BUDGET SPEECH 2015/16

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Budget Address by Finance MEC Belinda Scott on 10 March 2015: 2015/16 MTEF Budget in the Provincial Legislature

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PROVINCE OF KWAZULU-NATAL

Budget address by Ms B.F. Scott

MEC for Finance,

On tabling of the 2015/16 MTEF Budget in the Provincial Legislature

10 March 2015

ECONOMIC REVIEW AND OUTLOOK AND THE FISCAL IMPLICATIONS

It is indeed an honour to present the first budget of the Province of KwaZulu-Natal after last year's successful general elections. Honourable Speaker, despite the current persisting low oil price, the world economy is still subdued but expected to rise moderately at 3.5 per cent this year and continue on a positive trajectory to 3.7 per cent in 2016. The global economy continues to recover at low speed and many countries, particularly in Europe, seem unable to overcome the after-effects of the 2009 global recession.

Faced with both domestic and global shocks, the country is estimated to have achieved an average growth rate of 1.5 per cent last year. This year, the growth rate is projected at 2 per cent and is expected to reach 2.4 per cent in 2016. The weak demand from the country's main trading partners, and delays in fixing infrastructure gaps, including electricity constraints, are among factors that affect the growth prospects in South Africa. It must be noted that, inherently, lower economic growth implies, among other things, lower revenue collection and fewer employment prospects.

The projected subdued growth rate in the national economic performance is further confirmed by the Kagiso Purchasing Managers' Index (PMI), which decreased slightly to 50.2 index points in December last year. The magnitude of the decline was possibly due to electricity load shedding and mandatory cutbacks by large industrial users. The South African Reserve Bank (SARB) composite business cycle indicator also followed a moderate downward trend last year, confirming the subdued economic outlook.

The total consumption expenditure by households also remained weak in 2014. However, it improved from a 1.1 per cent growth rate in the second quarter of 2014, to 1.3 per cent in the third quarter of 2014. Supported by the lower oil price, which favours disposable income, expenditure on consumption by households is expected to continue increasing for the period 2015 to 2017, thereby rising to 2 per cent this year, 2.6 per cent in 2016 and 3 per cent in 2017.

Growth in real gross fixed capital formation (investment) by both government and the public sector is estimated to have contracted by 0.6 per cent in 2014 compared to

7.6 per cent recorded in 2013. It is, however, expected to gain momentum and grow moderately over the 2015/16 MTEF and reach 3.8 per cent in 2017.

The headline inflation outlook has improved significantly since November 2014, mainly due to the impact of declining international oil prices. It is estimated to have averaged 6.1 per cent in 2014. This was after it peaked at 6.6 per cent in June 2014. It is now expected to average at 4.5 per cent this year. The Rand depreciated by 11 per cent against the US dollar in 2014. The US dollar continues to strengthen against both developing and developed-market countries on expectations of higher growth and interest rates. The currency is likely to remain vulnerable to the volatile changes in the global capital flows, commodity price fluctuations, the borrowing levels of state-owned enterprises and domestic growth constraints.

Following global and national trends, the economy of KwaZulu-Natal is projected to have grown by 1.9 per cent last year, slightly above the national average of 1.4 per cent. Driven largely by Manufacturing, Finance, Wholesale and retail trade, Transport, Tourism and other sectors, the economy of the province is expected to grow by 2.3 per cent this year and 2.7 per cent next year. These growth rates are however below the targeted 5 per cent required to achieve job creation, particularly among young people, as outlined in both the 2030 National Development Plan (NDP) and the Provincial Growth and Development Plan (PGDP). This therefore signals a steeper trajectory ahead in terms of addressing poverty, unemployment, inequality and other socio-economic challenges facing the province.

THE BUDGET CONTEXT AND FISCAL POLICY CONSIDERATIONS

National context

The National Minister of Finance, Minister Nene, announced as part of his Medium Term Budget Policy Statement speech that "*Governments everywhere face difficult choices because the gap between what is required and what can be afforded is very wide. And so we have to be steadfast in our resolve to do more, together, with less.*" He also said that, while the economy had been expected to grow by 2.7 per cent, this expected growth had to be revised downward to 1.5 per cent, as mentioned. In addition, government's debt continues to grow as a percentage of GDP. It was at this point that he announced that ***fiscal consolidation can no longer be postponed***. What this means for all three spheres of government is that there will be budget reductions of R10 billion in 2015/16 and R15 billion in 2016/17 to lower the country's expenditure ceiling.

It is against this context that I table the provincial budget today.

From a macro-economic perspective, there are two significant issues that have arisen since the MTBPS was tabled:

Sudden decline in oil price

- The sudden decline in the oil price was not anticipated.
- We are unsure what impact this will have on the economy.
- It may have a significant impact on inflation and the current account deficit.

ESKOM – bigger problem than realised when MTBPS was tabled

- While a rescue package was announced when the MTBPS was tabled, the recent announcements of the maintenance required and the length of time to undertake this maintenance was not known.
- We are unsure what impact the continued load shedding will have on the economy.
- While the lower oil price could have a positive impact on inflation and on economic growth, the ESKOM problems can constrain this.

It is, therefore, clear that what would have been positive news of lower inflation is off-set by the ESKOM problem. As a result, growth projections for the next three years are expected to remain low.

Provincial context

KwaZulu-Natal already suffered major budget cuts from 2013/14 when the Census data was used to update the equitable share formula. At the time, the province lost approximately R6 billion over the 2013/14 MTEF. The magnitude of this cut was unprecedented and National Treasury, therefore, agreed to give all losing provinces some buffer funding to ease the impact of the reduction. The buffer funding was given for three years only, though, meaning that it would fall away from 2016/17 and there would, therefore, be another fiscal cliff for the province in that year. These cuts were effected proportionately across all 16 provincial departments in KwaZulu-Natal at the time.

While the 2014/15 MTEF saw only minor reductions in the province's equitable share as a result of the data updates of the equitable share formula, it was also the year in which the Minister of Finance announced that fiscal consolidation is upon us. The significance of this was that National Treasury did not fund any portion of the 2014 above-budget wage agreement in 2014/15, with this 1 per cent wage differential amounting to a shortfall of R580 million in the province. This meant that the province had to fund this shortfall from within its existing baseline. As National Treasury is not funding the carry-through costs of this, either, the shortfall will also have an impact on the 2015/16 MTEF budget.

In addition to the Census data cuts and the 2014 wage agreement shortfall not being funded, the fiscal consolidation cuts announced by Minister Nene will result in further significant budget cuts for KwaZulu-Natal over the 2015/16 MTEF. Table 1 below shows that the provincial equitable share is reduced by R1.406 billion in 2015/16 and

2016/17 due to fiscal consolidation cuts, with National Treasury extending the buffer funding given to provinces by a further year, with R321.958 million allocated in 2016/17. The extension of the buffer funding for a further year then reduces the fiscal consolidation budget cut to R1.084 billion.

Table 1: 2015/16 MTEF Equitable Share reductions - fiscal consolidation and data updates

	2015/16	2016/17	2017/18
Equitable share reduction (ES formula updates and cuts imposed by National Treasury)	(561 725)	(843 789)	-
Buffer funding received for further year from NT	-	321 958	-
Equitable share reduction (data updates of ES formula)	(159 360)	(87 769)	(271 402)
Total reduction	**(721 085)**	**(609 600)**	**(271 402)**

Besides this, the provincial equitable share is reduced by R518.532 million over the 2015/16 MTEF due to the annual data updates of the equitable share formula. The formula was updated with data from the 2014 Mid-year Population Estimates, 2014 School Realities Survey (SNAP Survey), the 2012 GDP-R, District Health Information Services patient day data for 2012/13 and 2013/14 and the Risk Equalisation Fund, and the 2010 Income and Expenditure Survey. As is custom, these adjustments are phased in over three years.

