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2016/17

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2016/17 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 2016/17 MTEF Budget in the Provincial Legislature

10 March 2016

ECONOMIC REVIEW AND OUTLOOK AND THE FISCAL IMPLICATIONS

It is indeed an honour to present the budget of the Province of KwaZulu-Natal today, although I am doing so in difficult economic circumstances.

As indicated by the IMF, the national economic outlook for 2016 and 2017 is uncertain and likely to remain subdued at a projected 0.7 per cent and 1.8 per cent, respectively. At the beginning of February, Moody's Investors Service Rating Agency revised our country's economic growth rate further down to 0.5 per cent this year. Madam Speaker, the house must be reminded that all the revised projections are far below those last published in October and November last year.

The sectors that are severely affected and are showing negative growth in South Africa include agriculture, mining, electricity and water, and to a lesser extent manufacturing. The future of mining is of great concern – if this sector is impacted by the recession it would lead to a substantial jobs loss.

It must be re-emphasised that, inherently, lower economic growth implies among other things: lower tax revenue collection by government, increase in taxes, rising inflation and interest rates, lower real personal disposable income, pressure on consumer spending, currency depreciation, limited export demand, particularly for manufactured goods and fewer employment prospects.

The national economic outlook is further constrained by the continued depreciation of the Rand. The drop in the oil price is good for our consumers and the global and South African export trade. However, the deterioration of the Rand, at R15.45 to the US dollar in February, is undermining the potential benefits of low oil prices in South Africa.

Data from the South African Reserve Bank shows that the Rand has depreciated by close to 45 per cent against the US dollar between January 2015 and January this year. Speculation is rife that the Rand could fall by another 20 per cent against the US dollar, should South Africa's credit rating be cut to junk status. This situation needs to be avoided at all costs.

The ailing Rand is one of the contributing factors that prompted the South African Reserve Bank to raise the interest rate twice last year by 25 basis points and another

50 basis points in January this year. The upward trend in the interest rate is expected to persist over the remainder of the year.

South Africa's sluggish economic performance is further compounded by the worst drought experienced in the country over the past two decades, which is driving the price of food higher. This is already evident in the consumer inflation rate which is currently estimated at 6.2 per cent, slightly above the 3 to 6 per cent targeted band by the South African Reserve Bank.

Honourable Members, these economic challenges are not unique to our country. The global economic outlook also continues to remain subdued and performs lower than expectations. The IMF, however, expects the global economy to improve slightly to 3.4 per cent this year, marginally up from 3.1 per cent estimated last year.

The slight upward trend in the global economy is mainly due to the moderate recovery in advanced economies, partly in light of the effect of the US dollar appreciation and the impact on Japan of slowing trade in Asia. The US economy, in particular, is seeing healthy growth, better than its European counterparts. This is largely due to the more stringent measures the US took during the crash in the financial markets of 2008. The European Union makes up 12 per cent of the global gross domestic product, but it still has a problem with its banking sector, with greater room for improvement.

There is a decline in emerging market growth patterns. Commodity and oil producers are suffering due to the lack of demand. Some of South Africa's peers in the BRICS economic bloc are worse off. Russia and Brazil are forecast to be in a recession this year and will experience little to no growth next year. The Chinese growth forecast is extremely volatile. China's slowing economic growth has a direct impact on our commodity export values. This creates volatility in our currency and stock markets.

Business confidence is critical for future growth. Foreigners own more than 40 per cent of the Johannesburg Stock Exchange (JSE) and about a third of our government bonds. Nearly half of the top 40 JSE companies are majority owned by foreigners. The foreign credit rating for South Africa is lower than our domestic rating. If South Africa loses investment grade status with a drop in our credit rating, we stand to lose investors – both domestic and foreign, which would force South Africa to sell its assets.

The country's debt has doubled since 2008. We now need to pay back our borrowings, with a large debt redemption of R80 billion due this year. With large capital outflows, we will not be in a position to fund investment, which will impact on future economic growth.

As expected, the economic outlook in KwaZulu-Natal is also subdued. The growth rate in 2015 is estimated at 1.1 per cent. This moderate rate is, however, expected to slow down to 0.6 per cent in 2016 before accelerating marginally to 1.3 per cent in 2017. This therefore signals a steeper trajectory ahead in terms of addressing poverty, unemployment, inequality and other socio-economic challenges facing the province. As the Honourable National Minister of Finance, Mr Pravin Gordhan, mentioned in his speech, *“South Africa’s economic prospects are intertwined with global economic developments. A period of unprecedented monetary stimulus in response to the 2008 recession is not yet over, and global volatility and structural imbalances are far from resolved.”*

THE BUDGET CONTEXT AND FISCAL POLICY CONSIDERATIONS

National context

As a result of this economic outlook, there is no doubt that government has to act decisively to ensure the sustainability of our finances and government programmes. It is clear that increasing our borrowings to finance the gap between our expenditure and revenue must be rejected. Against the background of slow economic growth, rising debt and higher interest rates, the pace of fiscal consolidation is being accelerated. National Treasury has indicated that the budget deficit will be reduced to 2.4 per cent in 2018/19. As such, the expenditure ceiling of the country is cut by R25 billion over the next three years, mainly by curtailing personnel spending.

Added to this, is that the country has to undertake some reprioritisation to fund various priorities that have recently arisen, with examples being the 0 per cent increase in Higher Education fees, the payment that is due to the BRICS bank, among others. This reprioritisation exercise required National Treasury to look at all spheres of government in effecting budget cuts and this is referred to as Round 1 cuts. Also, as a result of the need to lower the country’s expenditure ceiling to fall in line with lower revenue projections, a second round of cuts is effected against the three spheres of government with this being referred to as Round 2 cuts. Important to note is that there were no “holy cows” in this reprioritisation and expenditure ceiling lowering exercise, and all three spheres of government, as well as both equitable share and conditional grant funding, was impacted by this.

The weaker than expected economic performance, rising debt costs and falling revenue projections, and the need to fund new national policy priorities while restoring fiscal sustainability, necessitated reconsideration of the allocations across all three spheres of government.

In effecting these cuts, National Cabinet agreed to the following areas of expenditure reduction with this list being further expanded by Budget Council, as follows:

1. Combating wasteful and inefficient spending.
2. A decrease in the cost of *Compensation of employees.*
3. Closing down under-performing programmes that are not delivering the desired outcomes.

4. A general 'haircut' across all departments and activities, including events.
5. No new programmes, and a slowdown on the rate of growth on existing programmes. This item would include sponsorships made and events held.
6. A rescheduling or postponement on capital spending.
7. Decreasing the transfers to Development Finance Institutions.
8. Rationalisation and possible closure of non-regulatory entities.

Honourable Members will recall that Minister Gordhan also spoke about these measures in his budget speech.

