

SECOND ADJUSTMENTS BUDGET SPEECH 2020/21



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PROVINCE OF KWAZULU-NATAL

Budget Address by Honourable Ms Nomusa Dube-Ncube MPL, MEC for Finance

On tabling of the 2020/21 Second Adjustments Budget in the Provincial Legislature

24 November 2020

Honourable Speaker

Honourable Premier

Honourable Members

Heads of Departments

Chief Financial Officers

Head of Provincial Treasury and Officials Present

Business, Academic, Religious and Community Leaders, Traditional Leadership

Members of the Media

Ladies and Gentlemen

Comrades and Friends

1. INTRODUCTION

Madam Speaker,

Today marks exactly 243 days since our country began a nation-wide lockdown to contain the spread of the coronavirus. Our people have endured great pain and suffering during this period of uncertainty, especially in their socio-economic life.

The Covid-19 pandemic has prompted the most severe global economic downturn that was last suffered during the 1929 Great Depression. The rapid spread of the virus resulted in stringent lockdown regulations to slow transmission as we worked on improving the capacity of our health system.

These lockdown measures succeeded in slowing down the spread of the virus and in reducing the death toll. However, they have also disrupted business activities in many sectors, widened inequality, disturbed education and dented confidence in the future.

As South Africa, we are not out of the woods yet in terms of the Covid-19 infections, but we can pat ourselves on the back for having managed to flatten the curve of infections when it mattered most.

We achieved this through a collaborative effort by all social partners and through cooperation from many ordinary South Africans, many of whom were willing to forego their liberties and luxuries for the greater common good.

Now we turn our focus to the economy as we look at how we reignite the economy so we can save the livelihoods of many and flatten the curve of inequality which continues to peak as the economic crisis deepens.

We are therefore once again called upon to make further sacrifices. As this budget demonstrates, the resources at hand are limited which means that we have our work cut out for us. But if there is one thing we have learned in our battle with Covid-19 is that no challenge is insurmountable if we work together towards a common goal.

But this also means that we have to focus on a few fundamentals such as improving our control environments, strengthening good governance and ensuring there is accountability.

The departed Auditor General Kimi Makwetu put it succinctly when he said: “Even in this crisis, there is no way we can step away from the disciplines of transparency and accountability.”

Speaker, accountability starts with all of us here. From members of the executive, MPLS to HODs, senior managers and all the way down to junior ranking officials. The little resources we have should go to where it matters most, and that is service delivery.

We also have to use government spend to spur economic growth and the transformation of the economy. We have to ask ourselves: “To what extent have we managed to use government spend to empower the previously marginalised?”

While the resources are limited, they should not prevent us from implementing key catalytic projects and infrastructure development programmes so as to turn around the situation as guided by the reconstruction and transformation plan.

2. ECONOMIC OUTLOOK

Global, national and provincial review and economic outlook

Last Friday's downgrade of South Africa by two rating agencies underscores the urgency of getting the country's economic disposition back on track amid the Covid-19 turbulence we are facing. Fitch, for example, markedly stated that "*the downgrade and negative outlook reflect high and rising government debt*" of a government severely hit by the pandemic.

The economic implications of the crisis have been extensive and will be realised for the foreseeable future. Overall, the global economic growth is projected to contract by 4.4% this year before expanding to 5.2% in 2021. In South Africa, the Gross Domestic Product (GDP) contracted by 51% in the second quarter of this year. The economy of the country is now expected to shrink by at least 7.8% this year, with a rebound of about 3.3% in 2021.

For the Province of KwaZulu-Natal, the impact of Covid-19 was felt severely, particularly during the second quarter of 2020. As a result, our provincial GDP growth rate fell by a devastating 51.6% over the same period. Our projections indicate that economic growth in the Province will contract by at least 9.1% this year, before moderating to 1.5% next year.

The largest negative contributors to the provincial economic growth in the second quarter of 2020 were mining and quarrying, which contracted by 75.5%; constructions by 75.3%; manufacturing by 75.1% and wholesale and retail trade, hotels and restaurants by 68.9%.

Relationship between economic performance, revenue and debt

Alarmingly, data from Statistics South Africa shows that the total number of forced and voluntary liquidations increased by 54% in September as compared to the same month last year. The rapid increase in liquidations has led to a distressing rise in the expanded unemployment rate, which is currently estimated at 47.5% in KwaZulu-Natal compared to 43.1% nationally. This implies that five out of ten people in KwaZulu-Natal are unemployed.

The worse-than-expected economic performance and outlook resulting from the negative impact Covid-19 has also hampered tax revenue collection. National Treasury now expects the R1.425 trillion tax revenue projected for the current financial year to drop by at least R312 billion. Disturbingly, this has led to the consolidated budget deficit to be revised upward from 6.8% of GDP projected in February to 15.7%.

