

PROVINCE OF KWAZULU-NATAL



PROVINCIAL TREASURY

ADJUSTMENTS ESTIMATE BUDGET SPEECH 2018/19

Province of KwaZulu-Natal
Address by B.F. Scott – MEC for Finance
The Adjustments Estimate – 2018/19
21 November 2018

A. ECONOMIC OUTLOOK AND THE FISCAL IMPLICATIONS

Introduction

Madam Speaker, Honourable Members of the Provincial Legislature, colleagues, people of KwaZulu-Natal, ladies and gentlemen, let me begin my speech a little differently this year. Before I go into the economic background that lays the foundation of the Adjustments Estimate which I am tabling in this House today, as well as the technical aspects of the Adjustments Estimate, I always believe in giving credit where credit is due. Honourable Members will recall that we were pressed to table a Third Adjustments Appropriation Bill in this House on 29 March 2018 for which we were given very little notice by National Treasury with a gazette formalising the increase in the Education Infrastructure grant (EIG) by R339.996 million being issued to the province on 27 March 2018. It is because of the maturity and wisdom of this House and the good working relationship we have, that we were able to table this Bill and for KZN to receive R339.996 million. Now that the 2017/18 year is behind us and these funds were well spent, we have seen that the other province that was in line to receive additional EIG funding, did not receive it as they were unable to hold a special Sitting and therefore were hoping to rely on the roll-over process to receive these funds. The roll-over was not approved for them, though, and they therefore lost the funds. We are grateful to this House and appreciate that you understood the gravity of the situation and therefore accommodated a special Sitting despite the short notice.

Last month, the Honourable Finance Minister, Tito Mboweni delivered his Medium Term Budget Policy Statement (MTBPS). In this speech, he reinforced government's commitment to the National Development Plan and His Excellency The President's vision of *Thuma Mina*. The MTBPS highlighted the difficult economic and fiscal choices that need to be made over the medium-term and the Adjustments Budget I am tabling today will also talk about the choices we have to make in our province.

Key to improved fiscal space at all levels of government is a faster and more inclusive economic growth and strengthened private and public sector investment. Stabilising the national debt continues to be a priority of this government, as does the need to reduce the structural deficit.

Economic performance

The economic context of tabling this Adjustments Budget continues to be a difficult one with growth prospects initially forecast when the national budget was tabled earlier this year, not materialising. As Minister Mboweni said in his MTBPS speech: *"In recent months, deteriorating economic performance, revenue shortfalls and a*

weaker rand have all contributed to higher debt projections.” The South African economy slipped into a technical recession in 2018, as the Gross Domestic Product decreased by 0.7 per cent in the second quarter, followed by a decrease of 2.6 per cent in the first quarter. This is our current reality.

The public wage agreement was made at a level higher than budgeted for and this also poses a risk to our fiscus. For provinces, this additional bill was not covered by additional funding, thus putting more strain on our already constrained provincial budget.

It is, therefore, key as I said that we focus on ways to improve our economic performance across all sectors to reduce unemployment, poverty and inequality. His Excellency The President announced various measures to stimulate the economy and these include implementing growth-enhancing economic reforms, reprioritizing public spending to support growth and job creation, enhancing infrastructure investment, addressing pressing matters in education and health, as well as in municipal social infrastructure improvements. Provinces have an obvious role to play in this regard. This province has established a number of ways to contribute to this drive and these include the establishment of a Youth Development Fund, the continued roll-out of radical economic transformation programmes, the Black Industrialists programme, ensuring full expenditure of departments’ infrastructure budgets (especially by our large infrastructure departments), the focused assistance in the Department of Health, among others. There is a focused drive to attract investment in KwaZulu-Natal spearheaded by The Honorable MEC Zikalala. The recently published "KZN Investment Opportunities 2018/19” guide bears testimony to this.

We must act with purpose and with vigour in all that we do, and the decisions we take must weigh up what we are putting in, versus what we are getting from our provincial spending. The fiscal space we have will be limited until we resolve all the issues that are holding us back from achieving our full potential. The following quote from an unknown author reminds us of perspectives and intent, both of which are important:

“Every morning in Africa a gazelle wakes up. It knows it must run faster than the fastest lion or it will be killed.

Every morning a lion wakes up. It knows it must outrun the slowest gazelle or it will starve to death.

It doesn’t matter whether you are a lion or a gazelle – when the sun comes up, you had better be running.”

