

# PROVINCE OF KWAZULU-NATAL



## PROVINCIAL TREASURY

# ADJUSTMENTS ESTIMATE BUDGET SPEECH 2016/17

SPENDING YOUR  
MONEY WISELY

UKUSETSHENZISWA KWEMALI  
YAKHO NGOBUHLAKANI

**Province of KwaZulu-Natal**  
**Address by B.F. Scott – MEC for Finance**  
**The Adjustments Estimate – 2016/17**  
**24 November 2016**

**A. ECONOMIC REVIEW AND OUTLOOK AND THE FISCAL IMPLICATIONS**

As indicated by the National Minister for Finance in his Medium Term Budget Policy Statement Speech on 26 October 2016, the South African economy is still under severe pressure. National Treasury has already revised the country's growth expectation to 0.5 per cent for 2016, down from 0.9 per cent projected in February this year. This is slightly above the 0.4 per cent and 0.1 per cent projected by the South African Reserve Bank (SARB) and the International Monetary Fund (IMF), respectively. The economy is, however, expected to rise moderately to 1.7 per cent in 2017.

Similar to the national projections, the provincial economic outlook is showing a subdued trajectory, but is expected to grow at 0.4 per cent this year and 0.8 per cent in 2017. Sluggish economic growth means fewer employment opportunities for our people. It further lowers tax revenue for government to fund the many competing needs the country is faced with, while at the same time being a severe impediment to debt stabilisation.

The SARB composite business cycle indicators, as well as both business and consumer confidence indicators remain low, while higher inflation has reduced household purchasing power.

South Africa's debt is due for review in December 2016 by the rating agencies. Fitch and S&P Global Ratings have the country's credit grading at one notch above junk, while Moody's has it at two notches above non-investment grade. Since economic growth is a major factor in rating agencies' decisions regarding a country's credit rating, there is a possibility of downgrades in credit ratings which will result in the rising cost of debt.

It is therefore quite clear that we are tabling our 2016/17 Adjustments Estimate in a time when the economic environment is uncertain and also unusually difficult. While preparing a budget is always about making choices, a difficult economic environment sharpens and focusses the need to weigh up our priorities in line with the funding available.

Minister Gordhan indicated in his speech that a Joint Action Plan for fiscal consolidation has been agreed to with the provincial MECs for Finance, and this includes the following:

- Containment of administrative personnel expenditure while protecting education and health staff and allocations for medical supplies and essential services;
- Improved revenue collection;

- Rationalisation and closure of redundant and under-performing programmes and entities;
- Intensification of cost containment measures, in keeping with national guidelines.

In this province we have embraced this Action Plan and, in fact, in many ways we have led in the implementation thereof. Our cost-cutting measures have been in place since 2009/10 and, in many instances, are stricter than those contained in the national guidelines simply because we need to channel more and more funds into service delivery. We have made great strides in managing our personnel expenditure through carefully assessing the affordability and criticality of posts before they are filled. Our rationalisation of public entities review is gaining momentum, and the provincial Executive Council have committed to finalise this project in the next 12 months. Minister Gordhan applauded the good progress in expenditure management in provinces and congratulated the provincial leaders for taking the tough steps to remain within budget.

To quote Abraham Lincoln: *“Be sure you put your feet in the right place, then stand firm.”*

To ensure sustainable public finances, we as government need to curtail our spending and remain within the fiscal envelope. That is the bottom line.

We need to continuously strive to protect our social services, while enabling the economic drivers, such as investments in economic infrastructure, to be sustained or increased.

Our focus remains ensuring a better life for all, despite these economic hardships.

It is within this economic and fiscal context that this Adjustments Budget is tabled.

## **B. PROPOSED ADJUSTMENTS**

Section 31 of the PFMA determines that provinces must table an Adjustments Budget annually, and that this be tabled within 30 days of the national Adjustments Budget being tabled. Adjustments are made to the Main Appropriation in terms of Section 31 of the PFMA which stipulates under what circumstances budget adjustments may be made. These 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, commonly referred to as virements, **Treasury-approved roll-over requests** for those departments who could not spend the entire amount voted by the Legislature in that particular year, to name a few.