FUNCTION SHIFTS TO NATIONAL GOVERNMENT

Various functions are moved from the provincial sphere to the national sphere and, as funds follow function, the associated budgets are then moved from the provincial fiscus to the respective national departments. The functions that are being moved are port health, aspects of the National Health Laboratory Services, Adult Education and Training (AET) and Further Education and Training (FET) colleges functions and these are moved with effect from 1 April 2015. The funds are shifted from the provincial equitable share (and in the case of NHLS also from the conditional grant allocation) to the national departments of Health and Higher Education and Training as follows:

National Health Laboratory Services – various institutes and training

The national functions of the NHLS consist of the National Institute of Communicable Diseases (NICD), the National Institute of Occupational Health (NIOH), the National Cancer Registry (NCR) and the teaching, training and research functions of the NHLS. These functions are currently funded through a combination of cross-subsidisation within the NHLS tariffs and a subsidy from the national Department of Health. Due to various challenges with this approach, it was agreed that the funding for these functions be shifted from the provincial to the national sphere. It was also agreed to split this reduction on a 60:40 basis between the provincial equitable share and the Comprehensive HIV and AIDS grant. As such, R72.008 million, R75.426 million and R79.066 million is moved from the Department of Health's equitable share allocation and centralised under the national Department of Health. Also, R60.991 million, R63.887 million and R66.970 million is moved from the

Comprehensive HIV and AIDS grant and centralised under the national Department of Health.

Port health services

The National Health Amendment Act shifted port health services from Section 25 (general functions of provincial health departments) to Section 21 (general functions of the national Department of Health). Provinces were consulted on the amounts to be shifted and R20.379 million, R21.459 million and R22.597 million over the 2015/16 MTEF are shifted from the province to the national Department of Health.

AET and FET functions

In May 2009, the FET and AET functions were assigned to the Minister of Higher Education and Training. The Department of Higher Education and Training and provinces reached agreement on the appropriate provincial equitable share amounts to be shifted in Programme 5 (FET) and 6 (AET) but could not reach agreement on the appropriate amounts to be shifted with respect to Programmes 1 (Administration) and 9 (Auxiliary and Associated Services). To facilitate the conclusion of the transfer of the full FET and AET function from provinces to DHET, National Treasury proposed a mixed model methodology where the provincial equitable share formula is used to shift amounts from Programmes 1 and 9, and that actual amounts budgeted be shifted from Programme 5 and 6. In this regard, R280.136 million, R295.547 million and R310.123 million are shifted over the 2015/16 MTEF.

KZN'S APPROACH IN DEALING WITH FISCAL CONSOLIDATION CUTS

The fiscal consolidation cuts and data updates to the equitable share formula budget reductions are, once again, quite significant for the province. Considering that we had already effected significant cuts against all departments' budgets in 2009/10 during our provincial recovery plan period, and again when the considerable Census data cuts were implemented in 2013/14, it was felt that the provincial departments would be unable to cope with another major cut. We therefore had to think differently in terms of funding this cut. Besides this, it was felt that, despite National Treasury not funding any portion of the 2014 wage agreement shortfall, Education and Health should at least receive a portion of the carry-through costs of the 2014 wage agreement. The provincial fiscus is therefore providing 40 per cent of the required amount to these two departments, with the balance having to be sourced from within their baselines. As National Treasury was not funding this, the 40 per cent also had to be sourced from within the provincial budget.

Some tough choices had to be made, but this is a natural consequence of a period of fiscal consolidation. The following were then identified as areas where the province can source the required funding to cover these shortfalls:

- The Strategic Cabinet Initiatives fund of R100 million per annum will be put on hold during this period of fiscal consolidation;
- The government office precinct project for which R600 million had been allocated, is being put on hold during this period of fiscal consolidation;
- The province has continued to budget for a Contingency Reserve, with this being set at just above R1 billion per annum over the 2014/15 MTEF. This Contingency Reserve is now capped at R750 million per annum over the 2015/16 MTEF, and this releases some funding to finance the budget cuts;
- An amount of R240 million is carried forward from the 2014/15 Net Financial Position to fund parts of the 2015/16 MTEF equitable share reductions.

This financing plan therefore meant that none of the department's equitable share budgets were cut and service delivery spending by the Province of KwaZulu-Natal was protected.

Having said this, it does not mean that the province will not be hosting any strategic events going forward. It simply means that, where events were previously funded by the Strategic Cabinet Initiatives fund and are deemed to be of strategic importance, that the respective departments fund these through internal reprioritisation and/ or through forming strategic partnerships in terms of sponsorships with the private sector or other strategic partners.

REVIEW OF ALL TRANSFERS TO PUBLIC ENTITIES

A period of fiscal consolidation makes a government look at areas of possible savings, in order to protect spending in areas that are of strategic importance to the province. I have therefore instructed my Provincial Treasury team to do an in-depth analysis of all transfers made by provincial departments to their various public entities. A first draft document in this regard has already been prepared and will serve before Cabinet shortly. This document proposes various significant cuts in the transfers made to public entities. These cuts will be given effect to in the 2015/16 Adjustments Estimate. Having said this, though, I would like to lead by example and I am therefore cutting the transfers to the KZN Gaming and Betting Board, who report to Provincial Treasury as their parent department, by R8.132 million, R8.564 million and R8.992 million over the MTEF. Fiscal consolidation means that it cannot be business as usual, and we have to make tough decisions in the face of a declining equitable share.

PROVINCIAL FISCAL FRAMEWORK FOR 2015/16

The provincial fiscal framework takes into account the changes in the equitable share, conditional grants and provincial own revenue allocations, as well as priorities funded using provincial cash resources.

As mentioned, the equitable share and the conditional grant allocations are affected by the fiscal consolidation cuts. The province has made a few revisions to its provincial own revenue allocations, which see an increase in this revenue source for the province in 2015/16 and 2016/17, and a decrease in 2017/18. Table 2 shows the fiscal framework for the 2015/16 MTEF.

Table 2 : Provincial fiscal framework

R thousand	2015/16	2016/17	2017/18
1. Receipts			
Baseline Allocation	**103 665 526**	**106 474 835**	**110 859 962**
Transfer receipts from national	100 671 247	103 286 051	107 511 739
Equitable share	*83 347 554*	*87 887 479*	*92 113 167*
Conditional grants	*17 323 693*	*15 398 572*	*15 398 572*
Provincial own receipts	2 994 279	3 188 784	3 348 223
Increase / (Decrease) in allocation	**(1 535 759)**	**984 043**	**2 629 921**
Transfer receipts from national	(1 536 626)	983 471	2 635 771
Equitable share	*(1 093 608)*	*(1 002 033)*	*(683 189)*
Conditional grants	*(443 018)*	*1 985 504*	*3 318 960*
Provincial own receipts	867	572	(5 850)
Revised allocation	**102 711 237**	**107 632 456**	**113 523 383**
Transfer receipts from national	99 134 621	104 269 522	110 147 510
Equitable share (after update of formula data &fiscal consolidation cuts)	*82 253 946*	*86 885 446*	*91 429 978*
Conditional grants	*16 880 675*	*17 384 076*	*18 717 532*
Provincial own receipts	2 995 146	3 189 356	3 342 373
Provincial cash resources	581 470	173 578	33 500
2. Planned spending by departments	**101 961 237**	**106 882 456**	**112 773 383**
3. Contingency Reserve	**750 000**	**750 000**	**750 000**

KwaZulu-Natal's total budget allocation from National Treasury is R99.135 billion in 2015/16, R104.270 billion in 2016/17 and R110.148 billion in 2017/18. When we add our provincial own revenue and provincial cash resources to this, the total revised allocation over the MTEF is R102.711 billion, R107.632 billion and R113.523 billion.

Line 2 shows that the provincial departments are planning on spending R101.961 billion, R106.882 billion and R112.773 billion over the MTEF. Line 3 shows that the province is budgeting for a Contingency Reserve of R750 million per annum over the MTEF, as I had mentioned earlier. The provincial cash resources shown in the table are available for allocation over this MTEF due to careful cash management in previous financial years.