Meanwhile, the national debt-to-GDP ratio has also escalated from around 28% a decade ago to 81.8% in the revised current financial year and is expected to increase further to 85.6% next year. Unfortunately, debt servicing cost is among the fastest-growing expenditure items over the medium-term and therefore crowding out spending in most functions. Debt-servicing costs are now 4.8% of GDP, up from 3.3% in 2016/17.

A peer review conducted by National Treasury indicates that, as government, our ratio of interest payments to GDP is projected to be higher than in countries with similar or weaker credit ratings, such as Morocco, Brazil and Armenia. The negative outlook assigned by three of the four major rating agencies implies a high likelihood of further downgrades, which would put upward pressure on funding costs.

It is partly due to these fiscal challenges that, while tabling the National Medium-Term Policy Statement last month, the Minister of Finance, Honourable Tito Mboweni, emphasised on the need to shift the direction of spending from consumption towards investment. The Minister was clear on the need to protect the country's fiscal framework, otherwise we, as the Government of South Africa, might face the real risk of a sovereign default.

Therefore, as government, we are compelled to kick-start the economy by implementing and driving the reforms as outlined by the honourable President Cyril Ramaphosa in the economic reconstruction and recovery plan. Effective and efficient implementation of this plan in collaboration with our Provincial Operation Vula, radical economic transformation and RASET would also be essential for a speedy economic recovery.

3. SECOND ADJUSTMENTS TO THE 2020/21 BUDGET

In July this year, a Special Adjustments Estimate was tabled in the Provincial Legislature. This Special Adjustments Estimate only dealt with the provincial

Covid-19 response, and it was indicated at the time that a further Adjustments Estimate process would follow later in the year.

Section 31 of the Public Finance Management Act (PFMA), read together with Treasury Regulation 6.3 determines that provinces must table an Adjustments Budget 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 28 October 2020.

Section 31 of the PFMA and Treasury Regulations 6.3 to 6.6 determine what may be included in an Adjustments Budget, with these supported by circulars from National Treasury.

The Second Adjustments Estimate then deals with finalising the various roll-overs and allocations of additional funding that were proposed in the Special Adjustments process, but for inclusion in the November Adjustments. It also deals with any additional funding requests that have arisen since then, the allocation of the R300 million Provincial Economic Recovery Fund, as well as the suspension of funds from this year's budget to future years and the movement of funds between Votes. I will also talk about the provincial own revenue shortfall that we are anticipating as a result of the impact of Covid-19 specifically with regard to the impact the lockdown had on casino taxes and how we plan to deal with that.

In instances where Legislature approval is specifically required for an adjustment to a Vote's budget, this has been highlighted in grey shading in the Adjustments Estimate book which Provincial Treasury has prepared, and Honourable Members are encouraged to study these. A summary of these is provided today in an explanatory memorandum, while the comprehensive Adjustments Estimate book will be available later this week.

4. FINANCING THE 2020/21 SECOND ADJUSTMENTS ESTIMATE

I am pleased to say that the Province continues to remain cash positive as has been the case since May 2010. Some of Provincial Treasury's key roles are to monitor the departments' bank balances closely, to assess their in-year spending pressures, as well as ensure the adherence to the cost-cutting measures. All these factors resulted in the Province ending the previous year with a positive Net Financial Position. While this House will recall that the bulk of the funding from this positive Net Financial Position was used toward

financing the provincial Covid-19 response as detailed in the Special Adjustments Budget Speech in July, there are some provincial priorities and roll-overs which were also considered when these calculations were being done. These provincial commitments and roll-overs will be explained today and are also included in the Adjustments Appropriation Act.

I will also explain the approach taken in dealing with the anticipated shortfall in *Casino and Horse Racing Taxes* which we indicated in July we would defer to this Adjustments Budget process. Members will recall that we were anticipating a revenue shortfall in this regard of R368.4 million but were waiting to see if other revenue sources would over-collect to offset this projected under-collection, while the easing of the lockdown restrictions has helped to reduce this projected under-collection.

Table 1 is attached as an annexure to this address and provides the adjustments being made today in tabular form. This table takes into account the funding available to the Province, how it became available and how it is being allocated. The table does not take into account, though, the additional funding allocated to KwaZulu-Natal in the National Adjustments Budget but these are discussed later in this address.