Provincial Treasury has held various bilateral meetings with the departments and public entities over the last few months to assess in-year spending patterns, as well as to discuss any spending pressures that may have arisen since the Main

Budget was tabled in March 2016. Due to the tight fiscal position that currently exists, largely because the fiscal consolidation cuts, as well as the fact that National Treasury has not provided any funding toward the above-budget 2016 wage adjustment, the province was able to accommodate only a few additional funding requests.

### **B.1. Financing of the Adjustments Budget**

KZN continues to maintain a cash positive position, but the fiscal consolidation cuts, together with various in-year pressures experienced by the various departments, are beginning to place pressure on the provincial cash balances. Provincial Treasury will continue to closely monitor the cash balances, as well as the spending pressures projected by some departments, to ensure that the province does not go into overdraft as was the case in 2008/09.

Both Education and Health have shown significant projected spending pressures and the Executive Council has therefore directed that these two departments prepare credible plans that show how their projected over-spending will be reduced to zero. Provincial Treasury is working with these departments to ensure that their cost containment plans are credible.

As a result of the fiscal consolidation plan implemented by National Treasury, the province remains resolute in the implementation of the cost-cutting measures. These include the freezing of vacant posts, with critical posts being permitted to be filled, but only with the express approval of the Premier and the MEC for Finance, after consultation with the Executive Authority concerned.

The net financial position of the province determines the amount of funds available for allocation in the Adjustments Budget and I will elaborate on this shortly. This Adjustments Budget will also deal with changes made to KwaZulu-Natal's allocation by National Treasury, 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.

### **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.

**Table 1: Net Financial Position - 2016/17**

R thousand	2016/17
1. 2015/16 Adjusted Budget - Audited	105 000 285
2. 2015/16 Audited Actual Expenditure	104 346 716
3. 2015/16 Audited year-end under-expenditure	653 569
4. 2015/16 Own Revenue Budget - Audited	2 995 146
5. 2015/16 Audited Own Revenue collection	3 260 495
6. 2015/16 Audited year-end over-collection	265 349
7. 2015/16 Budgeted surplus - not available as used to fund fiscal consolidation cuts over 16/17 MTEF	-
8. Less: 15/16 Revenue collection already allocated in 15/16 Adjustments	(139 888)
<b>9. 2015/16 Surplus</b>	<b>779 030</b>
10. Less: Unspent conditional grants approved for roll-over	29 315
NHI grant	6 363
Community Library Services grant	22 952
11. Less: Unspent conditional grant funding to be returned to National Treasury	16 716
<b>12. 2015/16 funding available after taking into account cond. grant roll-overs and surrenders</b>	<b>732 999</b>
13. Less: Provincial Commitments	896 430
Vote 15 - Archive Repository	169 349
Vote 2 - Carry-through of zero-based budget exercise	34 569
Vote 2 - S22 and FMPPLA determine that PL may retain own revenue over-collection	2 603
Vote 10 - Sponsorships received in 15/16 for annual Sport Awards	410
Vote 8 - Funds returned by NHFC in 2016/17	6 916
Vote 8 - Funds returned by Kuboni Shezi Attorneys - various housing projects	26 015
Vote 7 - Exchange rate pressures	250 000
All Votes - Above-budget 2016 wage agreement	277 022
Vote 14 - Infrastructure Master Plan	7 886
Vote 14 - Mayville Conference Centre - Dining facility	4 776
Vote 9 - Carry-through of funds allocated in the 2013/14 MTEF for the new structure	16 624
Vote 12 - Cross-border crime fighting initiative (25kms)	50 000
Vote 8 - SARS refund	19
Vote 8 - Funding from Dept of Military Veterans recognised as revenue in 2016/17	11 286
Vote 11 - 50% of funding for payment of Izinduna	38 955
14. Less: Provincial Roll-overs	168 927
Vote 1 - Renovations to the Royal Palaces	8 000
Vote 2 - Ito FMPPLA all unspent funds are retained by the Legislature	46 008
Vote 3 - Drought relief: Boreholes, stock watering dams, dip tanks, feed, fodder, animal medicines, vehicles	46 098
Vote 5 - Commitments in terms of motor vehicles and minor assets	40 210
Vote 11 - 2016 local government elections, PDMC at Mkhondeni and Mandela Day Marathon	27 637
Vote 14 - Development of Infrastructure Master Plan	974
<b>15. Funding available after providing for provincial commitments and roll-overs</b>	<b>(332 358)</b>
16. Funds paid into PRF in 16/17 - Training Academy funds susp. from V1 in 15/16, V8 - Funds from NHFC and Dept of Military Veterans, budget cut against Vote 2	34 503
<b>17. Funding available after taking into account revenue received in PRF in 16/17 and allocated back to depts</b>	<b>(297 855)</b>
18. Add: 2016/17 budgeted surplus	750 000
<b>19. Net financial position</b>	<b>452 145</b>