B. PROPOSED ADJUSTMENTS

The Public Finance Management Act (PFMA), and in particular Section 31, determines that provinces must table an Adjustments Budget annually. This must be tabled within 30 days of the national Adjustments Budget being tabled. I, therefore, table the Adjustments Budget in the Legislature today with the national Adjustments Appropriation having been tabled on 24 October 2018.

Adjustments made in terms of Section 31 of the PFMA include the appropriation of funds that have become available to the province, the shifting of funds between and within Votes, the utilisation of savings under the main division within a Vote for the defrayment of excess expenditure under another main division within the same Vote referred to as virements, approved roll-overs for those departments who could not spend the entire amount voted by the Legislature in that particular year, to name a few.

Provincial Treasury holds bilateral meetings with departments and public entities at various points throughout the year to assess in-year spending patterns, as well as to discuss any spending pressures that have arisen since the Main Budget was tabled in March 2018. Due to the tight fiscal position, the province was able to accommodate only a few additional funding requests and these are discussed later.

B.1. Financing of the Adjustments Budget

The province continues to remain cash positive as has been the case since May 2010. Provincial Treasury continues to closely monitor the bank balances, the spending pressures projected by departments in-year, as well as the adherence to the cost-cutting measures. All these factors resulted in the province ending the previous year with a positive Net Financial Position and this is, therefore, the source of the bulk of the allocations being made in this Adjustments Budget.

This Adjustments Budget deals with a number of allocations to departments where they have had unforeseen in-year spending pressures. I will take you through the approved roll-overs (both the equitable share and the conditional grants), the movement of funds between departments, as well as the suspension of funds from this year's budget to be allocated back in the new financial year.

The Adjustments Estimate book which has been handed out today has highlighted all areas where in-year adjustments to departments' budgets require Legislature approval and Honourable Members are encouraged to study these.

C. NET FINANCIAL POSITION

Table 1 is a snap-shot of the adjustments that are included in the Adjustments Budget that is being tabled today.

This table takes into account the various allocations that are made from the provincial fiscus and also shows how the funding to fund the various items was arrived at. You will not find a more transparent table in the country.

What this table does not take into account, is the additional funding allocated to KwaZulu-Natal in the National Adjustments Budget. **The national adjustments are discussed in more detail later.** Various other adjustments, such as the movement of funds between departments, are also discussed later.

Table 1: Net Financial Position - 2018/19

R thousand	2018/19
1. 2017/18 Adjusted Budget - Audited	116 940 976
2. 2017/18 Actual Expenditure - Audited	116 249 721
3. 2017/18 Year-end under-expenditure - Audited	691 255
4. 2017/18 Own Revenue Budget - Audited	3 038 628
5. 2017/18 Own Revenue collection - Audited	3 334 731
6. 2017/18 Year-end over-collection - Audited	296 103
7. 2017/18 Budgeted surplus	108 613
8. Less: 2017/18 Revenue collection allocated in 17/18 Adj., 18/19 Rev allocated + technical adj.	(17 577)
9. 2017/18 Surplus - Audited	1 078 394
10. Less: Unspent conditional grants approved for roll-over	174 692
CASP grant	15 291
Ilima/ Letsema Projects grant	22 816
Learners with Profound Intellectual Disabilities grant	1 100
Maths, Science and Technology grant	6 148
NSNP grant	129 337
11. Less: Unspent conditional grant funding to be returned to National Treasury	53 763
12. 2017/18 funding available after taking into account cond. grant roll-overs and surrenders	849 939
13. Less: Provincial Commitments	407 018
V12: Learner Transport	125 000
V8: Re-allocation of funds for housing projects from funds received from Ridgeview Gardens sale	37 842
V10: KZN Sport Awards sponsorship	675
V1: Youth Development Fund	50 000
V1: Moses Mabhida Building roof repairs	6 932
V1: Moerane Commission and Relocation costs for Ulundi staff	13 900
V2: Revenue over-collection ito S22 of PFMA and FMPPLA	3 813
V2: Voter education	7 000
V2: In-year spending pressures	9 779
V14: Property rates - S14 Schools (for 2017/18) and outstanding government debt	92 000
V13: Flood disaster relief - 10 October 2017 floods	77
V6: Health/ Treasury assistance plan	60 000
14. Less: Provincial Roll-overs	335 506
Vote 1: Terry Street Parking project, Moerane Commission of Inquiry	3 076
Vote 2: In terms of FMPPLA, under-expenditure of operational budget is allocated back to Legislature	2 742
Vote 3: Capital infrastructure projects	19 031
Vote 4: Invasive Alien Species Programme	9 292
Vote 6: Treasury/ Health assistance plan	11 000
Vote 10: Sport infrastructure in various municipalities	20 000
Vote 11: Nelson Mandela exhibition centre, lightning conductors, water tanks, vehicles, computers, etc	29 955
Vote 12: Flood disaster and cross-border crime fighting structure	222 000
Vote 13: Various capital projects eg Madadeni rehab centre, Vuma youth centre, etc	16 400
Vote 14: Provincial Infrastructure Master Plan	1 079
Vote 15: Various transfers (Usiba Writers Guild, Rorkes Drift Art Centre, KwaCulture, etc.)	931
15. Funding available after providing for provincial commitments and roll-overs	107 415
16. Add: 2018/19 budgeted surplus	174 054
17. Funds to be cut from all 15 Votes	-
18. Net financial position	281 469