Lines 1 – 8 of Table 1 explain that the 2019/20 Adjusted Budget was under-spent by R1.8 billion and that the Provincial Own Revenue budget was over-collected by R452.4 million. This, together with the remaining budgeted surplus of R200 million in 2019/20 and a few technical adjustments, saw the Province ending the 2019/20 financial year with an audited surplus of R2.4 billion, as shown in Line 10. The Net Financial Position has changed since the preliminary numbers were used which informed the 2020/21 Special Adjustments Budget, but that is because this Net Financial Position is based on the audited outcome of 2019/20. Members will recall that the bulk of this positive Net Financial Position was allocated to the provincial Covid-19 response, and this Second Adjustments Budget process then serves to formalise the provincial equitable share and conditional grant roll-overs, as well as the allocation of funds to some provincial commitments. These are all funded from the Net Financial Position shown in Table 1.

4.1 Conditional Grant Roll-overs

Unspent conditional grant funding has to be returned to the national fiscus, unless approved for roll-over, according to Section 22 of the Division of Revenue Act. As such, Line 11 indicates that R192 million has been approved by National Treasury, based on audited numbers, to be rolled over for spending in 2020/21. This is not "new" money for the Province as the funds are already in the Provincial Revenue Fund. The roll-over approval means that these funds can be used to settle commitments from the prior year. The approved roll-overs are as follows:

- Comprehensive Agricultural Support Programme (CASP) grant – R42.4 million
- Ilima/Letsema Projects grant – R29 million
- National School Nutrition Programme (NSNP) grant – R9.7 million
- National Health Insurance (NHI) grant – R655 000
- Provincial Emergency Housing grant – R86.1 million
- Community Library Services grant – R24.1 million

Line 12 indicates that a total of R28.5 million has to be returned to the National Revenue Fund in terms of various unspent and uncommitted conditional grants. These grants are:

- CASP grant – R4.9 million
- Ilima/Letsema Projects grant – R836 000
- NHI grant – R16.2 million
- EPWP Integrated Grant for Provinces (under Human Settlements) – R50 000
- Community Library Services grant – R4.7 million
- Provincial Disaster Relief grant (under COGTA) – R387 000
- Provincial Disaster Relief grant (under Social Development) – R1.3 million

4.2 Provincial equitable share roll-overs

The provincial equitable share roll-overs that are approved and are thus contained in the Adjustments Appropriation Bill being tabled today, amount to R108.1 million and are shown in **Line 14** of the Annexure and are as follows:

- **Vote 1: Office of the Premier** receives a roll-over of R11 million, to pay commitments relating to Microsoft software licences and computer equipment.
- **Vote 2: 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 Financial Management for Parliament and Provincial Legislatures Act (FMPPLA). As such, the audited under-expenditure in respect of the operational budget is appropriated back to the Legislature. As such, R36.8 million is rolled-over for the Legislature. It should be noted that the Legislature under-spent their 2019/20 budget allocation by R40.3 million, but R3.4 million related to their statutory allocation and this usually has to be surrendered to the Provincial Revenue Fund.
- **Vote 3: Agriculture and Rural Development** receives a roll-over of R18.2 million mainly for commitments relating to vehicles ordered in 2019/20, but delivery took place in 2020/21.
- **Vote 4: Economic Development, Tourism and Environmental Affairs (EDTEA)** receives a roll-over of R6.5 million. Of this, R1.5 million is in respect of the King Shaka International Airport Public Transport Link Solution. These funds were not spent due to the late appointment of a transaction advisor, and the department requested a roll-over to proceed with the implementation of this project in 2020/21. R2 million is in respect of the Competitive Enhancement programme which aims to assist priority sectors of the provincial economy by strengthening the international competitiveness of these sectors and by positioning them as key contributors to economic growth and development. R2 million is in respect of the transfer to the KZN Economic Council because a roadshow and the Job Summit for Amajuba District were postponed to 2020/21. R1 million is in respect of the Aquaculture Development project relating to a fish processing facility planned for Port Shepstone and Mtubatuba. There were delays in issuing a licence for this facility by the Department of Environment, Forestry and Fisheries, with permission only being received towards the end of 2019/20.
- **Vote 6: Provincial Treasury** receives a roll-over of R10 million relating to the Irregular Expenditure condonation project where commitments from the previous year were paid in 2020/21.

- **Vote 10: Sport and Recreation** receives a roll-over of R1.4 million relating to the non-delivery by year-end of computer hardware and software ordered from overseas. The non-delivery was as a result of delayed production caused by the Covid-19 pandemic.
- **Vote 11: Co-operative Governance and Traditional Affairs** receives a roll-over of R24.2 million. This is mainly for the non-completion of work by year-end on the water, sanitation and electricity backlog study because of a change in the project scope. The department was allocated R100.6 million in the 2019/20 Adjustments Estimate for the study. The project end-date was extended to the end of June 2020 due to a slight change in the scope of the study. This was further extended to September 2020 due to the national lockdown. An amount of R76.4 million was spent by the end of March 2020.