The Contingency Reserve is being kept for a number of reasons. First of all, the outcome of the 2015 wage negotiations is not known. If National Treasury once again does not fund any portion of this, the province will have to fund this from within its baseline. Secondly, the negotiations regarding the amount that the province owes to NHLS are still ongoing. This debt could place a significant demand on the provincial fiscus. It is therefore prudent to keep a Contingency Reserve that will act as a buffer in the event that these potential cost pressures become reality.

ADDITIONAL FUNDING ALLOCATED FROM THE PROVINCIAL FISCUS

Over previous MTEFs, National Treasury has always allocated some new funding for various national priorities. However, due to the period of fiscal consolidation the country is currently in, no additional equitable share funds were allocated to provinces over the 2015/16 MTEF.

National Cabinet took a resolution to support the bid for South Africa to host the **2022 Commonwealth Games**, with the City of Durban being proposed as the host city. The province and the City of Durban have been requested to share the infrastructure design costs of R35 million on a 50:50 basis. The amount the province therefore has to fund is R17.500 million. Due to the period of fiscal consolidation, the provincial fiscus cannot fund this through additional allocations being made available, but it will be funded through reprioritisation of the baselines of the Department of Economic Development, Tourism and Environmental Affairs and the Department of Sport and Recreation.

Due to careful cash management in the province, some additional funding is allocated to departments, largely funded from provincial cash resources that became available in previous years' Adjustments Budgets and are allocated to departments to spend over the 2015/16 MTEF. The departments receiving some additional funding are:

- The **Office of the Premier** sees an increase of R29 million in 2015/16 only. These funds are not new to the department, but were suspended from the Office of the Premier's 2014/15 budget and re-allocated back in 2015/16 for the following:
    - R15 million for the construction of the pipeline at the Luwamba Wellness Centre could not be utilised in 2014/15 due to challenges experienced with various stakeholders, farmers and wards in terms of the appointment of the local community to assist with the project. The project is back on track and the revised completion date is June 2015. As such, these funds were suspended from 2014/15 and re-allocated to the department in 2015/16.
    - R14 million was specifically and exclusively appropriated for the equipping of war-rooms but was not utilised in 2014/15 due to a review by the Information Technology unit of the war-rooms software requirements. The funds were therefore suspended from 2014/15 and are re-allocated back to the department in 2015/16 for the same purpose.
- Similarly, the **Provincial Legislature** requested that an amount of R9.500 million be suspended from their 2014/15 budget. These were savings incurred in 2014/15 relating to the once-off allocation for exit packages for Members after the 2014 general elections. These savings were suspended to 2015/16 and are reallocated for strengthening oversight and IT infrastructure, being additional funding requests submitted by the Legislature during the 2015/16 budget process.

- The **Department of Agriculture and Rural Development** receives R10.200 million in 2015/16. This relates to disaster funding that was received late in 2014/15 from the national fiscus. As these funds were received so late in the year, the department asked that these funds be allocated to them in 2015/16 for spending. These funds relate to the veld fire disaster that occurred in the Harry Gwala District Municipality in June and July 2014 and is to assist in buying the necessary fodder for livestock while the grazing fields recover from the fire.

- The **Department of Economic Development, Tourism and Environmental Affairs** receives R13.794 million, R14.120 million and R15.324 million over the 2015/16 MTEF for transfer to the KZN Liquor Authority (KZNLA). The KZNLA is a fairly new entity and requested additional funding for their operational costs. These operational costs are funded by anticipated increases in the *Liquor Licence* revenue forecast for the 2015/16 MTEF.

- The **Department of Education** and the **Department of Health** receive about 40 per cent of the amount required to deal with the carry-through costs of the above-budget 2014 wage agreement, as I mentioned earlier. The balance of this has to be funded from within the departments' existing baselines, and all other departments have to fund the full shortfall from within their baselines. The amounts allocated to these two departments are funded by reducing the provincial Contingency Reserve from some R1 billion per annum to R750 million per annum and this allows the following amounts to be allocated:
    - **Education** receives R144.484 million, R173.477 million and R250.749 million over the 2015/16 MTEF.
    - **Health** receives R79.755 million, R95.748 million and R138.470 million over the 2015/16 MTEF.

- The **Department of Health** receives R60 million for the purchase of St. Aidan's Hospital and Nurses' home. These funds were made available when the 2014/15 Adjustments Budget calculations were undertaken, but are only allocated to the department in 2015/16 as this amount will only be paid upon registration of transfer of the property into the name of the Province of KwaZulu-Natal. This only falls due in 2015/16 as the property first needed to be surveyed and subdivided to allow the Diocese to retain the church property. A full Planning and Development Application needs to be done and this has a minimum timeframe of 9 months. The funds will therefore only be spent in 2015/16, despite the purchase price of R60 million having been accepted as early as February 2014.

- **Provincial Treasury** receives an amount of R8 million in 2015/16 only for the finalisation of the floor repairs at Inkosi Albert Luthuli Central Hospital. An amount of R18 million was allocated over the 3 years of the 2014/15 MTEF, but this project requires a further R8 million in 2015/16 as the floor repairs are more extensive than initially anticipated. These funds were made available when the 2014/15 Adjustments Budget calculations were undertaken, but are only allocated to the department in 2015/16.

- The **Department of Transport** receives R10 million in 2015/16 only relating to the learner transport function. These funds are suspended from the 2014/15 budget as the department was unable to spend this amount in that year as the learner transport contracts that needed to be in place for the department to fully spend the entire additional allocation in 2014/15 were not awarded due to delays experienced with the appointment of service providers. Accordingly, as the department was not able to spend the entire additional allocation, an amount of R10 million is suspended to 2015/16, when all contracts will be in place.

- The **Department of Public Works** receives two amounts which were rolled-over from 2013/14. While parts of the roll-over relating to the Richmond Community Development programme and the Government Immovable Asset Management Act (GIAMA) implementation was allocated to the department for the continuation of these projects in 2014/15, the department requested that a portion of the roll-over be allocated in 2015/16 as this is when they will be in a position to spend these amounts. As such, R9.934 million is allocated for GIAMA in 2015/16, and R482 000 is allocated for the continuation of the Richmond Community Development programme.

- The **Department of Arts and Culture** does not receive new money, *per se,* but had requested that the R42.500 million allocated to them for the construction of the Arts and Culture Academy when the 2014/15 MTEF budget was being prepared as a once-off allocation in 2015/16, be re-scheduled in line with timeframes of the construction plan. As such, the amount allocated in 2015/16 was reduced and re-scheduled as follows: R5.500 million in 2015/16, R3.500 million in 2016/17 and R33.500 million in 2017/18.

- The **Department of Sport and Recreation** receives R30 million for the construction of a sports development centre in Durban. These funds were initially allocated in 2014/15 for the development this sports development centre. These funds were suspended from 2014/15 to 2015/16 due to challenges experienced by the eThekwini Metro with regard to the location of the sport development centre. The Metro has since identified an appropriate site, and the funds will therefore be spent in 2015/16.

MOVEMENTS OF FUNCTIONS BETWEEN DEPARTMENTS

A number of functions and activities are moved between departments over the 2015/16 MTEF:

- Proclamation 83 was gazetted on 12 December 2014 and resulted in **Vote 10: Royal Household being dissolved as a stand-alone vote**. The department has thus been **absorbed into Vote 1: Office of the Premier**, with the budget still being visible as a separate sub-programme in the budget of Vote 1. In this regard, the entire budget of The Royal Household, together with the first charge that was implemented against it as a result of prior years' over-expenditure, is moved to Vote 1 and amounts of R56.536 million, R59.549 million and R62.526 million are moved to Vote 1 over the 2015/16 MTEF.

- The budget for external bursaries offered by provincial government were centralised under the Office of the Premier when the 2014/15 budget was tabled last year. Through a series of interactions with the provincial departments, it became clear that the centralised model is not sustainable because the funding model was not sufficient to take on as many new students as had originally been envisaged. The **budget for external bursaries is therefore decentralised back to the provincial departments** where the funds were originally moved from and R13.736 million, R14.390 million and R15.109 million moves from the Office of the Premier to various departments.

