South Africans, and to reaffirm our commitment to work together with all South Africans in pursuing a better future.