4.3 Funding provincial commitments

There are several provincial commitments and/or pressures that have arisen since the 2020/21 MTEF budget was tabled in the Legislature, which require funding and the amount allocated in this regard is R188.3 million as shown in **Line 16** of the Annexure. The areas receiving additional funding are as follows:

- **Vote 2: Provincial Legislature** receives an amount of R2.2 million as the Legislature retains any **own revenue over-collection** from the prior year in terms of Section 22 of the PFMA, as well as FMPPLA.
- **Vote 10: Sport and Recreation** requested that an amount of R275 000 collected as revenue in 2019/20 in terms of **sponsorships for the annual Sport Awards** be allocated back to them in 2021/22 also for the Sport Awards.
- **Vote 14: Public Works** receives R165 million to cover the shortfall in the budget for **municipal property rates**, and this fully compensates the department for the amount they need to settle their rates accounts this year. This budget requires a baseline correction, but the continuous budget cuts experienced by this Province have not made it possible to right-size the property rates budget at this stage. In the interim, the department requests funds annually via the Adjustments Estimate process, to help them with these spending pressures. These funds are allocated to provide for the shortfall in paying municipal property rates in respect of all districts. This shortfall was brought about by a 10 per

cent escalation in municipal property rates as a result of increases in market values for the municipalities that implemented their new general valuation rolls with effect from 01 July 2020, as well as to cover tariff increases.

- **Vote 8: Human Settlements** requested that some funding collected in 2019/20 be allocated back to them. These funds were collected from the sale of Finance Linked Individual Subsidy Programme units, from interest on funds previously transferred to Ithala for housing programmes, as well as from interest earned by Newcastle municipality for the acquisition of land where the process took longer than anticipated. In this regard, R16.4 million is allocated to the department with R5.5 million allocated in 2020/21, and the balance of R10.9 million is allocated to them over the 2021/22 and 2022/23 financial years. These funds will be used to establish a **Youth, Women and People with Disability Directorate** for which the department currently does not have funds. The department is also required by its national department to implement a **housing needs register**, and the funds will also be used for this.
- **Vote 1: Office of the Premier** recalled R4.4 million from the eThekweni Metro in terms of the **Indian Indentured Labourers'** memorial that was to be built but was showing no progress. This amount was paid into the Provincial Revenue Fund in 2019/20. Consultations in terms of this project have resumed but, in the meantime, these funds will be held in the Provincial Revenue Fund until the funds are required in terms of the project progress made. A portion in the amount of R300 000 is likely to be spent this year and is allocated to Vote 15: Arts and Culture and the balance of R4.1 million will be allocated when it is needed.

4.4 Suspension of funds

There are four suspension of funds that are included in the Second Adjustments Estimate. As a reminder, as suspension of funds is the **voluntary surrender of funds in-year for re-allocation in future years**, or where a function moves from one department to another, and the funds are then suspended from the one Vote and allocated to the receiving Vote as funds follow function. The suspensions of funds are as follows:

- **Vote 1: Office of the Premier and Vote 6: Provincial Treasury** sees the movement of the Forensic Investigation Unit between these two departments. The Provincial Executive Council determined on 10 June 2020 that the Forensic Investigation Unit at Provincial Treasury should be transferred to the Office of the Premier with effect from 1 August 2020. As a result, an amount of R19.9 million moves with regard to this function shift from Provincial Treasury to Office of the Premier. This amount was mutually agreed upon between the two departments. The budget for 2021/22 onward will be moved between the two Votes when the 2021/22 MTEF budget is being prepared.
- **Vote 1: Office of the Premier** requested that the R50 million allocated for the KZN Youth Empowerment Fund be suspended from their Vote this year and be allocated back to them in 2021/22. The department budgeted to transfer this amount to the KZN Growth Fund Trust in 2020/21, but the impact of the Covid-19 pandemic and the lockdown has resulted in a significant reduction in economic activity in the Province. As a result, there have not been adequate requests for funding from potential beneficiaries of the KZN Youth Empowerment Fund to warrant a transfer in 2020/21.
- **Vote 12: Transport** requested that the R214 million allocated to them for **learner transport services** pressures as a result of Covid-19 hygiene and social distancing requirements be suspended from their budget and allocated back to them in 2021/22. These funds were allocated in the Special Adjustments Budget and were based on scholar transport vehicles initially anticipated to only be permitted to operate at 70 per cent capacity, but this was amended to 100 per cent capacity. As a result, these funds are not required in 2020/21 but are suspended to future years to assist with the normal learner transport pressures as the fiscus has not been in a position to right size this budget due to constant budget cuts.
- The Department of Transport also indicated that they will not be in a position to spend the R200 million that had been allocated to the department for various **infrastructure requirements** when the Special Adjustments Budget was tabled. These funds are suspended from their budget in 2020/21 and are allocated to Education, COGTA and EDTEA to assist with their spending pressures, the details of which I will provide shortly.