The table provides an analysis of the province's net financial position, taking into account:

- Under-spending of the 2015/16 budget allocation
- Over-collection of 2015/16 own revenue
- Budgeted surplus of 2015/16
- Approved roll-over of national conditional grants

- Repayment to the National Revenue Fund of unspent conditional grants
- Provincial commitments
- Provincial roll-overs of unspent funds from 2015/16 to 2016/17
- Budgeted surplus of 2016/17.

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

The following provides the detail of each line contained in the Net Financial Position:

### **C.1. 2015/16 Net Surplus**

**Line 1** of Table 1 begins with the 2015/16 Adjusted Budget, compared to the Audited Actual Expenditure for that year in **Line 2**, resulting in an audited year-end under-expenditure of R653.569 million in **Line 3**.

**Line 4** shows the 2015/16 Own Revenue Budget compared to the Actual Revenue collected in that year shown in **Line 5**, resulting in an audited year-end over-collection of Own Revenue of R265.349 million (**Line 6**).

**Line 7** reminds us that the province had budgeted for a surplus in 2015/16, but Members are reminded that this full amount of R857.913 million (consisting of the 2015/16 Contingency Reserve of R750 million plus the fact that not all surplus funding from 2014/15 was allocated during the 2015/16 Adjustments Estimate – i.e. R107.913 million was left unallocated and therefore remained in the Provincial Revenue Fund) was used to help absorb the Round 1 and 2 cuts that were implemented against the provincial fiscus over the 2016/17 MTEF. As such, this amount is not available for allocation in the 2016/17 Adjustments Estimate.

When the 2015/16 revenue was collected, some departments requested that certain parts of the revenue over-collection be allocated back to them in the 2015/16 Adjustments Budget. As such, an amount of R139.888 million of the 2015/16 revenue over-collection was already allocated back to various departments in the 2015/16 Adjustments Estimate relating to the following as shown in **Line 8**:

- R7.300 million was allocated back to Vote 11: Co-operative Governance and Traditional Affairs and this relates to Corridor Development funds not spent by the Mtubatuba Municipality and returned to the Provincial Revenue Fund. This amount was allocated back to the department in 2015/16 for spending on catalytic projects relating to the Mtubatuba Urban Design Plan, but by using the department's Project Management Unit to implement these projects;

- R130.973 million related to funds returned to Vote 8: Human Settlements for various housing projects. Of this amount, R12.532 million was returned to the department by Ithala, and R118.441 million was returned to the department by the National Housing Finance Corporation (NHFC);
- R500 000 was returned to Vote 11: Co-operative Governance and Traditional Affairs being funds returned to the Provincial Revenue Fund by Nquthu Municipality. These funds were allocated back to the department for use in the implementation of the Community Service Centre Rehabilitation Programme through the department's Project Management Unit; and
- R1.115 million was returned to Vote 11: Co-operative Governance and Traditional Affairs relating to sponsorships paid into the Provincial Revenue Fund. The department received this amount in 2015/16 from various companies and municipalities to sponsor the Women in Leadership Dialogue which was held in September 2015. These funds were allocated back to the department to pay for the costs incurred in hosting this event.