- In the *Explanatory Memorandum to the 2014/15 MTEF Estimates of Provincial Revenue and Expenditure*, the function shifts announced by the Premier in his inauguration speech were given effect to by moving the budget between the affected departments. The move of the **Environmental Affairs and Conservation** functions from Vote 3: Agriculture and Rural Development to Vote 4: Economic Development, Tourism and Environmental Affairs was quite complex, though, and it was therefore decided to move the easily identifiable and quantifiable budgets between the two departments over the 2014/15 MTEF. The two departments were then tasked with determining the balance of this function shift (e.g. the Environmental Affairs unit has Finance and HR staff in the various regional Agriculture offices), and these budgets needed to be extracted and determined before they could be effected. The **balance of this function shift** is therefore effected over the 2015/16 MTEF and amounts of R11.356 million, R12.017 million and R12.719 million move from Vote 3 to Vote 4.

- The **Pietermaritzburg Bike City concept** is being moved from Vote 4: Economic Development, Tourism and Environmental Affairs to Vote 16: Sport and Recreation and R9.391 million, R9.715 million and R10.323 million moves between the two departments in this regard. This function is shifted to Sport and Recreation as it is a sporting event.

- It was agreed that the **KZN Music House** should fall under the auspices of the Department of Arts and Culture, and no longer under the Department of Economic Development, Tourism and Environmental Affairs. Discussions were held between the two departments and Provincial Treasury to ascertain the budget that should be moved between these two departments to effect this function shift. As a result, R12 million, R12.600 million and R13.230 million over the 2015/16 MTEF moves from Vote 4: Economic Development, Tourism and Environmental Affairs to Vote 15: Arts and Culture.

- The **Department of Arts and Culture and the Department of Sport and Recreation** have both fallen under a **joint Ministry** since the provincial reconfiguration that took place after the 2009 general elections. At the time, some of the Ministry budget was retained under the Department of Sport and Recreation. To ease the administrative burden of having a split budget for the same Ministry, the two departments have agreed to centralise the full Ministry budget under Vote 15: Arts and Culture. As such, R2.108 million, R2.213 million and R2.324 million is moved between the two departments over the 2015/16 MTEF.

- The **co-ordination of the Expanded Public Works Programme** in the province was previously partially undertaken by the Department of Transport and partially by the Department of Public Works. With effect from 2015/16, the Department of Public Works will be solely and fully responsible for this co-ordination function and R1.061 million, R1.114 million and R1.169 million therefore moves from Vote 12: Transport to Vote 14: Public Works over the 2015/16 MTEF.

- The Department of Agriculture and Rural Development had inadvertently surrendered their entire **communications budget** to the Office of the Premier when aspects of the departments' communications functions were centralised when the 2014/15 MTEF budget was prepared. To correct this error, R6.729 million, R7.065 million and R7.418 million is moved from the Office of the Premier back to the Department of Agriculture and Rural Development.

CONDITIONAL GRANTS

Unfortunately, the province's conditional grant allocations are also being affected by the fiscal consolidation cuts. All provincial conditional grants are reduced by the same proportion, with the exception of three grants that are linked to essential service delivery programmes or are smaller grants that fund important operational expenditure. In this regard, the baselines of the Comprehensive HIV and AIDS, the National School Nutrition Programme (NSNP) and the Occupational Specific Dispensation (OSD) for Education Therapists grants are protected from the fiscal consolidation cuts.

At a high level, when the 2014/15 MTEF conditional grant allocation is compared to the 2015/16 MTEF allocation, the total decrease in the province's conditional grant allocation is R443.018 million in 2015/16 and increases of R1.985 billion in 2016/17 and R3.319 billion in 2017/18. It should be noted, though, that a significant portion of the reduction relates to the FET Colleges function moving to the Department of

Higher Education and Training, which means that the FET Colleges grant moves from the provincial sphere to the national sphere. Contributing significantly to the growth in 2016/17 and 2017/18 is the fact that National Treasury has now provided the carry-through costs for the two infrastructure incentive grants in Education and Health, as discussed in more detail below. The following amendments are made to the conditional grant allocation:

- The **Education Infrastructure grant** sees an increase in 2015/16 of R84.802 million. This grant became incentive-based to institutionalise proper planning for infrastructure. This meant that provinces had to bid for these funds and had to submit various planning documents to National Treasury at various intervals to receive financial incentives which were built into the grant for provinces that implement best practices in delivering infrastructure. These documents were submitted by the province and therefore resulted in an increased allocation in 2015/16. Due to concerns expressed by provinces over the difficulty in planning ahead without knowing allocations for the outer years, National Treasury agreed to provide an indicative base allocation for the two outer years of the MTEF, with R1.858 billion and R1.951 billion being allocated. Of this grant, an amount of R23.983 million is ring-fenced for the rehabilitation of schools damaged by floods.

- Similar to the Education Infrastructure grant, the **Health Facility Revitalisation grant** is also an incentive-based grant. Due to the necessary planning documents being submitted to National Treasury at various intervals, the province receives R139.344 million in additional funding in 2015/16. National Treasury has also provided carry-through costs of the base allocation of this grant of R1.047 billion and R1.100 billion in the two outer years. Of this grant, R198 000 is ring-fenced in 2015/16 for repairing clinics as a result of disaster incidents that occurred in 2014/15.

- The **National School Nutrition Programme grant** is protected from the fiscal consolidation cuts and this grant allocation therefore remains unchanged for 2015/16 and 2016/17, showing a slight inflationary increase in the outer year. The scope of this grant will be increased, though, by adding a deworming programme to the grant's purpose and reweighting the focus on feeding the pupils to placing more focus on the nutritional outcome of the meals. The roll-out of the deworming programme will be done in collaboration with the Department of Health.

- The **Technical Secondary Schools Recapitalisation grant** and the **Dinaledi Schools grant** are combined into a new grant, namely the **Maths, Science and Technology grant**. These similar and over-lapping programmes can be better administered and expanded to reach more schools through combining the grants. This combined grant is cut by R7.969 million, R9.118 million and R7.688 million over the MTEF due to fiscal consolidation cuts.

- The **FET Colleges grant** ceases at the end of 2014/15, with the FET function moving to the national Department of Higher Education from 2015/16. As a result, this grant is removed from the province's conditional grant baseline and R376.483 million, R397.242 million and R397.242 million moves from the provincial sphere to the national sphere in line with the principle of "funds follow function."

- Most of the grants under the Department of Health are affected by the fiscal consolidation cuts, with the exception of the Health Facility Revitalisation grant and the Comprehensive HIV and AIDS grant. The **Comprehensive HIV and AIDS grant** is protected from the fiscal consolidation cuts and shows significant growth of R483.965 million in 2017/18. This grant will see the CD4 threshold rising from 350 to 500. As mentioned earlier, this grant is reduced by R60.991 million, R63.887 million and R66.970 million over the MTEF as a result of aspects of NHLS being moved from the provincial fiscus.

- The **Human Settlements Development grant** sees a reduction of R78.508 million and R132.341 million in 2015/16 and 2016/17, partly due to the fiscal consolidation effects, as well as funds being reprioritised from all provinces to the Housing Development Agency which is taking on an expanded mandate that includes some of the planning and project development work that was previously carried out by provinces. This budget move therefore adheres to the principle that "funds follow function." This grant includes an amount of R158.821 million in 2015/16 which is ring-fenced for repairs to houses affected by disasters.

- Both the **Public Transport Operations grant** and the **Provincial Roads Maintenance grant** are affected by the fiscal consolidation cuts. Besides this, the Provincial Roads Maintenance grant sees an amount of R30.241 million in 2015/16 being ring-fenced for repairing roads damaged by disasters. This grant also sees a reduction as a result of R149 million across all three years being reduced across all 9 provinces. These funds will be allocated to the South African National Road Agency Limited (SANRAL) for the R573 Moloto Road which is expected to be transferred to SANRAL from Limpopo, Gauteng and Mpumalanga.