4.5 Allocation to provincial pressures

The Departments of Education, Co-operative Governance and Traditional Affairs (COGTA) and Economic Development, Tourism and Environmental Affairs (EDTEA) requested additional funding in-year and the R200 million suspended from the Department of Transport is allocated towards these pressures, as follows:

- **Education** receives R100 million towards the pressures in their infrastructure programmes. The infrastructure budget was severely impacted by National Treasury's decision to cut the Education Infrastructure grant by R497 million in the Special Adjustments Budget, while the department had increased responsibilities to provide water at schools, to repair schools vandalised during the lockdown and so forth. This R100 million is therefore allocated towards education's infrastructure budget.
- **COGTA** receives R70 million for the drilling and equipping of boreholes, which was identified as an urgent provincial priority.
- **EDTEA** receives R30 million for a number of projects that are catalytic in terms of the provincial economic recovery and job creation. The projects include an agri-hub at Mtubatuba, the integrated development strategy at Phongola, Operation Vula projects and a women co-operative project at Inkosi Langalibalele, among others.

4.6 Contingency Reserve

After all these allocations, roll-overs and suspension of funds, the **Contingency Reserve** remains with a balance of R100 million for this year. These funds remain unallocated as they serve to help buffer the anticipated **revenue shortfalls** that are projected for *Casino* and *Horse racing taxes*. I said earlier that this shortfall was calculated at R368.4 million when we tabled the Special Adjustments Budget in July, but this has shown an improvement as lockdown levels have eased to a projected under-collection of R249.8 million as per the September in-year monitoring report. It is likely that other revenue collection items will over-collect as historic trends have shown, and this, together with the R100 million Contingency Reserve are a safe-guard in terms of the revenue projections for the remainder of the year.

4.7 Provincial Economic Recovery Fund

When we tabled the Special Adjustments Budget in this House in July this year, we indicated that the provincial fiscus was setting aside **R300 million** as a **Provincial Economic Recovery Fund**. We indicated at the time, that the Provincial Executive Council has had extensive engagements with the private sector and in preparing a Provincial Economic Recovery Plan and that this plan would inform the allocation of this fund.

All departments and public entities were given an opportunity to present their requests for funding from this Recovery Fund, but these had to be part of the projects identified in the Provincial Economic Recovery Plan, and also had to be accompanied by a detailed submission or business plan. Provincial Treasury developed a set of criteria against which each of these proposals were scored, with the minimum score to be considered for funding being set at 80 per cent.

The criteria against which all requests were measured, included providing evidence that the proposal was clearly identified as a provincial priority by the Provincial Executive Council, that the proposal is clearly identifiable within the approved Provincial Economic Recovery Plan, will the proposal have a substantial long-term impact on economic growth and/or social equity, job creation and equitable distribution of wealth within the KwaZulu-Natal economy, has an impact study been done on the outcome of the proposal if it were to be funded, among others.

The projects that receive an allocation from the Provincial Economic Recovery Fund are as follows:

- **The livestock (beef and goat) intervention** under the Department of Agriculture and Rural Development receives R66.5 million allocated over two years. The department's Livestock Strategy, which includes communal beef improvement and the goat strategy, has been presented to the Provincial Executive Council. This intervention will have an impact on increased food production and job creation and aims for an increase in emerging and commercial farmers. It aims to transform and empower previously disadvantaged livestock farmers. The impact of the intervention is that farmers will be able to participate in the livestock value chain. The detailed farm business plans show that 119 jobs will be created.

- The **Food Security programme** under the Department of Agriculture and Rural Development receives R59 million allocated over two years. This programme was adopted by the Provincial Executive Council as a priority programme. The One-Home-One Garden Programme was launched as a provincial event and subsequently through district events. The programme is expected to contribute towards poverty eradication.
- The **Mechanisation** programme under the Department of Agriculture and Rural Development receives R10 million in 2020/21. The Honourable Premier during his State of the Province Address announced that there is a need for the department to review its mechanisation model. The MEC for DARD during her budget policy speech then indicated a new regime of policy provision on mechanisation that will focus on ensuring procurement of tractors and equipment by the state to service vulnerable households. These funds are for the further expansion of the reach of this programme to assist vulnerable households.
- **Informal economy infrastructure development** under EDTEA receives R14.5 million in 2020/21. This project is to create a conducive business environment for informal traders through the provision of suitable trading and storage infrastructure (mobile or fixed) including electricity, water and sanitation. The aim is to support or benefit 859 registered and compliant informal traders.
- **Operation Vula** under EDTEA receives R30 million over two years to support and promote local economic development and local small scale industries. Operation Vula will be realised through interventions, such as the Black Industrialist programmes, the revitalisation of townships and rural economies and through public procurement.
- The **River Valley Farms CC** falls under the Agri-business Development Agency (ADA) receives R8.3 million allocated over two years. The project will provide for the completion of a pack house, a pasteurising machine and to establish an additional 4 hectares of shade net for the vegetable farm. This project showed a good potential economic impact (there is already an off-take market, it is black women-owned and has the potential to create 60 new jobs in the Umshwati area).