The province therefore ended the 2015/16 financial year with a positive net financial position or surplus of **R779.030 million** as shown in **Line 9** which is available to fund various roll-overs and provincial commitments.

## **C.2. Unspent conditional grants from 2015/16**

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 to be rolled-over for spending in 2016/17 with respect to two conditional grants, as follows:

- National Health Insurance grant – R6.363 million
- Community Library Services grant – R22.952 million.

**Line 11** indicates that a total of R16.716 million has to be returned to the National Revenue Fund in terms of 3 conditional grants, as these were not approved for roll-over by National Treasury:

- National Tertiary Services grant – R23 000.
- Community Library Services grant – R16.171 million.
- EPWP Integrated Grant for Provinces in Vote 8: Human Settlements – R522 000.

**Line 12** then indicates the funding available for allocation after taking into account the conditional grant roll-overs and surrenders, with this being R732.999 million.

### C.3. Provincial commitments since tabling of the 2016/17 MTEF budget

There are a number of provincial commitments that have arisen since the 2016/17 MTEF budget was tabled in the Legislature, which require funding. These commitments amount to R896.430 million, as indicated in **Line 13** and the detail is provided below.

It should be noted that in some instances, the funds will only be allocated to the receiving department in the 2017/18 MTEF as this is when the funds are required. Where allocations will only be made after the 2016/17 Adjustments Estimate, this is indicated as such (these amounts will be formalised when the 2017/18 MTEF budget is tabled, and not in the 2016/17 Adjustments Estimate). These specific commitments are mentioned in this memorandum, though, as they are funded from the funds that have become available when calculating the province's Net Financial Position. The various provincial commitments are as follows:

- Vote 15: Arts and Culture receives R169.349 million over four years (i.e. R2 million in 2016/17, R20.881 million in 2017/18, R52.925 million in 2018/19 and R93.543 million in 2019/20) for the construction of an **Archive Repository in Pietermaritzburg** at a total cost of R300 million, with the planning for this project commencing in 2016/17 and construction expected to be finalised in 2022/23. This facility is required so that the heritage of the province is preserved. The repository will store and care for documents of unique and enduring cultural, historical and evidentiary value. Currently, KZN's archives are stored between three repositories in Pietermaritzburg, Durban and Ulundi. Both the Pietermaritzburg and Durban repositories are full to capacity and the Ulundi Archives accommodation does not comply with any minimal standards in which valuable documents may be housed. These funds are specifically and exclusively appropriated to ensure that they are not used for any other purpose. Funds will have to be added to this project in future years as the construction end-date is in 2022/23.
- Vote 2: Provincial Legislature receives R34.569 million in 2018/19 being the carry-through amount relating to the **Zero-based budget adjustment** that was undertaken in the 2016/17 MTEF. When the funds were allocated to the Legislature, it was for three years only (i.e. R30.536 million, R32.063 million and R32.923 million in 2016/17, 2017/18 and 2018/19, respectively), whereas this allocation now provides for a further year. It is anticipated to make this increase a part of the Legislature's baseline when the 2017/18 MTEF is prepared, but this is dependent on the changes made to the province's equitable share allocation by National Treasury.
- Vote 2: Provincial Legislature receives R2.603 million in 2016/17. In terms of Section 22 of the PFMA, as well as the Financial Management for Parliaments and Provincial Legislatures Act, Legislatures are permitted to **retain any revenue over-collections** from the prior year.
- Vote 10: Sport and Recreation receives R410 000. The department received sponsorships from various organisations in 2015/16 amounting to R410 000



towards hosting the annual **KZN Sport Awards** and these funds are allocated back to the department for spending on these Sport Awards.