- The grants under the Department of Agriculture and Rural Development are all affected by the fiscal consolidation cuts. In addition, the **Comprehensive Agriculture Support Programme (CASP) grant** sees an increase of R21.144 million, R23.141 million and R38.620 million over the MTEF, and this relates to an additional allocation to repair disaster damaged agricultural infrastructure.

- The province receives R90.143 million and R21.502 million in 2015/16 for the **EPWP Integrated Grant for Provinces** and the **Social Sector EPWP Incentive Grant for Provinces**, respectively. These amounts are allocated to various departments in line with the schedules to the Division of Revenue Bill, 2015.

COST-CUTTING

There is no doubt that, with the lower economic growth prospects, the ESKOM challenges and the period of fiscal consolidation, there are tough times ahead. It is imperative that we keep our eyes on the ball and that we maintain our focus on achieving good financial discipline. As a result, we had to take a fresh look at our provincial cost-cutting measures and to add to the list that was already in place. We undertake an annual review of these cost-cutting measures to assess their relevance and the practicality of implementation. This annual review resulted in a number of new cost-cutting measures being added to the list, and a few were re-worded to make them more understandable. The revised cost-cutting measures to be implemented from 2015/16 are listed below and have already been circulated to departments and public entities for circulation to all departmental offices in the province:

1. All departments to undertake a proper organogram review to **eliminate non-essential posts.**
2. Any newly proposed organogram that proposes the addition of posts to staff establishments **may not be implemented** until the country's period of fiscal consolidation is over.
3. **Moratorium** on the filling of **non-critical** posts. Accounting Officer and CFO to determine which posts are critical and may be filled.
4. Departments to undertake **headcount** to eliminate ghost employees.
5. Freeze budgets for non-essential goods and services at 2014/15 levels.
6. No. of events held by departments per annum must be strictly kept at no more than 24, as approved by Cabinet (it was approved by Cabinet that, for an event with 3 500 community members, this event should not cost more than R1 million to host. For events where 1 500 to 2 000 community members attend, these events may not cost more than R500 000 – R700 000 per event).
7. Cost per event to be adhered to, as per guidelines given in the cost-cutting circular.
8. No musicians or other performing artists to be used at these events, as these come at exorbitant fees.
9. No tracksuits, t-shirts or other promotional materials to be handed out at events.

10. VIP catering to be kept to a minimum and should only be for specifically invited dignitaries and not for government employees (except for HODs).
11. Furniture and equipment purchases to be approved by the Accounting Officer and the CFO. All furniture and equipment to be purchased should be standardised according to staff designations.
12. Explore energy saving projects with an aim of reducing electricity and water usage.
13. Timeous planning to ensure market related prices are charged by service providers.
14. Database of local service providers per municipality and fixed prices per commodity to ensure exorbitant prices are not charged.
15. Departments to provide listing of events to be held in 2015/16 for synergies and sharing of costs to be realised.
16. Departments to share databases for government and community venues to minimise use of private venues.
17. Marquees and catering costs for events to be reduced through timeous procurement (end fixed contracts with just one service provider – look at panel of events co-ordinators instead).
18. S&T – only essential trips to be undertaken. Review the allowances for all categories of S&T.
19. Monthly mileage restrictions to be adhered to and officials to use one hired car for meetings outside KZN (synergy between departments attending same meetings).
20. Cell phone, landline and data bundle costs to be reviewed and limitations in respect of usage and approval of these services to be effected. Stricter cell phone limits to be introduced.
21. Responsibility managers to ensure co-ordinated travel to reduce costs.
22. Meetings and workshops to be held where the majority of the officials reside/ work (50% + 1).
23. Departments to develop an integrated annual calendar so that meetings and workshops are properly co-ordinated to reduce travel costs.
24. Ensure that meetings start at a reasonable time to reduce need to sleep over. Cut down on unnecessary overnight accommodation.
25. Assessment must be done between road travel to end destination vs distance to airport (e.g. cheaper for a person from Newcastle to travel to Jhb by road than to drive to Dbn to take a flight to Jhb).
26. Hiring of offices: government-owned properties should be utilised as far as possible to avoid costs.
27. Proper planning of events to be undertaken to reduce costs. Core planning team to co-ordinate all events in the department to ensure value for money.

28. Events – current standardised specifications should be reviewed to reduce costs.
29. Number of officials attending events to be kept at an absolute minimum.
30. Departments to use transversal contracts for inventory items such as stationery, nappies, baby food, medication, etc.
31. Essential training be done in-house (exceptions to be approved by the HOD).
32. Overseas trips be rationalised with the number of delegates being kept to a minimum.
33. Business class travel only for MECs and HODs (and MPLs, where applicable).
34. Car hire bookings – class of vehicle to be lowered.
35. Catering for meetings be stopped (exceptions to be approved by the HOD, but there should be no catering for internal meetings).
36. Kilometre controls be implemented on travelling (average of 2 500 kilometres per month per official unless there are exceptional circumstances – exceptions to be approved by the HOD).
37. Officials to travel together unless absolutely unavoidable.
38. Departments and public entities must plan meetings carefully and rationalise the number of meetings held (it seems that staff from regions/districts are sometimes called to head office meetings organised by different units on various different days, requiring them to travel to and from the regions/districts frequently. These meetings must be co-ordinated and planned between the various units to reduce the wastage of time and money).
39. Only essential trips be undertaken.
40. Internal meetings, strategic planning sessions and workshops to be held in departments' offices instead of private venues (exceptions to be approved by Provincial Treasury). Where Provincial Treasury approval is requested, proof must be given that all other avenues have been exhausted before a private venue will be approved.
41. External meetings, workshops and events to be held in government facilities instead of private venues (exceptions to be approved by Provincial Treasury). Use of marquees to only be considered where such events could not be held in municipal halls, school halls, FET College facilities, etc. Where Provincial Treasury approval is being requested, proof must be provided that all other avenues have been exhausted before a private venue will be approved.
42. No team building exercises or year-end/Christmas functions (only permitted if paid for by the staff themselves).

43. Where there are one-day meetings in other provinces, officials must travel there and back on the same day (where possible).
44. When printing APPs, SPs, Annual Reports, etc., departments and public entities must minimise the use of colour pages in their documents, as well as use a lighter weight of pages and covers. Look at the feasibility of using electronic distribution (e.g. compact discs) to reduce costs. Gold and silver embossed letterheads may not be used.
45. No promotional items (e.g. shirts, caps, bags) to be purchased (exceptions to be approved by Provincial Treasury).
46. No leave conversion payments (leave to be taken) – this does not apply to leave pay-outs when staff are exiting the public service.
47. Strict control of overtime.
48. No bottled water may be procured for meetings, etc.

These cost-cutting measures, together with those issued by National Treasury, will be implemented by all departments and public entities over the 2015/16 MTEF.

INFRASTRUCTURE

According to the International Monetary Fund (IMF), "*When public investment in infrastructure is inefficient, higher levels of spending may simply lead to larger budget deficits, without increasing the quantity or quality of roads, schools, and other public assets that can help support economic growth.*" For effective and efficient infrastructure delivery, the province will be introducing the Infrastructure Delivery Management System (IDMS) to **all departments** that implement infrastructure. IDMS is a government management system developed to ensure proper planning, budgeting, procurement, delivery, maintenance, operation, monitoring and evaluation of infrastructure. This will assist departments to improve their capacity to deliver infrastructure. Currently, IDMS is being institutionalised in the Departments of Health, Education, Public Works, as well as Provincial Treasury.

Some infrastructure projects planned for the 2015/16 MTEF

The province is budgeting to spend R12.060 billion in 2015/16, R11.804 billion in 2016/17 and R12.196 billion in 2017/18 on various infrastructure projects. This equates to R36.060 billion over the 2015/16 MTEF. This includes both equitable share and conditional grant funded infrastructure. Not included in this are the amounts budgeted for infrastructure by Human Settlements where the asset, in the end, does not belong to government and these are therefore excluded from the infrastructure table. If they are added, **the total infrastructure spend increases to R14.926 billion in 2015/16, R14.876 billion in 2016/17 and R15.528 billion in 2017/18, a total of R45.330 billion over the 2015/16 MTEF**. This is a considerable injection of funds into the economy and acts as a major stimulus to growth and development.