- **Road infrastructure maintenance** under Ezemvelo KZN Wildlife receives R51 million over two years. This project entails the maintenance of roads within three of the entity's nature reserves. i.e. Midmar, Umlalazi and Ithala. The economic benefits relate to the fact that further deterioration of the roads can be mitigated, but there would also be a benefit in terms of visitors to these reserves as many visitors are currently deterred by the road conditions. The project plans to create between 100 and 150 construction jobs in the localised communities.
- **SMME Covid-19 Support** under the Ithala Development Finance Corporation receives R60 million in 2020/21. This proposal seeks to provide support to SMMEs to avoid closure of their businesses due to the impact of Covid-19. This support will assist in creating or retaining jobs and sustaining economic activities. Support will be provided where grant beneficiaries meet specific set criteria. A maximum amount of R100 000 per SMME will be allocated to stretch the reach of the funds.
- **KwaXolo Caves Precinct** adventure tourism facilities under Tourism KZN receives R650 000 in 2020/21. This project provides adventure tourism facilities at the KwaXolo Caves Precinct and provides for the preparation of an ablution facility and four picnic spots at the cave site.

5. **EQUITABLE SHARE AND CONDITIONAL GRANT ALLOCATIONS**

National Treasury makes some changes to the provincial budget in this Second Adjustments Estimate and, while there is an increase of R1.8 billion, on the one hand, there is a budget cut of R5.4 billion on the other hand thus resulting in a net reduction of R3.6 billion. National Treasury also issued a government gazette in-year which allocated disaster funding for drought relief to the Province, and an amount of R4 million is received in this regard. The amendments by National Treasury are explained as follows:

5.1 **Budget cuts against provision for 2020 cost-of-living adjustment**

The bulk of the budget cuts effected against the Province by National Treasury are as a result of an amount of R25.3 billion being cut from the provincial sphere to be deducted from the provincial *Compensation of employees* budgets, with KwaZulu-Natal's share of this being R5.4 billion. This cut is meant to **reduce growth of the public sector wage bill**. Departments were told to implement this cut against the provision made for the **2020 cost-of-**

living adjustment as this matter is currently in court and is unlikely to be resolved before the end of the financial year. This cut was effected proportionately against all Votes based on the equitable share-funded *Compensation of employees* budget with only the Provincial Legislature excluded from this as the Legislature sector has received a 6.5 per cent wage increment in 2020/21 for all staff below management level while negotiations for management level are still underway.

5.2 Presidential Employment Fund

National Treasury requested applications from national departments and from provinces towards receiving funding from the **Presidential Employment Fund**. They then indicated that none of the provincial applications could be considered for funding as the President announced the continuation of the R350 per month grant until January 2021 and this continuation was to be funded from the funds that were ear marked for the Presidential Employment Fund. What this means is that the provincial applications were not considered, but the national applications were considered. Some of the national applications result in funding flowing to provinces, though, both in terms of equitable share and conditional grant allocations. In this regard, R7 billion is added to the provincial equitable share, with KwaZulu-Natal's portion of this being R1.4 billion. Also, the Province's conditional grant allocation is increased by R273 million. Provinces will also need to adhere to additional reporting requirements on how the funds will be spent. The Presidential Employment Fund allocations are explained as follows:

- **Vote 5: Education** receives R1.4 billion allocated to its equitable share. These funds are to be used to employ **education assistants at schools and to save school governing body posts** at fee-paying schools and government-subsidised independent schools where employees have been given a leave of absence or had salaries reduced due to reduced income from school fees and fund raising initiatives as a result of Covid-19. Through this allocation, school governing bodies can appoint education assistants and decide on the specific duties of these assistants (e.g. reading assistants, classroom assistants, after school assistants, cleaners, screeners, etc.) depending on the need of the schools. This amount is specifically and exclusively allocated to the department for this purpose. These funds are not allocated with carry-through costs and

are meant for short-term interventions that will end by the end of this financial year.