- Vote 8: Human Settlements receives an amount of R6.916 million which were returned to the department by the NHFC in respect of unspent funds transferred for the management and implementation of social housing projects. As at 2015/16, the NHFC had not completed projects for which funds had been transferred and these amounts were therefore paid into the Provincial Revenue Fund and are being allocated back to the department to spend on **various housing projects**.
- Vote 8: Human Settlements receives an amount of R26.015 million. These funds were paid into the Provincial Revenue Fund in December 2015 by Khuboni Shezi Attorneys in respect of unspent funds transferred by the department to the attorneys for the purpose of purchasing the Four Seasons Hotel in Durban, but which transaction was cancelled. The transfer of the property was not finalised at the time due to apparent fraud and corruption and the subsequent investigations that were carried out. An amount of R11 million was originally transferred, but this has since earned interest and the full amount of R26.015 million was returned to the department to be used to assist in **addressing the housing backlog**.
- An amount of R250 million is allocated to Vote 7: Health to assist with the exchange rate pressures. The **exchange rate pressures** as a result of a weakening exchange rate and its impact on the procurement of medicines and medical supplies were calculated at R1.875 billion when the 2016/17 MTEF budget was tabled in this House. Due to various factors, including the fiscal consolidation cuts implemented by National Treasury and a decreasing provincial own revenue, the provincial fiscus was only able to allocate R785.696 million, leaving a shortfall of R1.089 billion in 2016/17. Provincial Treasury has been tracking the exchange rate over the last few months since the 2016/17 MTEF budget was tabled and, using the average Rand/Dollar exchange rate since April 2016 to September 2016, the shortfall between what was allocated versus the amount required to procure the same level of medicines and medical supplies as was procured in 2015/16, requires Health's budget to be topped up by R401 million. As such, R250 million is added to Health's budget from the provincial fiscus.

The balance of R151 million is being suspended from Vote 4: Economic Development, Tourism and Environmental Affairs (EDTEA). These amounts are being taken from the budget allocated for the Small Business Growth Enterprise (SBGE) in the amount of R61 million and R39 million from the KZN Property Development Holdings in 2016/17. This amounts to R100 million in total in 2016/17. In 2017/18, the balance of R51 million will be removed from these entities as well.

- The above-budget **2016 wage adjustment** was implemented at an increase of 7.6 per cent for all Levels 1 – 12 public servants, while the budget had provided for an increase of 7.2 per cent. This resulted in a shortfall of 0.4 per

cent. Departments were requested to indicate the budget pressures that this 0.4 per cent difference would exert on their budgets and to also indicate whether they would be in a position to fund any portion of this from within their budgets. Departments submitted budget pressures of R277.022 million in this regard. As National Treasury is not funding any portion of this, it is left up to the provincial fiscus to fund this gap in the current year. Departments have been alerted, though, that this is a once-off allocation and they will therefore have to reprioritise their 2017/18 MTEF budgets to provide for the carry-through of this shortfall from within their existing baselines.

- Vote 14: Public Works receives R7.886 million in 2016/17 to finalise the **Infrastructure Master Plan** for the province. While funds had previously been allocated to this project, it was only when the development of the Master Plan began that it became clear that the number of stakeholders to be engaged with had increased from the originally anticipated 46 to a higher number of 92 stakeholders, and this therefore came with a consequent increase in the number of engagements and hours required. As such, the contract was expanded from 2 960 hours to 20 231 hours.
- Vote 14: Public Works receives R4.776 million in 2017/18 for the **Mayville Conference Centre** to sound-proof the main facility, and to convert an existing building on the premises into a dining facility. Currently when conferences are held at the facility, it is often required to hire a marquee to provide the space required for a dining facility, and this comes at an added cost.
- Vote 9: Community Safety and Liaison receives R16.624 million but allocated over two years, with R8.109 million allocated in 2017/18 and R8.515 million in 2018/19. When the **Civilian Secretariat for Police Services Act** was enacted, it required that the department implement a revised organisational structure which included being visible in all districts in the province. As such, to assist with this expanded structure, funds were allocated to the department from 2013/14, but these funds did not carry-through beyond 2016/17. This allocation gives the department certainty of funding for another two years. It is anticipated to make this increase a part of the department's baseline when the 2017/18 MTEF is prepared, but this is dependent on the changes made to the province's equitable share allocation by National Treasury.
- Vote 12: Transport receives R50 million for the **Cross-border crime fighting initiative** and provides for a cross border crime fighting structure on the KZN/Mozambique border, as resolved at the Cabinet Lekgotla held in September 2016. These funds will be allocated to the department over two years, with R2 million allocated in 2016/17 and R48 million in 2017/8, but with the understanding that a MOA be entered into with the Department of Home Affairs who is responsible for border infrastructure so that the funds can be recouped. Similarly, a MOA with the SANDF will be entered into, that the border will be patrolled.