It was also directed that large service delivery departments are expected to embark on a headcount decrease, particularly in administrative services. There is a need to limit new appointments in 2016. In line with this, when the second round of budgets cuts were communicated to provinces, a Joint Action Plan was devised and a directive was issued by National Treasury which included the following:

- A freeze on the appointment of non-OSD personnel (while ensuring that critical posts are not impacted on by this decision).
- Containment of administrative personnel expenditure while protecting Education and Health service delivery staff.
- A review of public entities to be undertaken, with particular focus on Development Finance Institutions. As His Excellency the President of SA, Mr Jacob Zuma, indicated, and as reiterated by Minister Gordhan, entities that are no longer necessary should be phased out. Also, where entities have over-lapping mandates, rationalisation options must be pursued. Public entities are seen as far too expensive, with bloated Boards, and exorbitant allowances and salaries paid to Board Members and their senior management.
- Improved revenue collection.
- Rationalisation and closure of redundant and under-performing programmes.
- Intensification of cost-cutting measures.
- Cutting the budgets of the provincial Offices of the Premier, as well as the Departments of Economic Development, Tourism and Environmental Affairs and the Legislatures.

National Cabinet authorised two rounds of cuts with different conceptual rationales behind each round of reductions. Round 1 of the cuts is envisioned to target inefficiencies in the system, especially on non-core spending, while trying as far as possible to protect frontline services. Round 2 of the cuts is envisioned as a starting point for government in its efforts to address the unsustainable government wage bill, and debt service costs.

As the provincial equitable share formula is the budgetary allocation tool used to divide revenue among provinces, this same formula is used to distribute both the first and second round cuts to the provincial equitable share baselines.

Ultimately, provinces are expected to implement their baseline reductions, while at the same time protecting social services. In particular, it was acknowledged that Health budgets are inadequate, and that provinces should prioritise an additional budgetary allocation to Health to counter the pressures arising from the costs of medicines, laboratory services and medical supplies. The steep decline of the Rand against the US dollar has a direct impact on all of these essential services.

This year's budget does not lose its focus of fiscal consolidation. The country cannot spend money that we do not have. As Minister Gordhan said *"Until we ignite growth and generate more revenue, we have to be tough on ourselves."*

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

Provincial context

KwaZulu-Natal has 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. As such, the cuts being implemented on KwaZulu-Natal are extremely painful indeed and require us to do things differently.

There is no doubt that we, KwaZulu-Natal, have led in the implementation of the cost-cutting measures which were first introduced in the province in 2009/10. These cost-cutting measures stay in place as we continue to focus our energies on realising efficiency savings to be channelled toward service delivery spending.

To fully understand the provincial fiscal framework, all the changes made to our framework need to be understood and these are contained in Table 1.

Table 1 : Total funding requirement

R thousand	2016/17	2017/18	2018/19
1. ES and OR updates	(654 413)	1 732 211	2 247 515
2. Round 1 and 2 cuts	(319 107)	(1 231 825)	(1 611 422)
3. Total ES impact	**(973 520)**	**500 386**	**636 093**
4. Vote 7 - NHLS shortfall	(310 495)	(329 124)	(348 872)
5. Vote 7 - Exchange rate pressures	(785 696)	(1 640 311)	(1 648 372)
6. Vote 7 - Hospital linen	(80 000)	-	-
7. Drought relief - Agric and COGTA	(200 000)	-	-
8. Total provincial priorities requiring funding	**(1 376 191)**	**(1 969 435)**	**(1 997 244)**
9. Total funding requirement over the 2016/17 MTEF	**(2 349 711)**	**(1 469 049)**	**(1 361 151)**

Line 1 of Table 1 shows that the province was once again impacted on by the data updates of the equitable share formula, Own Revenue downward revisions, as well as funds provided by National Treasury towards the carry-through costs of the above-budget 2015 wage agreement. Line 2 shows the Round 1 and Round 2 cuts implemented against the province's equitable share, with KwaZulu-Natal losing R319.107 million in the first year of the MTEF, followed by R1.232 billion in 2017/18 and R1.611 billion in 2018/19.

As mentioned, provinces have to protect the Health departments' baselines as a result of the exchange rate pressures in procuring medicines, medical supplies and medical equipment, which are largely procured from abroad and are, therefore, severely negatively impacted by the weakening Rand. The province is also obligated to pay the National Health Laboratory Services (NHLS) at the higher fee-for-service rate as opposed to the flat-fee rate that the province has been paying. These amounts are shown in Lines 4 and 5 of Table 1.

In addition, the province had a difficult task of looking at all provincial priorities submitted by the various departments and public entities during the budget process and realising that, due to affordability, funds could only be allocated to procuring new hospital linen in 2016/17, as well as making provision for drought relief in 2016/17, and this is shown in Lines 6 and 7 in the table.

If all these reductions and allocations are summed up, the provincial fiscus needs to find R2.350 billion, R1.469 billion and R1.361 billion from within its baseline to be able to deal with these matters.

It is important to put the amount allocated and detailed in Lines 4 - 7 into context. In aggregate, provincial departments and public entities had requested additional funding of R3.895 billion, R4.195 billion and R3.903 billion over the 2016/17 MTEF. None of these requests, except for those shown in Table 1, could be accommodated.

It was therefore necessary to look at areas where budgets could be cut to fund the shortfall shown in Table 1. Following a directive from the Presidency and National Treasury, the provincial Executive Council agreed to the following:

- Carrying forward to 2016/17 the amount that was left unallocated in the province's Net Financial Position when the 2015/16 Adjustments Estimate was tabled (this includes the Contingency Reserve of R750 million from that year).
- Combating wasteful and inefficient spending through the continued implementation of the cost-cutting measures.
- Freezing all non-OSD posts that were vacant on the PERSAL system as at 31 January 2016 (excluding Education and Health). It was agreed, though, that departments may be given the flexibility to fill critical vacant posts as long as they remain within their reduced baseline.
- Cutting the events budgets of departments and public entities, with only direct service delivery events permitted to be budgeted for over the MTEF. This would include curtailing sponsorships and new programmes.

- A general budget cut against the Office of the Premier, including cutting the funds that had previously been provided for the construction of a new Training Academy in Durban. A general budget cut against the Department of Economic Development, Tourism and Environmental Affairs.
- A 2 per cent budget cut against all equitable share-funded *Goods and services* budgets (excluding Education and Health).

In addition, the headcount in Education is being finalised and any savings from this will remain within the baseline of the Department of Education to be directed towards service delivery spending.

Cabinet agreed that departments be permitted to choose which economic classifications they want to effect their baseline cuts against, but bearing in mind that the drive by national is for a reduction in government's spending on *Compensation of employees*, while also protecting the province's *Capital* budget as far as possible.

The implications of these cuts are summarised in Table 2 below.

Table 2 : Total amount identified to be cut to fund items listed in Table 1

R thousand	2016/17	2017/18	2018/19
1. Surplus from 2015/16 Net Financial Position	857 913	-	-
2. Funds held from 15/16 NFP to assist with 2015 wage agreement carry-through	70 065	-	-
3. Reduction in budget of DEDTEA - general reduction	403 617	394 968	404 347
4. Personnel - reduction in budgets	811 499	866 680	925 616
5. Savings from hosting fewer events - departments	80 922	80 922	80 922
6. Reduction in budget of OTP - general reduction (including Training Academy)	32 388	29 473	28 322
7. 2% reduction in non-CG Goods & services budgets	93 307	97 006	99 759
8. Technical adjustment to the outer year	-	-	(177 815)
Total amount cut to fund items listed in Table 1	**2 349 711**	**1 469 049**	**1 361 151**

Line 1 of Table 2 shows that R857.913 million was left unallocated when the Net Financial Position, which formed the basis of the 2015/16 Adjustments Estimate, was tabled in the Legislature in November 2015. This amount includes the R750 million Contingency Reserve from 2015/16. Similarly, R70.065 million was set aside at the time to assist the province with the carry-through costs of the above-budget 2015 wage agreement.