- As mentioned, R273 million is added to the provincial **conditional grant** allocation by National Treasury in terms of the **Presidential Employment Fund** intended to respond to the increase in unemployment as a result of the Covid-19 pandemic. These funds are not allocated with carry-through costs and are meant for short-term interventions that will end by the end of this financial year, and the conditional grants that receive additional funding are as follows:
 - R56.2 million is added to the **HIV, AIDS, TB, Malaria and Community Outreach grant** under Health specifically allocated to the Community Outreach component to be used to appoint community health workers and outreach team leaders. These funds can also be used to purchase additional backpack kits, training, uniforms and PPE for the community health workers and outreach team leaders that will be recruited from these additional funds.
 - R5 million is allocated to the **National Health Insurance grant** under Health and will be used to remunerate contracted doctors and to pay their traveling costs.
 - R40.5 million is allocated to the **Statutory HR, Training and Development grant** under Health and these funds are to be used to appoint enrolled nurses and assistant/ auxiliary nurses.
 - R89.9 million is added to the **Early Childhood Development grant** under Social Development. Part of this is to be used to top-up salaries in ECD facilities for additional duties in terms of compliance support while some of this funding is to be used for employment risk support in both registered and unregistered facilities.
 - R81.3 million is added to the **Provincial Road Maintenance grant** under Transport specifically allocated for job creation through road maintenance projects.

5.3 Other amendments by National Treasury – food relief, SAA rescue plan, disaster

National Treasury also indicated further amendments to KwaZulu-Natal's allocation. Some of these amendments affect the equitable share allocation, while others affect the conditional grant allocation:

- National Treasury added R500 million to the provincial equitable share for **providing food relief** in response to Covid-19 with KwaZulu-Natal's share of this amounting to R103.5 million. These funds are specifically and exclusively allocated to the Department of Social Development for this purpose.
- On the other hand, National Treasury made reductions to the provincial conditional grant allocation to contribute towards the R10.5 billion needed for the **South African Airways rescue plan**. National Treasury indicated that the reductions are made against various conditional grants with the total amount cut from KwaZulu-Natal's conditional grant being R64.8 million, and this affects the following grants:
 - R58 million is cut from the **HIV, AIDS, TB, Malaria and Community Outreach grant**, with the bulk of the cut being from the HIV and AIDS component, followed by the Covid-19 component. After this cut and the addition to the grant discussed above, the grant has a budget of R6.8 billion.
 - R2 million is cut from the **CASP grant**, and this grant, therefore, has a revised total allocation of R203.5 million.
 - R653 000 is cut from the **Ilima/ Letsema Projects grant**, and this grant, therefore, has a revised total allocation of R83.3 million.
 - R151 000 is cut from the **Land Care grant**, and this grant, therefore, has a revised total allocation of R12.6 million
 - R3 million is cut from the **Community Library Services grant** and this grant therefore has a total revised allocation of R167.4 million.
 - R926 000 is cut from the **Mass Participation and Sport Development grant** and this grant therefore has a total revised allocation of R38.2 million.
- National Treasury issued Government Gazette No. 43 702 in-year which sees the National Department of Co-operative Governance allocate

R4 million to the Department of Agriculture and Rural Development with regard to the **Provincial Disaster Relief grant** and these funds relate to **drought relief**. These funds will be utilised to scoop 17 stock watering dams across 6 districts.

6. BUDGET ADJUSTMENTS REQUIRING LEGISLATURE APPROVAL

Other than these adjustments, the Second Adjustments Budget also contains virements and shifts undertaken by departments in re-organising their budgets in-year. Most of these virements can be approved by the Accounting Officer of the Vote or by Provincial Treasury, but in some instances, these virements require Legislature approval.

Section 43 of the PFMA determines that Legislature approval is required for any virements of savings department's wish to undertake which result in a decrease in funds specifically and exclusively allocated for a particular purpose, any decreases in *Capital*, any decrease in *Transfers and subsidies* to a specific institution, as well as any movements between main divisions which exceed the 8 per cent limit. As I indicated, any such proposed decreases are highlighted in grey shading in the 2020/21 Second Adjustments Estimate which I am tabling today. These are also highlighted in the Explanatory Memorandum we prepared.

7. CONCLUSION

In conclusion, Madame Speaker I want to say, even though the odds may seem stacked against us, I am confident that we will overcome them. As the people of KwaZulu-Natal, we are too optimistic and too proud to succumb to despondency. We are too creative to allow any challenge to hamper our progress in our journey to prosperity and too resilient to fail. Failure is simply not an option.

As Govan Mbeki said after his release from Robben Island: *"Life ought to be more than a grim battle for survival. Life must include the joyful pursuit of a fullness towards which all awakened people are compelled to reach"*.

