EXPLANATORY MEMORANDUM TO THE SECOND ADJUSTMENTS APPROPRIATION BILL, 2023

The Province of KwaZulu-Natal is required, in terms of Government Notices (as attached), to table an adjusted Adjustments Appropriation Bill for 2022/23, referred to as the Second Adjustments Appropriation Bill, 2023.

Two Government Notices (No. 47 789 and No. 48 095) were published by National Treasury (signed by the Minister of Finance), in terms of the Division of Revenue Act, 2022 (Act No. 5 of 2022), and provide information on adjustments to existing allocations to provinces in the 2022/23 financial year.

These two Government Notices are detailed here as follows:

- Government Gazette No. 47 789 was published on 23 December 2022 and this Gazette was issued in terms of Section 18 of the Division of Revenue Act, 2022. This Gazette sees the stopping of funds from the **National Health Insurance (NHI) grant** in the Eastern Cape (R7.475 million), Free State (R381 000), Limpopo (R3.037 million), Northern Cape (R4.019 million), North West (R9.399 million) and Western Cape (R8.641 million). In compliance with Section 19 of the Division of Revenue Act, 2022, these funds are re-allocated to **KwaZulu-Natal (R19.366 million**), Gauteng (R139 000) and Mpumalanga (R13.447 million). This brings the total for the NHI grant for **Vote 7: Health** in KwaZulu-Natal to R104.092 million.
- Government Gazette No. 48 095 was published on 21 February 2023 and this Gazette was issued in terms of Sections 18, 19 and 25 of the Division of Revenue Act, 2022. In compliance with Section 25 of the Division of Revenue Act, 2022, the national Department of Human Settlements allocated R16.368 million to KwaZulu-Natal from the unallocated **Provincial Emergency Housing Grant** (Schedule 7, Part A). This brings the total for this grant under **Vote 8: Human Settlements** in this province to R342.132 million.

The Gazettes therefore update the information that was published in the Division of Revenue Amendment Act, 2022.

In addition, a few further adjustments are being formalised in this Second Adjustments Appropriation Bill. In this regard, some of the amendments listed below are as a result of a provincial reprioritisation exercise undertaken so as to avert the province from going into overdraft. Each Vote was engaged with to ask whether they are in a position to surrender funds or to indicate what budget pressures remain (after internal reprioritisation was undertaken and where, as far as possible, expenditure was accrued to 2023/24). These, as well as a few other adjustments, are discussed here:

Provincial reprioritisation:

The following departments indicated that they can surrender in aggregate R378.887 million towards the provincial reprioritisation:

1. **Vote 4: Economic Development, Tourism and Environmental Affairs** is able to surrender R95 million towards the provincial reprioritisation exercise. The funds are available for surrender due to enforced savings against various items such as venues and

facilities, delays in the implementation of various projects, delays in filling posts, as well as delays in the procurement of equipment.

2. **Vote 6: Provincial Treasury** is able to surrender R47 million towards the provincial reprioritisation exercise. The funds are available for surrender due to delays in filling vacant posts, savings realised from S&T, delays in SITA procurement processes, as well as training and communication costs.

3. **Vote 10: Sport, Arts and Culture** is able to surrender R36.887 million towards the provincial reprioritisation exercise. The funds are available for surrender due to delays in the implementation of sport infrastructure projects by various municipalities.

4. **Vote 12: Transport** is able to surrender R200 million towards the provincial reprioritisation exercise. The funds are available for surrender due to current slow spending on various road rehabilitation projects related to the April 2022 floods for which the department had undertaken internal reprioritisation.

The following departments indicated budget pressure and, while the full amount cannot be covered by the provincial reprioritisation exercise, the fiscal risk reduces significantly:

1. **Vote 5: Education** indicated budget pressures of R635.154 million in the February 2023 In-year Monitoring (IYM) while noting that they can undertake internal reprioritisation of R25.224 million and can reasonably defer R214.592 million of their expenditure to 2023/24. This means that R395.338 million remains as projected over-spending and the province is in a position to allocate R240.925 million towards this budget pressure.

2. **Vote 13: Social Development** indicated budget pressure of R76.679 million in their submission, and the department indicated that it will defer some payments to 2023/24, though this will place significant pressure on the budget in that year as the 2021/22 MTEF budget cuts were significantly higher in 2023/24 when compared to 2022/23. The areas that the department is likely to defer expenditure to 2023/24 are various infrastructure projects (R7.712 million), as well as *Machinery and equipment* (R10 million). The budget pressure remaining after providing for certain payments, while deferring some expenditure to 2023/24 is R61.073 million and the province is in a position to allocate R37.065 million towards this budget pressure.

3. **Vote 14: Public Works** indicated in their submission that the budget pressures with respect to property rates amount to R290.544 million, with this pressure being mainly due to higher than anticipated tariff increases in the market values of properties by certain municipalities in their implementation of the new General Evaluation Roll as at 1 July 2021, as well as an under-funded baseline. The province is in a position to allocate R100.897 million towards this pressure and the balance of the budget pressure will be deferred to 2023/24 which will be considered for additional funding in the 2023/24 Adjustments Estimate.

Other adjustments:

1. At the time of tabling the 2022/23 Adjustments Budget, donor funds received from the African Union (AU) were allocated to **Vote 1: Office of the Premier** (R2.670 million) according to an estimated Rand/Dollar exchange rate in November 2022. However, when the donor funds were received in the provincial bank account in January 2023, the exchange rate had changed slightly resulting in R2.496 million being received, which is

R174 000 less than what was allocated. As such, the donor funding allocation to Vote 1: Office of the Premier is revised to R2.496 million.