Lines 3 shows the baseline cut effected against the Department of Economic Development, Tourism and Environmental Affairs and includes cuts effected against their personnel budget, as well as transfers to their entities.

Line 4 shows the amounts being cut from all departments, with regard to a calculation done by Provincial Treasury of the budgets associated with vacant posts on PERSAL. Where there are exceptions, departments will have to submit such motivation to the Premier and the MEC for Finance but will have to fund such posts from within their reduced baselines.

Line 5 shows the amounts being cut from departments as a result of the directive from National Treasury that expenditure on events be cut, with the basis of these cuts being input received from the departments on what they were planning to spend on events and sponsorships in 2016/17. It should be mentioned, though, that service delivery events may continue to be budgeted for. Examples of service delivery events are drought awareness events, as well as the *Arrive Alive* events which are hosted in the province.

Line 6 shows the general reduction in the Office of the Premier's budget. This amount includes removing the budget for the construction of a new Training Academy, in line with the directive from national on the rescheduling or postponing capital projects.

Line 7 shows the aggregate amounts being reduced from the departments' equitable share-funded *Goods and services* budgets, while Line 8 shows a technical adjustment to the outer year of the MTEF.

It must be noted that Provincial Legislatures were specifically identified by the Honourable National Minister of Finance for the same severe budget cuts to be implemented as in provincial departments. The KZN Provincial Treasury put forward a strong argument for the budget of Legislatures to be top sliced from provinces' equitable share allocations and elevated to National Treasury, in order to relieve pressure from the equitable share. Should this proposal not be accepted, the Legislature will need to effect these cuts in the 2016/17 Adjustments Budget. I will be convening an urgent meeting with the Honourable Speaker to discuss this matter, because these cuts must be realised in the 2016/17 financial year.

FUNDING FOR SOME PROVINCIAL PRIORITIES

Table 3 is included as a reminder of various provincial priorities that were allocated additional funding when the 2015/16 Adjustments Estimate was tabled, but with the understanding that these would receive additional funds over the 2016/17 MTEF.

Table 3: Provincial priorities funded from 2015/16 Net Financial Position

Line	Department	Provincial Priority	2016/17	2017/18	2018/19
R thousand					
1.	Office of the Premier	Poverty Eradication Master Plan operations centre	11 775	12 218	12 919
2.	EDTEA	EKZNW - Rhino anti-poaching	9 240	9 240	9 240
3.	Provincial Legislature	Zero-base budget baseline adjustment	30 536	32 063	32 923
4.	Provincial Legislature	Commonwealth Parliamentary Association Conf. and lift	5 500	-	-
5.	Education	Water and sanitation	100 000	50 000	-
6.	Provincial Treasury	BAS scanners	12 000	-	-
7	Provincial Treasury	IALCH floor repairs	3 000	-	-
8.	Comm Safety & Liaison	LG election monitoring	5 000	-	-
9.	Social Development	6% increase in NGOs	46 410	49 102	-
10.	Social Development	Inkululeko Elderly Day Care Centre	2 523	1 000	-
Funded from 2015/16 Net Financial Position			**225 984**	**153 623**	**55 082**

Line 1 shows that Vote 1: Office of the Premier receives funds for the establishment of an operations centre for the Poverty Eradication Master Plan. The funds are allocated for the duration of the contract posts created with R11.775 million in 2016/17, R12.218 million in 2017/18 and R12.919 million in 2018/19.

Line 2 shows that Vote 4: Economic Development, Tourism and Environmental Affairs receives R27.720 million over three years (i.e. R9.240 million in 2016/17, R9.240 million in 2017/18 and R9.240 million in 2018/19) for transfer to Ezemvelo KZN Wildlife for its Rhino anti-poaching efforts. These funds are specifically and exclusively appropriated to ensure that EKZNW does not use these funds for any other purpose.

Line 3 shows that Vote 2: Provincial Legislature receives R95.522 million over three years (i.e. R30.536 million, R32.063 million and R32.923 million in 2016/17, 2017/18 and 2018/19, respectively) for the Zero-based budget adjustment. In terms of the Financial Management of Parliament Act, which is applicable from 1 April 2015, the Legislature is no longer required to submit additional funding requests to Provincial Treasury via the MTEC process as provincial departments and public entities do. Instead, the KZN Legislature's additional funding requirements should be determined following a meeting between the Speaker and the MEC for Finance. In view of this, and in line with Resolution 4/2015 taken by the Standing Committee on Oversight (STACOV), the KZN Legislature prepared a zero-based budget exercise to highlight additional funding requirements. In addition to these additional amounts, the Legislature has an over-provision of some R8 million against their Statutory allocation and this is also diverted towards the Legislature's operational budget in each year of the MTEF.

Line 4 shows that Vote 2: Provincial Legislature receives a once-off amount of R5.500 million for allocation in 2016/17. This relates to the province hosting the Commonwealth Parliamentary Association Conference in the province in 2016/17 which requires funding of R4 million, as well as the replacement of a lift in the Legislature building for an amount of R1.500 million.

Line 5 shows that Vote 5: Education receives R150 million, allocated in 2016/17 (R100 million) and 2017/18 (R50 million) for sanitation at schools. There is currently a backlog of schools that do not have adequate toilet facilities and schools that require water supply in the province.

Line 6 shows that Vote 6: Provincial Treasury receives R12 million in 2016/17 for purchasing biometric scanners for all provincial departments. These scanners serve as an additional layer of security for the BAS accounting system and the PERSAL payroll system, as an audit revealed specific security weaknesses in the system. Line 7 shows that Provincial Treasury also receives R3 million in 2016/17 for Inkosi Albert Luthuli Central Hospital (IALCH) to finalise the floor repairs. This amount is allocated to Treasury in view of the fact that this is a PPP project and the PPP unit has therefore been closely involved with the floor repairs.

Line 8 shows that Vote 9: Community Safety and Liaison receives R5 million in 2016/17 for local government election monitoring. These funds will enhance the department's oversight by deploying departmental officials as monitors who can assess any external factors (outside the voting stations) that may hinder the peacefulness and fairness of the elections. The monitors have a responsibility to alert the SAPS should any trouble arise. The funds also provide for deploying lawyers inside the voting stations to offer legal advice to any member of the public inside the voting stations guided by the Electoral Act.

Line 9 shows that Vote 13: Social Development receives R46.410 million in 2016/17 and R49.102 million in 2017/18 to provide for a 6 per cent increase in transfers to NGOs with this increase first provided for in the 2015/16 Adjustments Estimate. It appears that the department had introduced new transfers in 2013/14 to NGOs without providing sufficient budget in their baseline to ensure the continued inflationary growth in transfers to their existing NGOs. While provision is made for this 6 per cent increase from 2015/16 to 2017/18, the department will have to put processes in place to ensure that they are in a position to carry these increases through beyond 2017/18.