- Vote 8: Human Settlements received a **refund** of R19 000 **from SARS** in 2015/16 and has requested that the refund be allocated back to the department in 2016/17.
- Vote 8: Human Settlements received R3.600 million in 2013/14 and R7.686 million in 2014/15 from the Department of Military Veterans. These funds have been kept in a suspense account since then. The funds were allocated for the construction of **houses for military veterans** in the province and the amount was provided as top-up funding for the additional specifications to the standard 50m<sup>2</sup> for 145 military veteran houses in KZN. All required processes were finalised and the department has entered into an agreement with Ithala as the Implementing Agent for this project. The funds were moved from the suspense account into the Provincial Revenue Fund and are therefore now being appropriated to the department to finalise this project.
- Vote 11: COGTA receives R38.955 million toward the **remuneration of Izinduna**. The Executive Council resolved that the province would start remunerating the Izinduna once all due processes have been followed, with 50 per cent of the required funding being provided from the provincial fiscus, while the balance of 50 per cent will be found from within COGTA's baseline through reprioritisation. A similar premise will exist over the 2017/18 MTEF, but the 50 per cent required from the provincial fiscus will be proportionately cut from all Votes. This will be expanded on when I table the 2017/18 MTEF budget in this House in March 2017.

#### **C.4. Provincial Roll-overs**

**Line 14** indicates the provincial equitable share roll-overs that have been approved, with these amounting to R168.927 million. The detail of these roll-overs is provided below:

- Vote 1: Office of the Premier receives R8 million for the **refurbishment of palaces**. This project commenced in 2015/16 and is being undertaken together with the Provincial Treasury Infrastructure Crack Team. While these funds were committed at the end of 2015/16, they had not been spent and this roll-over therefore allows for the payments to be processed in 2016/17 as progress is made with the project.
- Vote 2: Provincial Legislature, in terms of the Financial Management for Parliaments and Provincial Legislatures Act, is permitted to retain any **unspent operational funds** from the prior year. As such, R46.008 million is rolled-over for the Legislature.
- Vote 3: Agriculture and Rural Development receives R46.098 million relating to unspent funds from the prior year, for various **drought relief projects**, as well as the **purchase of vehicles**. The drought roll-over includes the provision of boreholes, stock watering dams, feed, fodder and animal

medicines. These funds were fully committed in 2015/16 and service providers were on site, with payment to be made in 2016/17.

- Vote 5: Education receives R40.210 million relating to commitments that existed at the end of 2015/16 with regard to purchasing **motor vehicles and minor assets**, with payment to be made in 2016/17.
- Vote 11: COGTA receives a roll-over of R27.637 million relating to the **2016 local government elections** (R17.189 million), the **Provincial Disaster Management Centre** at Mkhondeni (R5.448 million) and the **Mandela Day Marathon** (R5 million).
- Vote 14: Public Works receives a roll-over of R974 000 relating to commitments for the work relating to the development of an **Infrastructure Master Plan** for the province.

After funding the provincial commitments and roll-overs, the funding available becomes overdrawn by R332.358 million as shown in **Line 15**.

#### **C.5. Allocation of funds received in Provincial Revenue Fund in 2016/17**

Some of the amounts allocated to departments in the 2016/17 Adjustments Estimate, as I have described, are possible as these funds were paid into the Provincial Revenue Fund during the 2016/17 financial year. The funds that were paid into the Provincial Revenue Fund amount to R34.503 million, as shown in **Line 16**, and consist of the following:

- R15.690 million was **suspended from Vote 1: Office of the Premier** during the 2015/16 Adjustments Estimate relating to the construction of a new Training Academy. As this project has been halted for now, these funds will not be allocated to the Office of the Premier in 2016/17 but form part of the 2016/17 Net Financial Position.
- R6.916 million was returned to Vote 8: Human Settlements **by the NHFC** in respect of unspent funds transferred for the management and implementation of social housing projects. These funds are allocated back to the department in this Adjustments Budget, as mentioned above.
- R11.286 million was received from the **Department of Military Veterans** in 2013/14 and 2014/15 but held in a suspense account since then, as mentioned above. These funds were paid into the Provincial Revenue Account in 2016/17 for appropriation to Vote 8: Human Settlements.
- When the 2016/17 Main Budget was tabled, it was agreed to not effect any **budget cuts against Vote 2: Provincial Legislature** in view of the fact that an argument had been forwarded to top-slice the budgets of all Provincial Legislatures' budgets from provinces for these to be administered by National Treasury. It was also said, at the time, that if this top-slicing did not occur the Legislature's budget would be cut during the 2016/17 Adjustments Estimate. As this top-slicing has not yet been agreed to, a 2 per cent cut is effected

against the additional funds given to the Legislature with regard to the zero-based budget exercise undertaken and this results in R611 000 being cut from the Legislature's budget in 2016/17.

### **C.6. Contingency Reserve**

**Line 18** reminds us that KZN has budgeted for a surplus or Contingency Reserve in 2016/17, with this amounting to R750 million.

**Line 19** indicates that the province will then have a **positive Net Financial Position of R452.145 million** once all these allocations have been made. This is substantially lower than the Contingency Reserve we were left with when we tabled the 2015/16 Adjustments Estimate. It is suggested that these funds be held in reserve bearing in mind the spending pressures that are currently being portrayed by the Department of Health.

### **D. SUSPENSION OF FUNDS**

The suspension of funds is either when funds are suspended from one Vote and allocated to another Vote, or when funds are suspended from a Vote in this financial year for allocation back to the same Vote in the next financial year. The suspensions being undertaken in this Adjustments Budget are as follows:

- Vote 6: Provincial Treasury asked for funds to be suspended from their 2016/17 budget for allocation to Vote 11: COGTA. The MEC for Finance undertook at a Sub-committee on Major Events held on 10 August 2016, that R1.500 million would be suspended from Vote 6: Provincial Treasury to Vote 11: COGTA toward the **Mandela Day Marathon Event**.
- Premier's Minute No. 2 of 2016 assigns the **Gaming and Betting** responsibilities to the Office of the Premier. As such, R22.474 million relating to this function is suspended from Vote 6: Provincial Treasury and allocated to Vote 1: Office of the Premier. Similarly, the 2017/18 MTEF budget for the Gaming and Betting function will be moved from Vote 6 to Vote 1 when the 2017/18 MTEF budget is tabled.
- Vote 10: Sport and Recreation has requested to suspend R10 million from their 2016/17 budget relating to the construction of a **Sport Development Centre in Durban**. The eThekweni Metro has had some legal issues with regard to the site identified for this centre and the funds are therefore only required in 2017/18. These funds will be formally appropriated back to the department as part of the 2017/18 MTEF process.
- As I have mentioned, funds amounting to R151 million, are being moved in 2016/17 and 2017/18 from the SBGE and the KZN Property Development Holdings under Vote 4: EDTEA and moved to Vote 7: Health being the balance of the funds that should have been moved from Vote 4 in the 2016/17

Main Budget for allocation to Vote 7: Health to assist with the **exchange rate pressures**.

#### **E. REVISIONS TO EQUITABLE SHARE AND CONDITIONAL GRANT ALLOCATION**

The 2016/17 Adjustments Budget sees **no additions** being made to the **Provincial Equitable Share** by National Treasury.