The following provides more detail with regard to the Net Financial Position, as contained in Table 1:

C.1. 2017/18 Net Surplus

Lines 1 – 8 of Table 1 explain that the 2017/18 Adjusted Budget was under-spent by R691.255 million and that the Provincial Own Revenue was over-collected by

R296.103 million. This, together with the remaining budgeted surplus of R108.613 million and a few technical adjustments, saw the province ending the 2017/18 financial year with an audited surplus of **R1.078 billion**, as shown in **Line 9**.

C.2. Unspent conditional grants from 2017/18

A portion of this surplus relates to unspent conditional grant funding and, therefore, needs to be removed from the calculation, as unspent conditional grant funding has to be returned to the national fiscus, unless approved for roll-over, according to DORA. As such, **Line 10** indicates the amounts that remain unspent in the Provincial Revenue Fund, but have been approved by National Treasury, based on Audited numbers, to be rolled-over for spending in 2018/19 with respect to five conditional grants amounting to a total of **R174.692 million**. It should be noted that this is not “new” money for the province as the funds are already in the Provincial Revenue Fund. The roll-over approval merely means that these funds can be used to settle some commitments from the prior year. The approved roll-overs are as follows:

- Comprehensive Agricultural Support Programme (CASP) grant – R15.291 million
- Ilima/Letsema Projects grant – R22.816 million
- Learners with Profound Intellectual Disabilities (LPID) grant – R1.100 million
- Maths, Science and Technology (MST) grant – R6.148 million
- National School Nutrition Programme (NSNP) grant – R129.337 million.

The concern with the LPID grant, MST grant and NSNP grant roll-overs, though, is that the Department of Education over-spent their budget by R76.396 million in 2017/18 according to the audited numbers, which means that there is no cash in their bank account to back up these roll-overs. This means that, while National Treasury has approved these roll-overs, they are effectively being funded through an additional allocation from the provincial fiscus and this is not ideal and is being raised as part of the Standing Committee on Public Accounts (SCOPA) oversight processes.

Line 11 indicates that a total of **R53.763 million** has to be returned to the National Revenue Fund in terms of various unspent and uncommitted conditional grants. This amount is significantly higher than the R3.586 million returned in the previous year, and this is a concern. Funds in terms of the following conditional grants have to be returned to the National Revenue Fund:

- CASP grant – R34.372 million
- Social Worker Employment grant – R17.009 million
- LPID grant – R1.762 million

- NSNP grant – R109 000
- Social Sector EPWP Incentive Grant for Provinces (Education) – R511 000.

Line 12 then indicates the funding available for allocation after taking into account the conditional grant roll-overs that were approved by National Treasury, as well as the amounts to be surrendered to the national fiscus, with this being **R849.939 million**.

C.3. Provincial commitments/ pressures receiving additional funding

There are a number of provincial pressures that have arisen since the 2018/19 MTEF budget was tabled in the Legislature, which require funding and the amount allocated in this regard is R407.018 million. It should be noted that in two instances, some funds will only be allocated to the receiving department in 2019/20 as this is when the funds are required. Where allocations will only be made after the 2018/19 Adjustments Estimate, this is indicated as such (and these amounts will be formalised when the 2019/20 MTEF budget is tabled). The provincial fiscus is not in a position to fund all areas of spending pressure that have arisen, but the following areas receive additional funding in this Adjustments Budget:

- **Transport – Learner Transport:** There is a shortfall in the current year of R125 million with regard to the provision of provincial learner transport services. This shortfall relates to the existing learner transport services where 55 568 learners are transported, as well as the addition of 2 933 learners from the Nquthu area following a court decision in this regard.
- **Human Settlements – allocation of funds received in-year to be used for housing projects:** The department requested that funds amounting to R37.842 million received in 2017/18 from profits realised from the sale of 330 units at Ridgeview Gardens be allocated back to them to spend largely on various housing projects. The department is experiencing budget pressures following the significant fiscal consolidation cut made against the Human Settlements Development grant which was cut by R578.274 million when the 2018/19 budget was prepared.
- **Sport and Recreation – KZN Sport Awards:** The department receives R675 000 relating to various sponsorships received towards hosting the KZN Sport Awards and these sponsorships are, therefore, formally appropriated to the department.
- **Office of the Premier – Youth Development Fund:** In the State of the Province Address earlier this year, as well as in his Vote 1 Budget Speech, the Honourable Premier announced that the KwaZulu-Natal Youth Fund would be launched in 2018 and that R50 million would be allocated toward this fund and this is formalised in this Adjustments Budget.

- **Office of the Premier – Repairs to Moses Mabhida building in Pietermaritzburg:** An amount of R6.932 million is allocated for urgent repairs to the roof of the Moses Mabhida building in Pietermaritzburg. The roof of this building has serious leaks which have caused extensive damage to the building, with some offices having to be evacuated as they have become inhabitable. The project is considered urgent as the building is a national key point. The department has indicated that, in terms of project requirements, R1 million will be needed in 2018/19, while the balance of R5.932 million is to be allocated in 2019/20.
- **Office of the Premier – Moerane Commission of Inquiry and Resettlement costs:** An amount of R13.900 million is allocated relating to the Moerane Commission of Inquiry (R7 million) and Relocation payments to staff dating back to when government departments were relocated from Ulundi to Pietermaritzburg (R6.900 million). The latter relates to a long outstanding labour issue related to ex-Ulundi staff and their resettlement costs when they relocated to Pietermaritzburg. The dispute arose in 2008 and about 111 employees were affected by the relocation process.
- **Provincial Legislature – Own revenue retention:** The Provincial Legislature retains any own revenue over-collection from the prior year in terms of Section 22 of the PFMA, as well as the Financial Management for Parliament and Provincial Legislatures Act (FMPPLA). As such, R3.813 million is allocated back to the Legislature, being the revenue over-collection from 2017/18.
- **Provincial Legislature – Civic education campaigns relating to the 2019 elections:** An amount of R7 million is allocated to conduct civic education campaigns in partnership with the Independent Electoral Commission (IEC) ahead of the 2019 elections. The voter education campaigns are scheduled to be conducted from September 2018 to February 2019.
- **Provincial Legislature – Various spending pressures:** The Legislature requested R9.779 million in additional funds for various in-year spending pressures. These were discussed between the Speaker and the MEC for Finance as required by FMPPLA.
- **Public Works – Property rates:** The department requested additional funds of R378.800 million towards pressures in the payment of property rates on government-owned properties. This is in part to settle outstanding debts from 2017/18 (R94 million), Section 14 schools for 2017/18 (R43.500 million), to settle outstanding government debt as at 31 March 2015 (R48.500 million), to settle outstanding debt in respect of FET/ TVETs (R13.800 million) and to provide for the shortfall in the current year's rates bill (R179 million). Due to the tight provincial fiscus, though, it was not possible to allocate the full amount requested, and amounts of R43.500 million needed for the Section 14 schools, as well as R48.500 million relating to outstanding government

debt, are therefore allocated. Thus a total amount of R92 million is allocated in this regard.

- **Social Development – Disaster relief funding:** The department had requested additional funds *via* the Provincial Disaster Management Centre with respect to the flood disaster that occurred in the province on 10 October 2017. The department receives the bulk of the additional funding needed for these disaster repairs from the Provincial Disaster Recovery grant, as I will detail later. There is an amount of R77 000 allocated from the provincial fiscus, though, as the amount from national was slightly less than the R5.503 million the department had requested *via* the National Disaster Management Centre. This allocation of R77 000 and the funds from the Provincial Disaster Recovery grant jointly amount to R5.053 million and allows the department to deal with renovations relating to the flood disaster at facilities such as Izingolweni Residential accommodation, Zakhe Place of Safety, as well as the Umlazi and Phoenix Service offices. I will discuss the national disaster allocations a little later.
- **Provincial Treasury – Treasury/Health assistance plan:** An amount of R60 million is allocated in this regard with R20 million allocated in 2018/19 and the balance of R40 million in 2019/20 being the funds required for the complete take-over of the Supply Chain Management, Internal Control and Asset Management functions in the Department of Health. The bulk of this allocation is for the employment of contract staff for this intervention, as well as securing a building with adequate security, furniture, etc. to house this team.