Line 10 shows that Vote 13: Social Development receives additional funds in 2016/17 and 2017/18 for capital developments relating to the Inkululeko Programme. These funds provide for the development of an Elderly Day Care Centre. It is worth mentioning that KZN will spend R84.057 million in aggregate on this programme in 2016/17 with this increasing to R582.700 million in the outer year. This programme aims at revitalising the Cwaka area in Msinga and includes the construction of a school, a sports field, upgrading the road infrastructure, among others and is a collaborative project undertaken by various departments.

Provincial Reprioritisation

As I mentioned earlier, part of the provincial reprioritisation exercise undertaken over the 2016/17 MTEF was to fund the pressures in Health as well as to fund drought relief in the province in 2016/17.

Allocation to Health

As mentioned, the allocation to Health is for NHLS, exchange rate pressures and for the procurement of hospital linen. Regarding the **NHLS pressures**, the department receives additional funding to address the funding gap resulting from the move to the fee-for-service payment mechanism. To further address the gap, the department will review and implement gate-keeping processes to reduce costs. Funding allocated for **pressures related to the weakening exchange rate affecting imported medicines, medical equipment and supplies** totals R785.696 million, R1.640 billion and R1.648 billion over the MTEF. This cost was calculated at R1.875 billion in 2016/17, growing to R2.122 billion in 2018/19. The Department of Health, together with Provincial Treasury, will undertake a headcount exercise in 2016/17 and any savings realised will then be redirected to mitigate the pressure that remains after the additional funding is added. The department's spending pressures will also be monitored in-year with respect to the medical exchange rate for a possible further allocation to be made in the 2016/17 Adjustments Estimate if the exchange rate does not improve sufficiently.

With regard to the hospital linen, the department had requested additional funding of R162.549 million for the procurement of hospital linen and patient clothing for the various hospitals to ensure that there is clean linen available at all times, to reduce the pressure on the laundry services and to reduce the amount of hospital linen that is outsourced for cleaning during laundry machine breakdowns. In this regard, R80 million was allocated in line with affordability.

Allocation for Drought Relief

As mentioned, R200 million is allocated in 2016/17 for various drought relief efforts in the province. This is in addition to the R114 million that was reprioritised during the 2015/16 Adjustments Estimate by the Department of Agriculture and Rural Development for drought relief, as well as the R33 million allocated to the Department of Co-operative Governance and Traditional Affairs in respect of water provision for the Umkhanyakude District Municipality.

Of the R200 million allocated in 2016/17, R150 million is allocated to the Department of Co-operative Governance and Traditional Affairs and provides for:

- The drilling and equipping of 100 boreholes across the province;
- The procurement and installation of mobile packaged plants to support critical areas for each of the 14 Water Service Authorities;
- The procurement of water tankers to support firefighting in the province;
- The procurement and installation of raw water mass storage facilities to augment the water source for each of the 14 Water Service Authorities.

The balance of R50 million is allocated to the Department of Agriculture and Rural Development and provides for the scooping of dams, as well as procuring winter fodder in areas which have insufficient grazing due to the drought.

PROVINCIAL FISCAL FRAMEWORK FOR 2016/17

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 cuts implemented by National Treasury, while also taking into account the funds National Treasury provided towards the carry-through costs of the above-budget 2015 wage agreement. This allocation was off-set by the Round 1 and 2 budget cuts, though.

As already mentioned, the province has made an aggregate downward revision to its provincial own revenue allocations, with the main contributor to this reduction being Provincial Treasury. This relates to lower revenue anticipated to be collected against *Casino and Horse racing taxes* due to the decline in disposable income leading to subdued gaming activity. Table 4 shows the fiscal framework for the 2016/17 MTEF.

Table 4 : Summary of provincial fiscal framework

R thousand	2016/17	2017/18	2018/19
1. Receipts			
Baseline Allocation	**107 458 878**	**113 489 883**	**118 756 899**
Transfer receipts from national	104 269 522	110 147 510	115 220 668
Equitable share	*86 885 446*	*91 429 978*	*96 503 136*
Conditional grants	*17 384 076*	*18 717 532*	*18 717 532*
Provincial own receipts	3 189 356	3 342 373	3 536 231
Increase / (Decrease) in allocation	**959 623**	**2 777 456**	**4 647 233**
Transfer receipts from national	1 117 211	2 936 257	4 845 025
Equitable share	*1 012 134*	*2 621 240*	*2 946 446*
Conditional grants	*105 077*	*315 017*	*1 898 579*
Provincial own receipts	(157 588)	(158 801)	(197 792)
Revised allocation	**109 756 041**	**116 464 462**	**123 459 214**
Transfer receipts from national	105 386 733	113 083 767	120 065 693
Equitable share (after update of formula data & fiscal consolidation cuts)	*87 897 580*	*94 051 218*	*99 449 582*
Conditional grants	*17 489 153*	*19 032 549*	*20 616 111*
Provincial own receipts	3 031 768	3 183 572	3 338 439
Provincial cash resources	1 337 540	197 123	55 082
2. Planned spending by departments	**109 006 041**	**115 714 462**	**122 709 214**
3. Contingency Reserve	**750 000**	**750 000**	**750 000**

KwaZulu-Natal's total budget allocation from National Treasury is R105.387 billion in 2016/17, R113.084 billion in 2017/18 and R120.066 billion in 2018/19. When we add our provincial own revenue and provincial cash resources to this, the total allocation over the MTEF is R109.756 billion, R116.464 billion and R123.459 billion.

Line 2 shows that the provincial departments are planning on spending R109.006 billion, R115.714 billion and R122.709 billion over the MTEF. Line 3 shows that the province continues to budget for a Contingency Reserve of R750 million per annum over the MTEF.

The Contingency Reserve is being kept for a number of reasons, but mainly to protect the province against the impact of unforeseen expenditure pressures when they arise. In view of the fact that the current wage agreement is a 3-year agreement with the wage increments being linked to inflation plus 1 per cent, some pressures may arise in this spending area as inflation has increased since the agreement was signed.

CONDITIONAL GRANTS

The commitment made to maintain the expenditure ceiling requires that the conditional grant allocations in aggregate for all 9 provinces be cut by R2.100 billion in 2016/17, R649 million in 2017/18 and R809 million in 2018/19. These cuts are not proportionately applied across all grants, though, as the reductions are effected in a manner that attempts to protect essential service delivery programmes. As such, as far as possible, grants that address key social service delivery have been protected, with the baselines of the National School Nutrition Programme (NSNP) grant and the EPWP grants being left unchanged when compared with the 2015/16 MTEF baseline.

At a high level, the province's conditional grant allocation, when comparing the 2015/16 MTEF baseline with the 2016/17 MTEF allocation, increases by R105.077 million in 2016/17, R315.017 million in 2017/18 and R1.899 billion in 2018/19. While the aggregate position shows an increase, some grants see a reduction in their allocations.