Key infrastructure projects over the 2015/16 MTEF include:

Transport

The **Department of Transport will spend R20.594 billion** over the 2015/16 MTEF on numerous infrastructure projects.

In 2015/16, the department will continue with various construction and maintenance projects as part of Operation *KuShunquthuli* and the African Renaissance Roads Upgrading Programme (ARRUP), to focus on road infrastructure development in rural areas, including:

- Main Road P234 (comprising the upgrade of 40 kilometres from gravel to blacktop), located in Nongoma
- Main Road P104 (comprising the upgrade of 22 kilometres from gravel to blacktop), located in Ndwedwe
- Main Road P1-1(M13) consisting of the rehabilitation of four kilometres of blacktop road, located between Hillcrest and Pinetown
- Main Road P230 comprising the upgrade of 6 kilometres from gravel road to blacktop surface, located between Eshowe to Empangeni.

Health

The Department of Health's infrastructure budget over the 2015/16 MTEF is R4.294 billion. The department will use this allocation for various projects, for example:

- Pixley ka Seme Hospital: R460 million – Construct new 500 bed regional hospital.
- Ngwelezane Hospital: R80 million – construct new 192 bed medical ward.
- Stanger Hospital: R65 million – new labour and neo-natal ward.
- St. Aiden's hospital: R60 million – purchase of hospital.
- Newcastle Hospital: R43.500 million – major maintenance.
- Prince Mshiyeni Hospital: R40 million – upgrade fire system.

Education

The **Department of Education is budgeting to spend R6.909 billion** over the 2015/16 MTEF.

The following are some of the infrastructure projects that will be undertaken over the 2015/16 MTEF:

- Ndumo Secondary School: new classrooms and ablutions – uMkhanyakude District Municipality.

- Mgezeni High School: 13 classrooms, 1 media centre, 1 computer room, 1 team teaching room, admin and support space, 1 garden store, 1 gate house, 1 kitchen, toilets for girls, boys, teachers and disabled learners, as well as parking bays – uThungulu District Municipality.
- Welabasha High School: upgrade and additions – uThungulu District Municipality.
- La Mercy Primary: 20 classrooms and provision for 360 bed hostel.
- Pholela Special School: new buildings – Harry Gwala District Municipality.
- Ukukhanya Komsings LSEN: 1 dining hall, hostel for 122 boys, among other renovations – uMzinyathi District Municipality.

Human Settlements

The **Department of Human Settlements will spend R9.595 billion** over the 2015/16 MTEF on various infrastructure projects. The department is focussing on catalytic projects, which will have a significant impact on the well-being of the target community. These are projects which are linked to transport routes, proximity to schools, clinics and other social facilities. Some of the key programmes include, among others, the Informal Settlement Upgrade Programme, the Rural housing Programme, the Emergency Housing Programme, the Integrated Residential Housing Programme, as well as the Rectification Programme and Enhanced Extended Discount Benefit Scheme (EEDBS). In 2015/16, the department will continue to implement these housing programmes and the outputs expected to be achieved include 23 233 housing units constructed and 14 225 beneficiaries approved. Projects being rolled out by the department include:

- **The informal settlements upgrade** includes projects such as Cornubia. Cornubia is a project within the Integrated Residential Development Programme which has delivered 1 142 sites and 630 units in Phase 1B for the low income category, and a further 1 040 sites and 1 030 units are to be constructed in Phase 1B. The department has acquired well-located land for the informal settlement upgrade programme at Driefontein in KwaDukuza within the Ilembe District Municipality, which is set to deliver 17 000 units, and Blauwbosch in Newcastle within the Amajuba District Municipality which is set to deliver 25 000 units.
- **Rural housing development**: (such as the Vulindlela Housing Project in the Msunduzi Municipality): This particular project is progressing well with more than 2 889 units completed. A further 2 485 units are projected to be completed in 2015/16.
- **Rectification of pre-1994 housing stock** which entails rectifying the housing stock constructed pre-1994. The department plans to rectify a total of 42 797

units under this programme, with projects in Austerville and Shallcross currently underway.

OVERVIEW PER VOTE FOR THE 2015/16 MTEF

The next few paragraphs indicate the amounts budgeted per department over the 2015/16 MTEF and provide a broad overview of what these funds will buy. Departments appear in order of the size of their budget.

Table 3 provides information on departmental spending and budgets over the period 2011/12 – 2017/18.

Table 3 : Summary of payments and estimates by vote

R thousand	Audited Outcome			Main Appropriation	Adjusted Appropriation	Revised Estimate	Medium-term Estimates		
	2011/12	2012/13	2013/14		2014/15		2015/16	2016/17	2017/18
1. Office of the Premier	524 129	697 795	721 074	751 370	745 112	745 112	743 214	746 934	784 281
2. Provincial Legislature	380 588	431 718	460 929	491 186	483 590	483 590	465 494	480 352	504 370
3. Agriculture and Rural Development	1 782 966	2 109 591	2 005 528	2 133 126	2 169 946	2 169 946	2 203 074	2 290 677	2 409 455
4. Economic Development, Tourism and Enviro Affairs	2 226 580	2 421 869	3 311 354	2 883 969	3 013 455	3 013 455	2 973 459	3 080 528	3 219 734
5. Education	32 809 703	34 556 731	37 156 042	38 918 092	39 066 103	39 092 741	42 142 355	44 210 091	46 488 066
6. Provincial Treasury	411 205	557 733	623 448	878 315	708 472	667 134	712 151	707 768	708 506
7. Health	24 791 118	27 390 533	29 531 410	30 914 196	31 119 465	30 919 465	32 981 786	34 741 665	36 873 548
8. Human Settlements	3 042 495	3 377 771	3 617 002	3 600 282	3 622 443	3 622 443	3 584 685	3 776 080	4 011 284
9. Community Safety and Liaison	145 239	135 892	171 922	181 295	179 692	179 692	187 069	198 470	200 285
10. The Royal Household (moved to OTP)	-	-	-	-	-	-	-	-	-
11. Co-operative Governance and Traditional Affairs	1 106 349	1 314 550	1 242 496	1 348 076	1 486 694	1 486 694	1 368 043	1 436 920	1 508 766
12. Transport	6 639 855	7 650 308	8 055 187	9 060 595	9 050 885	9 050 885	9 341 457	9 735 659	10 274 611
13. Social Development	1 934 257	1 985 386	2 329 906	2 497 952	2 489 760	2 489 760	2 630 481	2 767 560	2 905 938
14. Public Works	1 182 268	1 133 311	1 270 253	1 369 361	1 391 763	1 392 088	1 389 666	1 449 782	1 526 583
15. Arts and Culture	369 752	479 744	698 686	705 112	730 120	730 120	783 914	819 399	894 444
16. Sport and Recreation	307 836	367 751	414 968	456 379	455 571	455 571	454 389	440 571	463 512
Total	**77 654 340**	**84 610 682**	**91 610 205**	**96 189 306**	**96 713 071**	**96 498 696**	**101 961 237**	**106 882 456**	**112 773 383**

Education

The largest portion of the provincial budget still goes to the Department of Education who receive 41.3 per cent (which is an increase from the 40.8 per cent share in 2014/15). The budget allocation over the MTEF is R42.142 billion, R44.210 billion and R46.488 billion over the 2015/16 MTEF. The budget allocated to Education provides for the following main activities, among others:

The largest share of the department’s budget allocation is for the provision of personnel. This is reflected in the 2015/16 MTEF budget allocation whereby *Compensation of employees* has the largest share of the departmental budget at 82.8 per cent. The department will utilise these funds towards the provision of educators and to fund the carry-through costs of the various wage agreements. The department reprioritised funds from its infrastructure budget in order to ease pressures against the personnel budget.