C.4. Provincial Roll-overs

Line 14 indicates the provincial equitable share roll-overs that have been approved, with these amounting to **R335.506 million**. The detail of these roll-overs is provided below:

- **Office of the Premier** receives an equitable share roll-over totalling R3.076 million, having under-spent their 2017/18 budget by the same amount. The roll-over is for the **Terry Street Parking project** at the Moses Mabhida building in Pietermaritzburg (R2.686 million) and the **Moerane Commission of Inquiry** where invoices were received too late to process in 2017/18 (R390 000).
- **Provincial Legislature** retains its surplus Voted (operational) funds every year, without having to submit a request to Provincial Treasury for the roll-over of committed funds like provincial departments do. This is in line with both the PFMA and the FMPPLA. As such, the audited under-expenditure in respect of the **operational budget** is appropriated back to the Legislature. The statutory allocation is a direct charge and is, therefore, not appropriated, hence any unspent statutory funding must be paid back to the Provincial Revenue Fund. As such, R2.742 million is rolled-over for the Legislature. It

should be noted that the Legislature under-spent their 2017/18 budget allocation by R2.874 million, but R132 000 related to their statutory allocation and this has to be surrendered to the Provincial Revenue Fund.

- **Agriculture and Rural Development** under-spent the 2017/18 budget by R164.279 million and receives a roll-over of R19.031 million related to **capital projects** implemented by Public Works. This relates to office accommodation upgrades, as well as the repair of official houses at the department's research farms (at Dundee and Bartlow).
- **Economic Development, Tourism and Environmental Affairs (EDTEA)** under-spent the 2017/18 budget allocation by R100.493 million and receives a roll-over of R9.272 million relating to the **Invasive Alien Species Programme**. This relates to commitments from 2017/18 relating to the clearing of invasive plants, as well as the procurement of chemicals required for this programme.
- **Provincial Treasury** under-spent the 2017/18 budget allocation by R42.493 million and receives a roll-over of R11 million relating to the **Treasury/Health assistance plan**. These funds were specifically and exclusively allocated to the department for this purpose and this amount is, therefore, rolled over so as not to hamper the progress made by the assistance team.
- **Sport and Recreation** under-spent the 2017/18 budget by R26.865 million and receives a roll-over of R20 million. These funds were initially meant for transfer to the eThekweni Metro in respect of the construction of a sport development centre. The Metro is having extensive challenges in terms of the site selected for the centre and the current tenants at this location and the department. The department has, thus, requested that the R20 million be allocated to them to be used for the **upgrade of sport fields and sport complexes** in various municipalities.
- **Co-operative Governance and Traditional Affairs (COGTA)** under-spent the 2017/18 budget by R53.569 million and receives a roll-over of R29.955 million for **vehicles, office equipment, computers, etc., as well as the Nelson Mandela Exhibition Centre, lightning protections systems and static water tanks**.
- **Transport** under-spent the 2017/18 budget by R250 million and receives a roll-over of R222 million. Of this, R172 million relates to the funds specifically and exclusively allocated to the department for the **flood disaster repairs** following the floods that occurred in October 2017. The balance of R50 million is for the **construction of a cross-border crime fighting structure between KZN and Mozambique**. These latter funds will be suspended and held in the Provincial Revenue Fund until such time as a Memorandum of Agreement (MOA) is signed between the province and other national bodies responsible for border control, as this was a condition set when these funds were allocated to the department. The funding can, thus, only be spent by the department once this MOA has been signed.

- **Social Development** under-spent the 2017/18 budget by R70.154 million and receives a roll-over of R16.400 million for **various capital projects** implemented by Public Works.
- **Public Works** under-spent the 2017/18 budget by R6.186 million and receives a roll-over of R1.079 million relating to the development of the **Provincial Infrastructure Master Plan**.
- **Arts and Culture** under-spent the 2017/18 budget by R20.250 million and receives a roll-over of R931 000 for **various transfer payments** that were carried over to 2018/19. This amount provides for transfers to the Usiba Writers Guild, Rorkes Drift Art Centre, KwaCulture, an arts and culture council organisation (Ezengenkatho Community Centre) and the Richmond Bryne District Museum.