Contributing significantly to the growth in 2018/19 is a significant increase in the Comprehensive HIV, AIDS and TB grant, as well as the Human Settlements Development grant. The following amendments are made to the conditional grant allocation:

- The province receives R104.066 million in 2016/17 for the **EPWP Integrated Grant for Provinces,** with this grant being for the creation of EPWP job opportunities. This is an incentive-based grant and allocations are therefore based on past performance. This grant is allocated to various departments in line with the schedules to the Division of Revenue Bill, 2016.
- Similarly, the province receives R61.553 million for the **Social Sector EPWP Incentive Grant for Provinces**. This grant is allocated to Education, Health, Community Safety and Liaison, Social Development, as well as Sport and Recreation in line with the schedules to the Division of Revenue Bill, 2016. This grant is used to expand and/or top up the stipends paid to the cooks involved in the NSNP programme, to subsidise home community-based care-givers, stipends for volunteers used in the Volunteer Social Crime Prevention Programme, subsidising of stipends for Community Care Givers (CCGs), as well as the employment of volunteers related to sport programmes.
- The **Comprehensive Agriculture Support Programme** (CASP) grant reduces by R8.189 million and R10.111 million in 2016/17 and 2017/18, respectively while increasing by R3.649 million in 2018/19. The allocation letter from National Treasury indicates that the reduction is as a result of an Agriculture Task Team which was sanctioned by the Technical Committee for Finance (TCF) and Budget Council, where relevant provincial and national stakeholders met and a resolution was taken to top-slice the CASP grant for the Department of Forestry and Fisheries to be able to provide an oversight and monitoring function on the grant in order to realise the outcomes envisioned in the National Development Plan and the Agricultural Policy Action Plan. The allocation letter goes on to say that the management and operation of this grant must change to ensure better performance and the grant is therefore also cut as a result of this. The allocation letter also states that this grant is converted from a Schedule 4 (supplements provincial funding) grant to a Schedule 5 (specific purpose) grant and that a portion of this grant is ring-fenced for training and retention of extension officers.

- The **Land Care grant** sees a reduction of R525 000 in 2016/17 and R482 000 in 2017/18, while increasing by R204 000 in 2018/19.
- The **Education Infrastructure grant** initially showed an increase of R133.309 million in 2016/17 according to the first allocation letter received from National Treasury and this related to the fact that this grant has become an incentive-based grant. Departments needed to obtain a minimum score of 60 per cent to qualify for an additional incentive allocation. A total of 6 focus areas were assessed and these are HR capacitation, End-of-year evaluation, User Asset Management Plan (U-AMP), Infrastructure Programme Management Plan (IPMP), Construction Procurement Strategy Project proposals and concept reports. The Department of Education attained a final score of 64 per cent and therefore received an incentive allocation of R133.309 million. Since then, though, this grant is reduced over the 2016/17 MTEF in line with lowering the expenditure ceiling. This means that this grant increases by R100.673 million (and not the R133.309 million mentioned above) in 2016/17, while declining in 2017/18 by R106.550 million and by R1.643 million in 2018/19.
- Similarly, the **Health Facility Revitalisation grant** is also an incentive grant similar to the **Education Infrastructure grant.** As such, the department needed to obtain a minimum score of 60 per cent to qualify for an additional incentive allocation with the same 6 focus areas being assessed. Health attained a final score of 67 per cent and therefore received an incentive allocation of R109.454 million as per the first allocation letter received from National Treasury. Since then, though, this grant is impacted by budget cuts and the allocation in the first year, therefore, only increases by R67.172 million (as opposed to the R109.454 million initially communicated by National Treasury). The grant declines by R3.988 million in 2017/18 while showing inflationary-related growth in 2018/19 of R53.809 million.
- The **National Health Insurance grant** sees a minor reduction of R3 000 in 2016/17 while being removed from the province's baseline from 2017/18 onward. This grant stops being a direct grant to provinces as the effectiveness of this grant in preparing for the roll-out of NHI has been quite opaque in provinces. The grant is therefore moved to the national Department of Health for a more targeted approach.
- The **HPV Vaccine grant**, which was scheduled to end in 2015/16, continues as an indirect grant for the first two years of the 2016/17 MTEF before changing to a direct grant in 2018/19. These funds are shifted from Health's equitable share allocation, with R44.976 million added to the province in 2018/19.
- With regard to the **Comprehensive HIV and AIDS grant**, this grant's focus is extended to now include TB. As such, the name of the grant is amended to take this into account (**Comprehensive HIV, AIDS and TB grant**) and a sizeable additional allocation is received, particularly in the outer year where R714.127 million is added to the baseline of this grant. The increase in the baseline is for the continued

expansion of the Antiretroviral Treatment Programme, HIV prevention and to cater for TB screening and treatment (in the outer years). This grant is affected by budget cuts, though, with a decrease of R48.853 million in 2016/17.

- The **Human Settlements Development grant** sees a reduction of R290.255 million in 2016/17, while increasing by R211.122 million in 2017/18 and R460.118 million in 2018/19.
- The **Provincial Roads Maintenance grant** increases over the 2016/17 MTEF. These funds move to the incentive portion of the grant to reward provinces that make efficient investments in road asset management information databases. For 2016/17, provinces and the Department of Transport will be tasked with collecting data that is needed to inform an efficiency indicator which will be used from 2017/18 as a tool to encourage provinces to make efficient investments. The grant increases by R74.213 million, R55.241 million and R173.516 million over the 2016/17 MTEF.
- Funds are also added to the **Public Transport Operations grant** over the 2016/17 MTEF, with R46.804 million being added in 2016/17, R46.805 million in 2017/18 and R96.872 million in 2018/19.
- The Department of Social Development receives funding for a new grant, namely the **Early Childhood Development grant,** with this funding stream commencing in 2017/18. In line with this, R92.380 million is allocated in 2017/18 increasing to R144.948 million in 2018/19.
- The **Community Library Services grant** is reduced in 2016/17 and 2017/18 by R1.111 million and R1.333 million, respectively, while showing inflationary growth of R8.585 million in the outer year.
- The remaining grants show inflationary growth only in the outer year and these include the Ilima/Letsema Projects grant, HIV and AIDS (Life-skills Education) grant, the NSNP grant, the Maths, Science and Technology grant, the Health Professions Training and Development grant and the National Tertiary Services grant.

COST-CUTTING

There is no doubt that, with the lower economic growth prospects and the impact this has on our provincial equitable share, there are tough times ahead. We have weathered many storms as a province, and we will weather this one too.

As a result, the cost-cutting measures which were first implemented in this province in 2009/10 remain in place. Provincial Treasury will re-issue these to all departments and public entities as we have done for the past few years as a reminder to focus our resources on service delivery spending. The provincial cost-cutting measures and those issued by National Treasury must therefore continue to be adhered to over the 2016/17 MTEF.

This is especially crucial this year due to the budget cuts and the provincial reprioritisation we have had to undertake to protect the baseline of the Department of Health. It is imperative that we continue to combat wasteful and inefficient spending.

I will not repeat the cost-cutting measures in this speech as they remain largely unchanged from the previous year. The full list is contained in Chapter 2 of the *Estimates of Provincial Revenue and Expenditure* which I am tabling today.

INFRASTRUCTURE

According to the African Development Bank: *"Investments in modern infrastructure lay the foundations for economic development and growth. Building roads, bridges, power transmission lines and making other improvements create jobs. When completed, these projects help a society increase its wealth and its citizens' standard of living. Nations that invest in infrastructure are better positioned to attract direct foreign investment, stimulate commerce and support local businesses. Their citizens are more likely to enjoy better health care, sanitation and other markings of well-being."* It is precisely for this reason that departments were urged to not effect the cuts implemented against their budgets against their infrastructure allocations, as far as possible.