The department aims to provide learner teacher support materials to schools, by the first day of school. In this regard, an estimate amount of R1.435 billion for LTSM for all schools including ECD transfers to schools is budgeted. All learners in Quintiles 1, 2 and 3 schools will continue to be fed through the National School Nutrition

Programme grant. The grant allocation for 2015/16 increases to R1.287 billion. The total allocation for Norms and Standards for 2015/16 is R2.124 billion.

The department will continue to make the provision of special schools' infrastructure its focus in order to grant access to education for learners with special needs. The department will also increase the number of ECD classrooms so that more schools that offer Grade R will have appropriate facilities.

Health

The second largest portion of the provincial budget goes to the Department of Health who receive 32.4 per cent (which is an increase from the 31.9 per cent share in 2014/15). The budget allocation over the MTEF is R32.982 billion, R34.742 billion and R36.874 billion over the 2015/16 MTEF. The budget allocated to Health provides for the following main activities, among others:

The bulk of the department's budget allocation is for the delivery of primary health care (PHC) services to the approximately 87 per cent uninsured population of KZN. The main services rendered at PHC level include the comprehensive management of HIV and AIDS, the provision of clinic (including mobiles) and hospital care at a district level. The department also provides hospital care at a general, tertiary and central level, for patients whose levels of care require more specialised services, as well as emergency transport for patients who require urgent attention. In 2015/16, the department will continue with these services and will strive to achieve improvements and enhancements to these services. The following are areas, among others, that the department aims to improve in over the MTEF and beyond:

Prevent and reduce the burden of disease with the main focus on maternal, neonatal, child and women's health, nutrition, TB, HIV and AIDS, and non-communicable conditions, as follows:

- Reduce the mother to child transmission rate of HIV to less than 0.5 per cent by March 2018.
- Establish 11 district hospital caesarean section centres by March 2018 to improve maternal health outcomes.
- Decrease the child under-5 year severe acute malnutrition incidence to 4.9 per 1 000 by March 2018.
- Decrease the TB incidence to 500 per 100 000 population by March 2018.
- Increase the total number of clients on ante-retroviral therapy to 1 450 000 (cumulative) by March 2018.
- Decrease the hypertension incidence to 15.2 per 1 000 by March 2018.
- Decrease the diabetes incidence to 1.2 per 1 000 by March 2018.

Scale up PHC re-engineering with the main focus on the implementation of the Ideal Clinic Realisation and Maintenance programme (Operation *Phakisa*):

- Increase the percentage of fixed PHC facilities that score above 80 per cent against the Ideal Clinic criteria (dashboard) to 60 per cent by March 2018.
- Establish four complete district clinical specialist teams (full composition of nursing and medical specialists) by March 2018.

Strengthen and improve hospital efficiencies with the main focus on implementation of an approved Hospital Rationalisation Plan over the next 5 to 10 years:

- Re-classification of hospitals based on the package of services and aligned post establishment, review of bed norms per clinical discipline, hospital complexes, emergency units in selected hospitals, roll-out of a patient information system using a phased approach, tele-health, and strengthening of clinical governance.
- In 2015/16, focus will be on the rationalisation of Oncology, Nephrology, Orthopaedics and Neurosurgery.

Improving quality of care with focus on the implementation and annual self-assessment of the National Core Standards and development and implementation of Quality Improvement Plans to address identified gaps:

- Increase the percentage of hospitals that are compliant with all extreme and vital measures of the core standards to 60 per cent (or more) by March 2020.
- Sustain a patient satisfaction rate of 95 per cent (or more) in all health facilities by March 2020.

Transport

The Department of Transport receives 9.2 per cent of the provincial budget. The budget allocation is R9.341 billion, R9.736 billion and R10.275 billion over the 2015/16 MTEF. The budget allocated to Transport is for the construction of roads and the maintenance of the provincial road network. In 2015/16, the department will continue with construction and maintenance projects which include Main Road P234 located in Nongoma, Main Road P104 located in Ndwedwe, Main Road P1-1(M13) located between Hillcrest and Pinetown, Main Road P496 John Ross Highway, located between Empangeni and Richards Bay, Main Road P230 located between Eshowe to Empangeni, and Main Road P68 located between St Faiths and Port Shepstone. In addition, the department will continue with the provision of learner transport services and the subsidisation of bus services in the province. The department will continue to undertake law enforcement campaigns through Operation *Shanela* to promote road safety.

Human Settlements

The Department of Human Settlements receives R3.585 billion, R3.776 billion and R4.011 billion over the 2015/16 MTEF. The main purpose of the department's budget allocation is for the provision of housing to various sectors of the population, including rural areas and informal settlements, with the bulk of the funding being provided *via* the Human Settlements Development conditional grant. In 2015/16, the department will continue with the provision of housing. This includes the following:

Social Rental Housing

- To achieve the delivery of 290 social housing units in 2015/16.
- To deliver 273 new community residential units and the refurbishment of 650 units within existing hostels.
- To appoint a multi-disciplinary professional team to conduct structural assessments at the East Street hostel.
- To seek the intervention of the National Director-General to fast track the approval of additional restructuring zones in six municipalities.

Rectification of pre-1994 housing stock – This programme is aimed at rectifying the housing stock constructed pre-1994. Project funding of R3.500 billion over the years for the rectification of 42 797 units has been approved by the department. Various projects in eThekwini, Newcastle and Umdoni are currently underway.

Informal settlements upgrade

Continued focus and roll-out of slums clearance projects is a provincial priority. Currently, 116 projects are at various stages of the housing delivery cycle. It is anticipated that these projects will provide alternative and permanent housing for 134 601 families living in slums in KZN.

The department will continue with the implementation of Cornubia Integrated Residential Project as the national priority “catalytic project” in 2015/16, which is expected to contribute towards achieving Outcome 8 targets and ensuring sustainable human settlements.

Economic Development, Tourism and Environmental Affairs

The Department of Economic Development, Tourism and Environmental Affairs receives R2.973 billion, R3.080 billion and R3.220 billion over the 2015/16 MTEF.

The bulk of the department’s budget allocation relates to transfers to public entities such as Dube TradePort Corporation, Ezemvelo KZN Wildlife, Ithala, KZN Tourism Authority, Trade and Investment KwaZulu-Natal, Richards Bay IDZ and the KZN Liquor Authority. With the 2015/16 budget, the department will continue to support SMMEs and co-operatives, the establishment of the Small Business Development Agency, and to implement projects including the Industrial Economic Hubs, the Aerotropolis, the KZN Consumer Protection Act, Invasive Alien Species programme, as well as restructuring the Maritime Cluster, and finalising the EIA for the Drakensberg Cable Car project. The department will continue to host various events such as *uMyezane* Awards, Metro FM Awards, uMthayi Marula Festival, among others.

Social Development

The Department of Social Development receives R2.630 billion, R2.768 billion and R2.906 billion over the 2015/16 MTEF. The main purpose of the department's budget allocation is to provide social work practitioners to provide care and support social welfare services to older persons, persons with disabilities, provide integrated community based care services to persons affected and infected by HIV and AIDS and to provide emergency relief to distressed individuals and households.

The budget also caters for the improvement of the quality of services provided to NGOs and to provide Home Community Based Care services. The department offers financial support to NGOs who provide social welfare services and has provided for a 6 per cent increase in tariffs for private welfare organisations. The main priority in infrastructure will be for the anticipated construction of service offices, state facilities, including Inanda service office, Osizweni service office and the Inkululeko Regeneration Elderly Day Care Centre. Various facilities will also be upgraded or refurbished over the MTEF.

Agriculture and Rural Development

The Department of Agriculture and Rural Development receives R2.203 billion, R2.291 billion and R2.409 billion over the 2015/16 MTEF. In 2015/16, the department will be implementing a fundamental change in the programmes it supports and the manner in which it carries out its mandate. This change is informed by both the NDP as well as the national Agricultural Policy Action Plan (APAP). These plans have directed government to focus on several key strategies, namely:

- Prioritising labour-intensive agricultural sub-sectors – e.g. vegetable production on irrigation schemes.
- Encouraging better use of under-utilised lands in communal areas for dry land production of grains such as maize, soya, beans, etc.
- Strengthening the use of research and climate smart agriculture e.g. drip irrigation, no-till planting.
- Aggressively redeveloping under-utilised land reform farms.