In fact, as I have mentioned, National Treasury has advised that they are not funding any portion of the 2016 wage adjustment shortfall in 2016/17, nor will the carry-through costs be funded over the 2017/18 MTEF. While the provincial fiscus was able to accommodate the shortfall in 2016/17, it is highly unlikely that the carry-through costs will be funded by additions to departments' budgets. This means that departments will have to fund the carry-through costs over the 2017/18 MTEF through internal reprioritisation. This will put pressure on departments' already strained budgets over the 2017/18 MTEF. **The largest impact of this will be felt by Education and Health due to the labour-intensive nature of their work.**

National Treasury has advised of some changes being made to the province's conditional grant allocations:

- There is a minor correction of R1 000 to the **Public Transport Operations Grant (PTOG)** under Vote 12: Transport due to a rounding error made by National Treasury in their allocation letter to KZN. This correction ensures that the appropriation of R1 011 046 000 ties back to the amount included in the Division of Revenue Act (DORA).
- National Treasury advised that the R275.691 million withheld in 2015/16 from Vote 12: Transport with regard to the **Provincial Roads Maintenance grant** is being returned to the province as the department and Provincial Treasury were able to satisfactorily prove that these funds had been spent in 2015/16. These funds will not be appropriated to the department (hence this amount is not included in these tables), but will be included in the text in the 2016/17 Adjustments Estimate Act. The funds were appropriated in 2015/16, but the actual cash to be transferred was withheld in that year. It would therefore be incorrect to appropriate the funds again in this year, whereas all that is required is that the cash be transferred back to the province relating to a 2015/16 appropriation.
- National Treasury advised that the province will receive an **indirect grant** via the Comprehensive Agriculture Support Programme conditional grant under Vote 3: Agriculture and Rural Development with regard to **drought relief**. As this is an indirect grant, the province will not receive the actual funds but will receive fodder from the national department.
- The National Department of Health indicated that KwaZulu-Natal will benefit from an in-year transfer of R4 million to be re-directed out of the direct

**National Health Insurance grant** to the NHI direct grant. The purpose of these funds is to help strengthen the Health Information Systems.

- National Treasury indicated that the **National School Nutrition Programme grant** is being increased by R8.536 million to cover the shortfall caused by **high food inflation**.
- Similarly, National Treasury indicated an increase of R7.305 million for the **Mass Participation and Sport Development grant**. Due to an oversight by the National Department of Sport and Recreation South Africa, the grant allocations published in the 2016 DORA were incorrect and are being rectified to tie up with the numbers agreed to at a HEADCOM meeting held in 2015.

## 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/sub-division/economic classification of a vote toward the defrayment of excess expenditure under another main division/sub-division/economic classification of the same vote. 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 2015/16 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. That is, 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 decreases in *Transfers and subsidies* to another institution. Any such proposed decreases are highlighted in the 2016/17 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 have been included separately in the 2016/17 Adjustments Estimate, as well as being shown as a separate item in the Adjustments Appropriation Bill.

## G. CONCLUSION

The Department of Health and, to a lesser degree, the Department of Education are showing significant spending pressures according to the 2016/17 mid-year

budget performance reports, with Health projecting to be over-spent by R1.103 billion and Education by R87.455 million. As a result, the Executive Council has directed that these two departments **prepare credible cost containment plans that see their projected over-spending for 2016/17 reduced to zero.** Provincial Treasury is working with these two departments in preparing these cost containment plans. It is essential that this spending pressure be controlled as, without these plans, the provincial fiscus is at risk. The Contingency Reserve that remains is not sufficient to protect the provincial fiscus if Health and Education over-spend their budget at currently projected levels.

I am confident, though, that we will be able to manage these pressures.

To quote Vince Lombardi: *“The price of success is hard work, dedication to the job at hand, and the determination that whether we win or lose, we have applied the best of ourselves to the task at hand.”*

In conclusion, I convey my sincere appreciation to the Honourable Premier, my Honourable Provincial Executive Council colleagues, as well as the Honourable Members of the Ministers’ Committee on the Budget (MinComBud) for their assistance in finalising this Adjustments Appropriation Bill.

The support received from the Finance Portfolio Committee, under the capable chairmanship of Hon. Nkosi, is also acknowledged with appreciation.

Lastly, I would like to thank all the Treasury officials for ensuring that the budget documentation we are tabling today is accurate and of high quality.

It is my honour to formally table the KZN Adjustments Appropriation Bill, 2016, for consideration in this House. I look forward to the debate on this Bill.

Thank you.