Some infrastructure projects planned for the 2016/17 MTEF

The province is budgeting to spend R11.978 billion in 2016/17, R12.188 billion in 2017/18 and R12.820 billion in 2018/19 on various infrastructure projects. 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 R14.719 billion in 2016/17, R15.653 billion in 2017/18 and R16.542 billion in 2018/19**. This is a considerable injection of funds into the economy and acts as a major stimulus to growth and development. To augment funding for social infrastructure, Provincial Treasury is exploring various funding sources from stakeholders. This is in recognition of the fact that the fiscus cannot on its own fund all the required social infrastructure.

Key infrastructure projects over the 2016/17 MTEF include:

Transport

The **Department of Transport will spend R21.333 billion** over the 2016/17 MTEF on numerous infrastructure projects.

The bulk of the department's budget allocation is for the construction of roads, and the maintenance of the provincial road network. In 2016/17, the department will continue with construction and maintenance projects which include:

- Main road P112 is located in the Umzimkulu Local Municipality and serves various communities by providing access to various primary and high schools, as well as a clinic. This project entails the upgrade of 14.25 kilometres from gravel to blacktop standards and will be completed in 2018/19.
- D1240 is a gravel road which traverses mountainous terrain through a densely settled area. It is located in the uMtshezi Local Municipality. The road provides access to the community of Mahendeni with a link to Estcourt and the N3, as well as Mooi River providing access to various primary schools and a clinic. The project includes the construction of a low level bridge. Construction will commence in 2016/17.
- Main road P263 is located from Matiwane to Lucitania. It falls in the community of Matiwane, within the Emnambithi/Ladysmith Local Municipality. The road provides access to various schools, a clinic, and the local pension paypoint. The section of the road to be upgraded is 26 kilometres long and includes the construction of five major structures. Construction is currently in progress and is anticipated for completion in 2019/20.
- Tugela Ferry is a town located on the R33 between Greytown and Dundee, in the heart of the Msinga Local Municipality. In order to enhance community access and improve the safety of people and livestock crossing the Uthukela river, the Department of Rural Development and Land Reform in conjunction with Transport and community leaders have embarked on an initiative to construct a new vehicle and pedestrian bridge, as well as a link road to benefit the communities. The new bridge will span 150 metres and will allow vehicles, pedestrians and livestock to safely traverse the river. Construction on this project, which includes the construction of a link road, commenced in 2015/16 and is scheduled for completion in 2017/18.

Health

The **Department of Health's infrastructure budget over the 2016/17 MTEF is R5.184 billion.** The department will use this allocation for various projects, for example:

- Pixley ka Seme Hospital: R505 million – Continue to construct new 500 bed regional hospital.
- Essential Health technology equipment: R154 million.
- Ngwelezane Hospital: R85 million – continue to construct new 192-bed medical wards and a new crisis centre.
- Hlabisa Hospital: R40 million – continue to upgrade pharmacy and out-patients centre.

Education

The **Department of Education is budgeting to spend R6.767 billion** over the 2016/17 MTEF. The following are some of the infrastructure projects that will be undertaken:

- The department will undertake a project at uMsinga local municipality in Umzinyathi district under Inkululeko Development Phase 2. This is a replacement school with boarding facilities and is currently at planning stage.
- The La Mercy Maths Academy is a new school proposed for the MTEF in the eThekwini Metro, which is at tender stage.
- Cosmo Primary School is a new school to be built over the MTEF in the uMngeni municipality and is at construction stage.
- Welabasha High School is a new school proposed for the MTEF in the Mfolozi municipality and is at construction stage.
- Ndumo New Model High School is a new school in the Jozini municipality and is already in progress and will be finalised early in 2016/17.
- As previously mentioned, the department has been allocated R150 million in the first two years of the MTEF for various water and sanitation projects. This will address the backlog of 453 schools in respect of the improvement of water and sanitation infrastructure, such as the Ventilated Improved Pit technology which responds to the minimum norms and standards. The department will be engaged in a large scale rehabilitation programme of all pit latrine toilets and septic tanks in a desludging programme for various districts.

OVERVIEW PER VOTE FOR THE 2016/17 MTEF

The next few paragraphs indicate the amounts budgeted per department over the 2016/17 MTEF and provide a broad overview of what these funds will buy. Departments appear in order of the size of their budget.

Table 5 provides information on departmental spending and budgets over the period 2012/13 – 2018/19, and shows the budget per department after taking into account the budget cuts effected against the departments' baselines.

Table 5 : Summary of provincial payments and estimates by vote

R thousand	Audited Outcome			Main Appropriation	Adjusted Appropriation	Revised Estimate	Medium-term Estimates		
	2012/13	2013/14	2014/15	2015/16			2016/17	2017/18	2018/19
1. Office of the Premier	697 795	721 074	722 239	743 214	737 794	737 794	658 644	697 499	742 904
2. Provincial Legislature	431 718	460 929	476 027	465 494	479 262	479 262	518 652	538 851	569 128
3. Agriculture and Rural Development	2 109 591	2 005 528	2 003 044	2 203 074	2 292 480	2 292 480	2 170 644	2 224 422	2 353 838
4. Economic Development, Tourism and Enviro Affairs	2 421 869	3 311 354	2 955 803	2 973 459	2 997 119	2 997 119	2 702 992	2 844 613	3 022 744
5. Education	34 556 731	37 156 042	39 146 083	42 142 355	43 162 870	43 162 870	45 464 373	47 528 559	50 249 078
6. Provincial Treasury	557 733	623 448	673 962	712 151	717 869	663 853	675 280	659 029	688 508
7. Health	27 390 533	29 531 410	31 245 510	32 981 786	33 969 992	34 314 275	36 578 637	39 541 537	42 183 873
8. Human Settlements	3 377 771	3 617 002	3 873 178	3 584 685	3 822 970	3 822 970	3 485 112	4 205 672	4 475 736
9. Community Safety and Liaison	135 892	171 922	179 239	187 069	191 045	191 045	210 123	195 948	207 297
10. Sport and Recreation	367 751	414 968	451 245	454 389	437 827	437 827	426 479	438 628	453 016
11. Co-operative Governance and Traditional Affairs	1 314 550	1 242 496	1 482 587	1 368 043	1 581 163	1 581 163	1 545 923	1 461 452	1 546 475
12. Transport	7 650 308	8 055 187	9 051 949	9 341 457	9 366 560	9 366 560	9 571 940	10 012 734	10 580 528
13. Social Development	1 985 386	2 329 906	2 487 432	2 630 481	2 713 250	2 711 615	2 778 162	3 004 633	3 174 108
14. Public Works	1 133 311	1 270 253	1 388 082	1 389 666	1 412 938	1 423 344	1 432 608	1 503 706	1 590 995
15. Arts and Culture	479 744	698 686	710 027	783 914	808 770	808 770	786 472	857 179	870 986
Total	**84 610 682**	**91 610 205**	**96 846 407**	**101 961 237**	**104 691 909**	**104 990 947**	**109 006 041**	**115 714 462**	**122 709 214**

Education

The largest portion of the provincial budget still goes to the Department of Education who receive 41.8 per cent (which is an increase from the 41.3 per cent share in 2015/16). The budget allocation over the MTEF is R45.464 billion, R47.529 billion and R50.249 billion over the 2016/17 MTEF. The budget allocated to Education provides for the following main activities, among others:

The spending focus over the MTEF period will be on improving curriculum delivery, particularly through ensuring access to high quality LTSM. In this regard, an estimated R2.314 billion is budgeted for LTSM for all schools, including ECD transfers to schools. All learners in quintiles 1, 2 and 3 schools will continue to be fed through the NSNP grant.