After funding the provincial commitments and roll-overs, the funding available is **R107.415 million** as shown in **Line 15**.

C.5. Contingency reserve

Line 16 reminds us that KZN has budgeted for a surplus or Contingency Reserve in 2018/19, with this amounting to R174.054 million and this amount ties up with the amount shown in the fiscal framework in the *2018/19 Estimates of Provincial Revenue and Expenditure*. This amount is brought into this Net Financial Position.

C.6. Proposed budget cuts to departments' budgets

Line 17 shows where the anticipated budget cuts of R475.957 million would have been shown to increase the Contingency Reserve back to R650 million, as announced in the 2018/19 Main Budget Speech. These proposed budget cuts were carefully assessed by the Provincial Executive Council in the context of departments' spending pressures, many of which arise because departments are expected to absorb the above-budget wage agreement costs from within their budgets as National Treasury has not allocated any additional funds to the province in this regard, and the fact that the province ended the year with an audited surplus of R1.078 billion. Taking into account these factors, as well as the fact that the provincial fiscus is not in a position to fund all additional funding requests that were submitted by departments, it was decided by the Provincial Executive Council to **exempt all departments from this budget cut**, and this is thus shown as Nil against **Line 17**.

Line 18 indicates that the province will then have a **positive Net Financial Position of R281.469 million** once all these allocations have been made. While this amount is fairly low, it is an improvement from the R108.613 million presented when last year's Adjustments Budget was tabled in this House. These funds are kept unallocated at this stage to protect us against any fiscal shocks which may arise.

D. SUSPENSION OF FUNDS

The provincial Adjustments Estimate process provides for the allocation of funds, for the internal reprioritisation of funds by departments, as well as the suspension of funds or for changing the purpose of funds where these have been specifically and exclusively allocated to departments.

A suspension of funds occurs when a department has recognised that there are unforeseen delays in some of their projects, and they then request that the funds be suspended from their budget in the current year to be re-allocated to them in the next or future years. A suspension of funds also occurs where a function is being moved from one department to another. The suspensions I am tabling today are as follows:

- In line with a Provincial Executive Council resolution taken earlier this year, the **Learner Transport function**, which was moved from Transport to Education in the 2018/19 MTEF, moves back to Transport in the 2018/19 Adjustments Estimate. This function and its associated budget is, therefore, suspended from Education's budget and allocated to Transport.
- Arts and Culture requested that a number of suspensions be undertaken from their budget in 2018/19 for allocation back to them in 2019/20:
 - R68 million relating to the **Archive Repository**. The department indicated that the delay in this project is due to the professional team still being in the process of completing the feasibility studies which is needed before they can hand over a full report to the department before full project implementation can commence.
 - R5 million relating to the **Music Academy in Ladysmith**. The department decided to implement this project themselves instead of transferring the funds to the Alfred Duma municipality, but requires the funds to be suspended to 2019/20 which is when they will be ready to roll-out this project, taking into account capacity constraints in their infrastructure unit and the fact that the department has a number of capital projects that are currently ongoing.
 - R 9 million relating to the **Winston Churchill Theatre** refurbishment project. The department is in the process of appointing project managers for this project but indicated that these funds will not be spent before the end of 2018/19.
 - R9 million relating to the **Osizweni Art Centre** for upgrades and additions to this centre. The department is currently in the process of appointing project managers for the implementation of this project, but indicated that these funds will not be spent in the current year.
- **COGTA** requested that the R40 million that was suspended to their budget from 2017/18 relating to the **Traditional Council elections** now be largely suspended to 2019/20 as the department indicated that these elections are

only going to happen after the 2019 General Elections i.e. in December 2019. As such, the department requested that R35 million be suspended to 2019/20 for these elections and R5 million be kept in 2018/19, but for voter education programmes.

E. REVISIONS TO EQUITABLE SHARE AND CONDITIONAL GRANT ALLOCATION

The 2018/19 Adjustments Budget sees **no additions** being made to KwaZulu-Natal's **Provincial Equitable Share**.