Madam Speaker, please allow me to say that, as we lift ourselves up and acknowledge that we cannot fail now, we must also state that we as a Nation cannot continue to fail our women. Tomorrow marks the beginning of 16 days of activism for no violence against women and children. We must turn the tide against Gender Based Violence in this country. My sister Professor Hlengiwe

Mkhize, the Deputy Minister of Presidency for Women, Youth and Persons with Disabilities puts it succinctly when she says in her recently published article that, and I quote “It is clear, in order to combat the scourge, communities should not be colluding in silence, fuelling the perpetration of cowardly acts of chauvinism by vile men, but initiating conversations that will assist detection and prevention” end quote. We cannot, as society continue to look away, to be complicit in the commission of these heinous crimes against women, including young girls and the elderly women. As President Cyril Ramaphosa announced that Cabinet decided that from tomorrow, November 25 to November 29 the nation should embark on a five-day mourning of victims of Covid-19, as well as victims of GBV and femicide, I urge all South Africans and the people of KwaZulu-Natal to sit up and listen to this call. As we wear black armbands and other signs of mourning to signify and respect those who have departed, as the President urged us, we must do so with deep meaning and reflection. We must evoke a deep sense of commitment with our conscience that we shall never look away, that we shall speak out.

With those words I would like to thank my family and my organisation the African National Congress for the support they have given to me. I also wish to thank my colleagues at the Legislature and the Executive Council led by our Premier Mr Sihle Zikalala for the words of encouragement and support.

I am also grateful for the team at the Provincial Treasury led by the acting HOD, Mrs Neli Shezi. It is my honour to formally table the Adjustments Appropriation Bill, 2020 for the Province of KwaZulu-Natal for consideration in this House to be read with the Second Adjustments Estimate of Provincial Revenue and Expenditure. I trust that the debate and vote on this Bill will be constructive and fruitful.

To the Chairperson, Mr SC Nkosi, and members of the Finance Portfolio Committee, as well as STACOV, we look forward to engaging with you on the Second Adjustments Budget and give our commitment to assist you in your oversight role as far as possible.

I wish to extend my gratitude to the Honourable Minister of Finance and National Treasury officials for their guidance and support in these unprecedented times.

I thank you.

Net Financial Position	
Annexure 1: Net Financial Position - 2020/21	
R thousand	2020/21
1. 2019/20 Adjusted Budget - Audited	131 943 410
2. 2019/20 Actual Expenditure - Audited	130 137 124
3. 2019/20 Year-end under-expenditure - Audited	1 806 286
4. 2019/20 Own Revenue Budget - Audited	3 395 167
5. 2019/20 Own Revenue collection - Audited	3 847 521
6. 2019/20 Year-end over-collection - Audited	452 354
7. 2019/20 Budgeted surplus	200 000
8. 2019/20 Surplus - Audited	2 458 640
9. Less: Funds returned by Ithala as per 2020/21 MTEF fiscal framework	(45 324)
10. 2019/20 Surplus - Audited (after revenue adjustment)	2 413 316
11. Less: Unspent conditional grants approved for roll-over	192 027
V3: CASP grant	42 423
V3: Ilirna/ Letsema Projects grant	29 038
V5: National School Nutrition Programme grant	9 734
V7: NHI grant	655
V8: Provincial Emergency Housing grant	86 095
V15: Community Library Services grant	24 082
12. Less: Unspent conditional grants not approved for roll-over (to be surrendered)	28 490
13. 2019/20 funding available after taking into account cond. grant roll-overs and surrenders	2 192 799
14. Less: Provincial Roll-overs	108 074
Vote 1: Microsoft licences and computer equipment	11 000
Vote 2: Under-expenditure of operational budget is alloc back (FMPPLA)	36 843
Vote 3: Vehicles, etc.	18 172
Vote 4: Various feasibility studies e.g. KSIA public transport link	6 500
Vote 6: Irregular expenditure condonation project	10 000
Vote 10: Computer hardware and software	1 377
Vote 11: Water and electricity backlog study	24 182
15. Funding available after conditional grant and equitable share roll-overs	2 084 725
16. Less: Provincial Commitments	188 270
V2: Revenue returned to S22 of PFMA	2 166
V10: Sponsorships received for annual Sport Awards	275
V14: Property rates	165 000
V8: Revenue over-collection (sale of FLISP, interest)	16 429
V1: Indian Indentured Labourers funds returned to PRF re-allocated	4 400
17. Less: Funds allocated from NFP toward Covid-19 provincial response	(2 004 977)
18. Surplus funds from public entities returned to Provincial Revenue Fund	8 522
19. Contingency Reserve for 2020/21 (after R190m was used for Covid-19 response)	200 000
20. Net financial position	100 000