The 2016 Grade 12 class will be the third group to write the CAPS aligned examination. As mentioned, the 2015 results indicated a drastic decline compared to the previous year. Because of this, the department developed an academic improvement plan which focusses on basic school functionality, curriculum delivery and learner attainment, teacher development and reading promotion.

The department will implement the infrastructure norms and standards with added emphasis now that they have been published. The programmes of new schools, curriculum support classrooms, laboratories, multi-purpose classrooms, the electrification programme, as well as sanitation and water programme will continue so that basic functionality in all schools can be achieved. The employment of additional technical staff as part of the Infrastructure Delivery Management System (IDMS) will go a long way in addressing the challenges of long completion times, quality of completed work and the escalating costs of projects. As previously mentioned, the department has been allocated R150 million in the first two years of the MTEF for various water and sanitation projects.

Health

The second largest portion of the provincial budget goes to the Department of Health who receive 33.6 per cent (which is an increase from the 32.4 per cent share in 2015/16). The budget allocation over the MTEF is R36.579 billion, R39.541 billion and R42.184 billion over the 2016/17 MTEF.

The bulk of the department’s budget allocation is for the delivery of 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, as well as 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 2016/17, the department will continue with these services and will strive to achieve improvements and enhancements to these services, as detailed in Health's chapter in the *Estimates of Provincial Revenue and Expenditure*.

Following on from the headcount done in Education, the department will undertake a comprehensive headcount exercise in 2016/17, in conjunction with Provincial Treasury, with any savings realised to be reprioritised towards existing pressures in *Compensation of employees*, as well as pressures in medicines and medical supplies brought about by the weakening Rand/Dollar exchange rate.

The department will finalise its draft report on addressing the growing problem of medico-legal claims. The report was drafted following a workshop held in 2015 to plan the way forward in addressing the unacceptably high levels of claims against the department and seeks to provide a working framework for medical, clinical, and legal personnel, as well as planning to mitigate and prevent adverse incidents and to promptly deal with the consequences thereof. In conjunction with Provincial Treasury, the recommendations of the report will be finalised and implemented with a view to reducing the financial burden resulting from claims.

The department continued the roll-out of the Revenue Enhancement Strategy in collaboration with Provincial Treasury, with the implementation of the Meditech software at six institutions by the end of 2015/16. This project is bearing fruit with R30.479 million allocated back to the department in 2015/16, being excess revenue collected in 2014/15 as a result of the collaboration. This funding will be utilised to upgrade the existing patient billing systems at six more institutions, to reduce the dependence on manual systems.

Transport

The Department of Transport receives 8.8 per cent of the provincial budget. The budget allocation is R9.572 billion, R10.013 billion and R10.581 billion over the 2016/17 MTEF. The bulk of the department's budget allocation is for the construction of roads, and the maintenance of the provincial road network. In 2016/17, the department will continue with construction and maintenance projects which include Main Road P230, Main Road P700, Main Road P127 and Main Road P577 as detailed in the 2016/17 *Estimates of Provincial Revenue and Expenditure*. 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 R3.485 billion, R4.206 billion and R4.476 billion over the 2016/17 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 grant (HSDG). Projects to be undertaken in 2016/17 include:

Social Rental Housing – During 2016/17, the department envisages that additional restructuring zones will be approved by the National Minister. This will unlock the planned pipeline projects situated in the affected areas and thus enable KZN to make a meaningful contribution towards the realisation of the targeted 27 000 units in the current MTSF.

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

Informal settlements upgrade – A Provincial Slum Clearance Co-ordination Sub-Committee will continue to monitor progress of Slums Clearance projects. Currently, over 4 projects are nearing completion, 30 projects are in construction phase, 56 projects are in various stages of planning and 26 require complete relocations.

The department will continue with the implementation of the Cornubia Integrated Residential Project north of Durban as the national priority "catalytic project" in 2016/17, which is expected to contribute towards achieving Outcome 8 targets and ensuring sustainable human settlements.

Social Development

The Department of Social Development receives R2.778 billion, R3.005 billion and R3.174 billion over the 2016/17 MTEF. The department will continue to utilise these funds toward the provision of social work practitioners in an effort to meet the norms and standards as per the Integrated Service Delivery Model. The increase in the budget over the 2016/17 MTEF includes national priority funding allocated for the improvement of the quality of services provided to NGOs. Due to budget constraints, the department will not be absorbing further social work graduates, but has reprioritised funds from within its budget in order to fund the carry-through costs for the graduates that have been absorbed to date. From 2017/18 onward, the department receives significant additional funding in the form of a new conditional grant, namely the Early Childhood Development (ECD) grant.

Financial support to NGOs will continue to be provided for delivery of social welfare services. The department will undertake a process of rationalisation in 2016/17 and 2017/18. This is to ensure that the funding needed for the carry-through costs of the six per cent increase given to NGOs in 2015/16, 2016/17 and 2017/18, is funded from within the department's baseline in 2018/19.

The main priority in infrastructure will be refurbishment and upgrades of service offices through continued reprioritisation and implementation of the department's cost-containment plan. These include the Umlazi and Ocean View places of safety, among others.

Economic Development, Tourism and Environmental Affairs

The Department of Economic Development, Tourism and Environmental Affairs receives R2.703 billion, R2.845 billion and R3.023 billion over the 2016/17 MTEF.

The bulk of the department's budget allocation caters for transfers to its entities such as Dube TradePort Corporation, Ezemvelo KZN Wildlife, KZN Tourism Authority, Trade and Investment KZN, Richards Bay IDZ and the KZN Liquor Authority. Provision is made in the department's budget for the establishment of the Small Business Growth Enterprise and KZN Property Development Holding SOC Ltd, which is a subsidiary of Ithala aimed at facilitating strategic investment in fixed property in the province. Transfers to these entities were affected by the budget cuts. The budget for 2016/17 also caters for support of SMMEs and co-operatives, the KZN Youth Technical Short Skills Training, implementation of Industrial Economic Hubs in all districts, conducting a blue flag impact study, as well as the Invasive Alien Species Programme.

Agriculture and Rural Development

The Department of Agriculture and Rural Development receives R2.171 billion, R2.224 billion and R2.354 billion over the 2016/17 MTEF. With the 2016/17 budget allocation, the department will continue to improve agricultural production and food security, as well as focus on the development of rural communities.

The department will continue implementing the agrarian transformation strategy in identifying, approving and implementing various programmes and projects to stimulate agricultural development in the province. The Communal Estate pillar will focus on crop production and the foundation built in 2015/16.

In terms of drought relief, there will be continued focus on providing infrastructure for the development and growth of the livestock industry, particularly in the communal areas. In this regard, the department is planning to construct 30 diptanks and rehabilitate 78 existing diptanks and a further 80 boreholes and 77 stock watering dams will be established.

The department is also planning to rehabilitate two existing irrigation schemes and to develop a further 34 schemes to improve the agricultural productivity along the various river valleys within the province. Through the provision of irrigation, the farmers will be able to reduce the dependency on rain during the planting season, with a planned 2 500 hectares to be under irrigation for smallholder farmers.