There are some changes made to the **Conditional Grant** allocation by National Treasury, though. The province had applied to the National Disaster Relief Fund *via* the Provincial Disaster Management Centre following the **flood disaster** that occurred in the province on 10 October 2017. This has been a protracted and difficult exercise with funding eventually allocated to the province a full year after the disaster had occurred. Fortunately the province was in a position to fund some of the disaster repairs from within its budget which allowed us to start with some of the emergency repairs last year. The request made to the National Disaster Relief Fund was for an amount that exceeded R2 billion, but we received an allocation of only R465.812 million allocated as follows:

- Education Infrastructure grant receives R150 million.
- Health Facility Revitalisation grant receives R199.508 million.
- Human Settlements Development grant receives R100 million.
- Provincial Disaster Recovery grant receives R11.328 million (under COGTA).
- Provincial Disaster Recovery grant receives R4.976 million (under Social Development, as I mentioned earlier).

There is also an allocation made in terms of Government Gazette No. 41 958 issued by National Treasury on 4 October 2018, and this indicates the allocation of **drought relief** funds to provinces. In this regard, Agriculture and Rural Development receives and allocation of R9.850 million which is allocated to the Land Care grant.

F. TECHNICAL ADJUSTMENTS/INTERNAL REPRIORITISATION

Other than these adjustments, the Adjustments Budget also contains virements and shifts undertaken by departments in re-organising their budgets in-year.

As a reminder, a **virement** is the utilisation of savings or under-spending under one main division or economic classification of a Vote toward the defrayment of excess expenditure under another main division or economic

classification of the same Vote, i.e. That is, the original purpose of the funds has changed.

A shift on the other hand is the re-allocation of funds incorrectly allocated during the 2018/19 Estimates of Provincial Revenue and Expenditure budget process, or where funds are shifted due to the re-classification of expenditure. This also includes functions shifted within a Vote to follow the internal transfer of functions **i.e.** the original purpose of the funds remains the same.

Important to note in terms of Section 43 of the PFMA is that **Legislature approval** is required for any decrease in funds **specifically and exclusively** allocated for a particular purpose, any **decreases in Capital**, as well as any **decrease in Transfers and subsidies** to another institution. As I indicated earlier, any such proposed decreases are highlighted in grey shading in the 2018/19 Adjustments Estimate which I am tabling today.

In terms of Treasury Regulation 21.1.1, any **gifts, donations or sponsorships of amounts up to R100 000** may be approved by the relevant Accounting Officer. Where the amount exceeds R100 000, Legislature approval must be sought. In instances where such gifts, donations and sponsorships exceed R100 000, these are shown separately in the 2018/19 Adjustments Estimate, and are shown as a separate item in the Adjustments Appropriation Bill.

G. CONCLUSION

Madam Speaker, as I conclude, I want to thank the Honorable Premier and the Honorable Members of the Provincial Executive Council, and in particular the Members of the Ministers' Committee on the Budget, for their support and wise council in putting together an Adjustments Budget in very trying times. The following African Proverb assures us that our experiences are building us and making us stronger to deal with whatever comes our way and reads as follows: *"Smooth seas do not make skillful sailors."*

I appreciate the support I receive from the Finance Portfolio Committee, under the capable chairmanship of Honourable KK Nkosi.

I wish to thank the Heads of Departments and Chief Financial Officers for the role they play in managing the provincial budget. Where departments have shown pressures and projected year-end over-expenditure in their Mid-year Budget Performance Reports for the 2018/19 financial year, they have been directed to prepare turnaround plans that sees them ending the year with no over-spending. There are no funds for bail-outs and the Contingency Reserve that remains is not sufficient to protect the provincial fiscus if departments over-spend their budget at currently projected levels. Departments must, therefore, act responsibly in managing their budgets. I also implore you to act decisively in adhering to the cost-cutting measures as the overall success is dependent on how seriously departments and public entities adhere to these. Let us not forget that these were

decided on as a collective and were approved by the Provincial Executive Council. You should not wait for Provincial Treasury to say “no” to lavish expenditure items. These should be dealt with by you and you should do so unwaiveringly.

I cannot end a speech without singing the praises for my Treasury officials for ensuring that the budget documentation we are tabling today is accurate and of high quality. I do not think we can fully appreciate the time it takes to prepare these documents and the personal sacrifices that are made to get to tabling the Adjustments Estimate today. Team Treasury – Well done for a superb job!

It is my honour to formally table the KZN Adjustments Appropriation Bill, 2018, for consideration in this House. I look forward to the debate on this Bill.

Thank you.