2. **Vote 1: Office of the Premier** requested to suspend R30 million from their 2022/23 budget, and for these funds to be allocated back to the department in 2023/24 for the implementation of the Broadband project in the province.

3. **Vote 3: Agriculture and Rural Development** indicated that they had to make a revision to their Comprehensive Agricultural Support Programme (CASP) grant business plan after the 2022/23 Adjustments Estimate was tabled, with the national Department of Agriculture, Land Reform and Rural Development having approved this revision on 14 March 2023. The revision was required due to slow progress in various infrastructure projects related to the agricultural colleges due to non-performance by the contractor. As such, the department wishes to decrease the allocation under Programme 2: Agriculture against *Buildings and other fixed structures* (R7.449 million) under this grant, and to re-allocate the funds to *Goods and services* (R4.472 million) and *Machinery and equipment* (R2.977 million). The funds will still be used by the agricultural colleges, but will be used to purchase farming supplies (fertilizer, animal feed, seeds, etc.), as well as equipment such as computers, irrigation equipment, tractors and implements, etc. This results in a net reduction in capital and thus requires Legislature approval in terms of Section 43(4)(c) of the PFMA.

4. **Vote 5: Education**, in an attempt to manage its projected over-expenditure for the year, requested approval to reduce the budget against *Transfers and subsidies to: Non-profit institutions* in Programme 2: Public Ordinary School Education (R20 million), Programme 3: Independent School Subsidies (R2.507 million) and Programme 5: Early Childhood Development (R210 000). These funds are moved to Programme 2 (R22.507 million) to offset budget pressures from staff exit costs, and to Programme 5 (R210 000) for pressures in *Compensation of employees*. The reduction in transfers requires Legislature approval in terms of Section 43(4)(b) of the PFMA. It is noted that the reduction is against an amount that was not allocated for any specific school but was held in reserve in case there were quintile contestations during the year that required further funding to be allocated. The department is also reducing funding that was specifically and exclusively allocated under Programme 1: Administration for filling infrastructure posts. There was some under-spending in this regard and the department therefore requested that these savings (R6.800 million) be used to offset budget pressures in the same programme under *Compensation of employees*. The reduction in specifically and exclusively allocated funds requires Legislature approval in terms of Section 43(4)(b) of the PFMA. Finally, the department is shifting funds (R12.860 million) from *Transfers and subsidies to: Non-profit institutions* in Programme 2 to *Goods and services* in the same programme where the department made payments for domestic accounts on behalf of the schools. This is a shifting of funds as the original purpose of the funds has not changed. As such, this reduction in *Transfers and subsidies to: Non-profit institutions* does not require Legislature approval.

5. **Vote 10: Sport, Arts and Culture** requested authority to reduce *Transfers and subsidies to: Provinces and municipalities* by R16 million with respect to transfers to various municipalities relating to sport infrastructure. The department undertook an exercise of reconciling transfers made to date against actual construction milestones achieved and thus

stopped transfers to certain municipalities in this year, and will resume transfers to these municipalities again in 2023/24. These funds are moved from Programme 4: Sport and Recreation to *Buildings and other fixed structures* under Programme 2: Cultural Affairs towards the renovation of the Winston Churchill Theatre. While this project was budgeted for, project progress was faster than anticipated now that the challenges hindering progress previously have been resolved. The reduction in transfers requires Legislature approval in terms of Section 43(4)(b) of the PFMA.

6. **Vote 13: Social Development** indicated that, in order to offset some of the spending pressures that remain even after the additional funding was allocated to the Vote from the provincial reprioritisation exercise, there were areas where they identified savings internally and require these to be moved to areas of spending pressures. Most of the budget pressure in the department results from property payments (mainly from higher than budgeted security contracts). Savings were identified in various economic classifications, while the net reduction of R822 000 against *Transfers and subsidies to: Non-profit institutions* requires Legislature approval, as does the net reduction of R13.957 million against capital. As the transfers to non-profit institutions are also specifically and exclusively allocated, this reduction also requires Legislature approval. The net reduction in transfers is as a result of lower than anticipated claims against Programme 2: Social Welfare Services (R8.097 million) with the bulk of the funding moved within transfers to offset pressures in Programme 3: Children and Families (R3.624 million) and Programme 4: Restorative Services (R4.473 million), with just R822 000 being moved to *Goods and services* to offset budget pressures from property payments. The reduction in capital is mainly against *Machinery and equipment* (R19.772 million) with some funds remaining in capital, but allocated against *Buildings and other fixed structures* (R5.815 million). The balance was allocated to *Goods and services* (R13.957 million) and this movement requires Legislature approval. The savings identified against *Machinery and equipment* were largely due to enforced savings and the non-purchase of vehicles and tools of trade to remain within budget.

7. **Vote 14: Public Works** sees a reduction in specifically and exclusively allocated funds to offset budget pressures in the payment of property rates. As such, the movement is within Programme 2: Property Management from the budget for condition assessments (R22.372 million) and for the Fixed Asset Register project (R2.139 million) against *Goods and services*. These projects were delayed in that the condition assessment project has had several appeals lodged against the award of the tender and this is currently being attended to by the Bid Appeals Tribunal, whereas the Fixed Asset Register project was delayed as there were delays in signing technical documents, as well as loss of key staff within the team of the service provider. These funds are allocated to *Transfers and subsidies to: Provinces and municipalities* to offset the pressures against the property rates budget. The reduction in specifically and exclusively allocated funds requires Legislature approval in terms of Section 43(4)(a) of the PFMA.

8. All amendments to the appropriations of the various Votes are highlighted in grey shading in the attached Second Adjustments Appropriation Bill, 2023.