Public Works

The Department of Public Works receives R1.433 billion, R1.504 billion and R1.591 billion over the 2016/17 MTEF. The bulk of the department's budget allocation is for municipal property rates payments, the Government Immovable Assest Management Act (GIAMA) implementation projects, as well as the Fixed Asset Management Tool. The budget also caters for various infrastructure projects such as construction of offices for the Ilembe and Umzinyathi district offices, Zululand and replacement of the roof in the uMgungundlovu district offices. In the 2016/17 MTEF, provision is also made for the provincial EPWP co-ordination function and the improvement of infrastructure support to other departments.

Co-operative Governance and Traditional Affairs

The Department of Co-operative Governance and Traditional Affairs receives R1.546 billion, R1.461 billion and R1.546 billion over the MTEF. In 2016/17, the department will continue to co-ordinate support, promote good governance and enhance financial management in municipalities, as well as provide support and build the capacity of traditional institutions. The department will enhance municipal administration and governance, and a draft framework of the local government bill will be prepared and municipalities will be supported in revising draft standard bylaws. The department will also support the installation and recognition of *Amakhosi* in the province. Also, 2016 marks the year of holding the local government elections, and the focus of the department will thus be to support the smooth running of the process.

Arts and Culture

The Department of Arts and Culture receives R786.472 million, R857.179 million and R870.986 million over the 2016/17 MTEF. In 2016/17, the department will continue to uphold its core mandate of ensuring cultural advancement of all people in the province through hosting various cultural events and provision of reading and writing material. The department's budget also provides for the continued provincialisation of libraries and museums. In addition, the department will continue to construct libraries, art centres and museums. The construction of the Arts and Culture Academy will commence in 2017/18.

Provincial Treasury

Provincial Treasury receives R675.280 million, R659.029 million and R688.508 million over the 2016/17 MTEF. The bulk of the department's budget allocation in the 2016/17 MTEF is for financial management (for general oversight of all departments, municipalities and public entities' budget processes), internal audit, SCM, and support for transversal and interlinked financial systems, as well as providing infrastructure support to departments and public entities. In addition, the department will continue to implement a number of projects, such as Operation Pay-on-Time, Operation Clean Audit, irregular expenditure projects, Municipal Support Programme, among others.

Office of the Premier

The Office of the Premier receives R658.644 million, R697.499 million and R742.904 million over the 2016/17 MTEF. The bulk of the department's budget allocation is for cross-cutting and transversal activities, such as Operation Sukuma Sakhe, Integrity Management, youth, Nerve Centre, support to His Majesty, the King, as well as transfers to its two public entities, Amafa and the Royal Household Trust. The department's 2016/17 MTEF budget includes funds for capacitating the Integrity Management unit and the Poverty Eradication Master Plan operations centre.

Provincial Legislature

Provincial Legislature receives R518.652 million, R538.851 million and R569.128 million over the 2016/17 MTEF. The bulk of the Legislature's budget relates to the areas of law-making and oversight, as well as public participation. The Legislature will aim to improve its oversight over, among others, departments and public entities during the year. Also, the Legislature will continue to focus on procedures and processes that need to be reviewed and/or changed to facilitate the roll-out of the Financial Management for Parliament Amendment Act.

Sport and Recreation

The Department of Sport and Recreation receives R426.479 million, R438.628 million and R453.016 million over the 2016/17 MTEF. In 2016/17, the department will continue to promote sport and recreation through the provision of various programmes and construction of sport and recreation facilities. The department will construct two basic sport and recreation facilities, 11 outdoor gyms and 11 kick-about sport facilities. In addition, the department is targeting to provide 400 sporting clubs with equipment and attire.

The construction of the sports development centre was delayed in 2015/16 due to challenges experienced by the eThekwini Metro in respect of the original site, which was Hoy Park. The sports development centre will now be constructed at Kings Park Sporting Precinct in Durban. This centre will house sport psychologists, nutritionists, etc. In 2015/16, an amount of R20 million was suspended to 2016/17 (R10 million) and 2017/18 (R10 million) relating to the construction of the sports development centre, in line with the agreement between the department and the eThekwini Metro.

Community Safety and Liaison

The Department of Community Safety and Liaison receives R210.123 million, R195.948 million and R207.297 million over the 2016/17 MTEF. During 2016/17, the department will continue to roll-out the Civilian Secretariat for Police Services Act and the decentralisation strategy. The bulk of the department's budget over the 2016/17 MTEF 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, implementation of the Justice Crime Prevention Strategy, dealing with stock theft, cross border conflicts and taxi violence, among others. Also in 2016/17, the department will focus on undertaking the local government election monitoring project.

CONCLUSION

The latest budget cuts, implemented across the country over the 2016/17 MTEF, have forced us to look at our spending behaviour very carefully. This is not the first major cut we have suffered. Honourable Members will recall that the Census data cuts implemented in 2013/14 were significant for this province. These were followed by various fiscal consolidation cuts and/ or the under-funding of wage agreements in 2014/15 and 2015/16. It has not been an easy time for us and nor will the 2016/17 MTEF be any easier. These cuts are implemented across all spheres of government, while the need to provide decent and relevant services to our people remains.

As Martin Luther King, Jr said *"The ultimate measure of a man is not where he stands in moments of comfort and convenience, but where he stands at times of challenge and controversy."*

As with any difficult time, we must look for the opportunities that arise in such a situation. We must focus our energies on cutting costs in areas that will impact the citizens of this province the least. The directive from national is clear, that we must protect infrastructure spending while ensuring that our expenditure on *Compensation of employees* is reduced in order to ensure the sustainability of our wage bill. Spending on nice-to-haves has to stop.

We must look at doing things smarter and we must find ways to deliver our services at a lower cost while not impacting on the quality of the services we provide.

In line with this, provinces have been mandated by national to review the functioning and cost structures of all public entities in the province. As such, the provincial Executive Council has approved that a Task Team, consisting of members from the Office of the Premier, Provincial Treasury, Agriculture and Rural Development, as well as Economic Development, Tourism and Environmental Affairs, be constituted to undertake this review and I will report back to this House once this work has been undertaken.

We have used this budget process to reduce departments' allocations to fund the budget cuts, but also to undertake a provincial reprioritisation exercise whereby funds were removed from various departments to protect the baseline of Health in view of the spending pressures exerted on this department's budget by the weakening exchange rate. We have also not effected any of the budgets cuts imposed by national on the Department of Education and the Department of Health. These two departments were protected during this exercise. The Provincial Legislature has also not had their budget cut at this stage.

The cost-cutting measures that we have been implementing over the past few years have stood us in good stead and will continue to focus our attention on core service delivery spending areas.

Our proven fiscal discipline will help us deal with this round of budget cuts without dramatically affecting our service delivery spending areas. I want to emphasize that adhering to cost-cutting, thus protecting the fiscus, is not only the responsibility of Provincial Treasury. We all have a role to play to ensure that we survive these cuts.

I want to thank our Premier, Mr Senzo Mchunu, and my Executive Council colleagues for their support. We had to take a number of really tough decisions in preparing the 2016/17 MTEF budget, and we did so collectively and unwaveringly.

I would also like to extend my gratitude to Minister Pravin Gordhan 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 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