Public Works

The Department of Public Works receives R1.390 billion, R1.450 billion and R1.526 billion over the 2015/16 MTEF. The bulk of the department's budget allocation is for property rates payments and the implementation of the Government Immovable Asset Management Act (GIAMA). The budget also caters for various infrastructure projects such as the head office project, Richmond Community Development and National Youth Service programmes and the EPWP co-ordination function, as well as the improvement of infrastructure support to other departments.

Co-operative Governance and Traditional Affairs

The Department of Co-operative Governance and Traditional Affairs receives R1.368 billion, R1.437 billion and R1.509 billion over the MTEF. With the 2015/16 budget, the department will continue to support municipalities by providing capacity building programmes (such as councillor training, Operation Clean Audit, human resource management and development, etc.) to enable municipalities to implement various projects under the Massification, Corridor Development, Disaster Management and Small Town Rehabilitation programmes. These are the main programmes that the department assists municipalities with on an ongoing basis and, as such, the need to provide support and training to enable the municipalities to undertake the various projects (which include town formalisation and beautification, electrification, provision of water and sanitation, among others) in support of service delivery. The department will continue to construct and rehabilitate various houses for *Amakhosi,* Traditional Administrative Centres and Community Service Centres.

Arts and Culture

The Department of Arts and Culture receives R783.914 million, R819.399 million and R894.444 million over the 2015/16 MTEF. The bulk of the department's budget allocation is allocated for provincialisation of libraries, as well as the construction of a mega-library in eThekwini. In addition, the department will continue constructing libraries and providing library materials. In respect of arts and culture, the department will continue hosting its main events, which include the Reed Dance, Freedom Day, Africa Day, Youth Day, King Shaka Celebrations, and the First Fruit Ceremony.

Office of the Premier

The Office of the Premier receives R743.214 million, R746.934 million and R784.281 million over the 2015/16 MTEF. The department's core functions are to co-ordinate provincial policy and planning processes, provide provincial leadership and inter-departmental co-ordination, promote co-operative and good governance, provide transversal support services for human resource management, communications, information technology, legal and macro policy advisory services, as well as to promote a culture of human rights consciousness and gender sensitivity across the province. The bulk of the department's budget allocation is for cross-cutting and transversal activities, such as Operation *Sukuma Sakhe*, Luwamba Wellness Centre, Integrity Management, youth, the Provincial Public Service Training Academy, the Nerve Centre, support to His Majesty, the King as well as transfers to two entities, namely Amafa and the Royal Household Trust. The department's 2015/16 MTEF budget includes funds for capacitating the Integrity Management unit.

Provincial Treasury

Provincial Treasury receives R712.151 million, R707.768 million and R708.506 million over the 2015/16 MTEF. The bulk of the department's budget allocation in the 2015/16 MTEF is for financial management (for general oversight of all departments', municipalities' and public entities' budget processes and monitoring of spending trends), internal audit, supply chain management, and support for transversal and interlinked financial systems. In addition, the department is continuing to implement a number of special projects, such as infrastructure support of the Infrastructure Delivery Improvement Programme (IDIP) Transaction Advisors, Operation Pay-on-Time, Operation Clean Audit, irregular expenditure projects, Municipal Support Progamme, among others.

Provincial Legislature

Provincial Legislature receives R465.494 million, R480.352 million and R504.370 million over the 2015/16 MTEF. The bulk of the Legislature's budget relates to areas of law-making and oversight, as well as public participation. The Legislature will aim to improve its oversight over, among others, departments and entities during the year. Also, the Legislature will use 2015/16 to review its public involvement events in line with the need for fiscal consolidation, while at the same time focussing on examining whether the present public participation methods used by the Legislature are effective, efficient and meaningful. In addition, the Legislature will focus on areas that need to be reviewed and/ or changed to facilitate the roll-out of the new financial management arrangements of provincial legislatures.

Sport and Recreation

The Department of Sport and Recreation receives R454.389 million, R440.571 million and R463.512 million over the 2015/16 MTEF. Implementation of the school sport programme as the main mandate of the department will continue in 2015/16. The department will construct 11 outdoor gyms in prioritised wards. To promote transformation in sport talent optimisation, the department has entered into partnership with the Prime Human Institute. The department is targeting to construct nine basic sport and recreation facilities, 11 kick-about sport facilities and 37 combination courts.

Community Safety and Liaison

The Department of Community Safety and Liaison receives R187.069 million, R198.470 million and R200.285 million over the 2015/16 MTEF. The bulk of the department's budget allocation is for community safety initiatives, including the Volunteer Social Crime Prevention Programme, maintenance of Community Safety Forums and Community Policing Forums, crime awareness campaigns (victim empowerment, drug abuse, etc.), police station evaluations, Justice Crime Prevention Strategy, stock theft, cross border conflicts, taxi violence, among others.

CONCLUSION

In this province, we have done particularly well when it comes to the management of our spending. For the past four years, we have incurred less than a one per cent deviation in terms of actual versus budgeted spending. This is an excellent achievement!

The cost-cutting measures have stood us in good stead and have focussed our attention on core service delivery spending areas. The mind-set in our province has changed over the years since the Provincial Recovery Plan was first adopted in 2009/10, and the implementation of the cost-cutting measures by all provincial departments has become the norm in our approach to procurement.

It is this type of fiscal discipline that has helped us deal with the fiscal consolidation cuts without dramatically affecting our service delivery spending areas.

Having said this, I believe there is more we can do to ensure that our key strategic priorities are correctly funded.

In this regard, my colleagues in the Executive Council have already discussed that it is time to review our spending programmes more carefully. In view of the fiscal consolidation, all departments are directed to review their current programmes and projects with the view of stopping those that are not of strategic importance to the province. These funds will then either be surrendered to increase the Contingency Reserve or for re-allocation to other departments for strategically important programmes.

This will be our focus over the next few months with adjustments in this regard then being effected in the 2015/16 Adjustments Estimate.

This type of expenditure review cannot be done without careful thought and consideration of the implications of the decisions taken and, with the quantum of the fiscal consolidation cuts only being communicated to provinces in December 2014, there was insufficient time to undertake this analysis in time for the 2015/16 Main Budget. I give you my word, though, that this analysis will receive Provincial Treasury's whole-hearted attention over the next few months.

Our ability to deal with the fiscal consolidation cuts without missing a beat is because we continue to budget for a Contingency Reserve, have continued with cost-cutting and are not scared to make tough decisions in difficult times. Our resolute focus on ensuring that departments spend on budget has also contributed to our success story. In this regard, I want to thank our Premier, Mr Senzo Mchunu, and my Executive Council colleagues for their support and understanding. We had to take a number of really tough decisions in preparing the 2015/16 MTEF budget, and we did so collectively and unwaveringly.

We continued to ensure that our budget is aligned with the National Development Plan, as well as our Provincial Growth and Development Plan and Strategy, therefore ensuring that we fund both national and provincial priorities.

I would also like to extend my gratitude to Minister Nhlanhla Nene and National Treasury officials for their guidance and technical support in these difficult times.

The members of the Ministers' Committee on the Budget (MinComBud) have worked diligently alongside me in preparing this budget. We engaged in spirited discussions on many complex issues and this helped to shape the budget I am presenting today.

I also thank members of the Provincial Legislature and, in particular, the chair, Mr. S.C. Nkosi, and members of the Finance Portfolio Committee for their support.

I thank the Heads of Departments, Chief Financial Officers and all provincial government officials for the role that they have played in ensuring that we spend on budget.

To my Provincial Treasury team, you are the best:
Thank you HOD Magagula and those many dedicated officials who have worked incredibly long hours, under very tight deadlines to produce a top class budget and associated documentation – I am very proud of you!

I thank you