

ADJUSTMENTS BUDGET SPEECH 2023/24



**HONOURABLE MS NELISWA PEGGY NKONYENI, MPL
MEC FOR FINANCE**

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To obtain further copies of this document, please contact:

Provincial Treasury
5th Floor
Treasury House
145 Chief Albert Luthuli Road
Pietermaritzburg
3201

P.O. Box 3613
Pietermaritzburg
3200

Tel: +27 (0) 33 – 897 4310
Fax: +27 (0) 33 – 897 4617

PROVINCE OF KWAZULU-NATAL

Budget Address by Honourable Ms Neliswa Peggy Nkonyeni MPL, MEC for Finance

On tabling of the 2023/24 Adjustments Budget in the Provincial Legislature

30 November 2023

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Honourable Deputy Speaker, Mr T. Mthembu

Honourable Premier, Ms N. Dube-Ncube

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People of KwaZulu-Natal

Ladies and Gentlemen

1. INTRODUCTION

Madam Speaker, it is my honour to stand before this august House to present the 2023/24 Adjustments Budget. The documentation I am tabling today is the 2023/24 Adjustments Estimate of Provincial Revenue and Expenditure, the Adjustments Appropriation Bill, 2023 (in English, isiZulu and Afrikaans), an explanatory memorandum highlighting specific virements which require approval of this House, as well as the Socio-Economic Review and Outlook.

As I table the Adjustments Budget for the Province of KwaZulu-Natal, our thoughts and prayers are with the people of Palestine as they are going through the most excruciating and challenging times in the history of their country. The war is still raging resulting in a significant loss of human life, incarceration of children, destruction of property, as well as inflicting pain on children and the elderly. We, however, would like to commend the efforts by the South African government, led by His Excellency President Cyril Ramaphosa, the United Nations and the BRICS nations in trying to find a sustainable solution and the most needed cease-fire for the people of Gaza and the Palestine.

Madam Speaker, we are also meeting at a time when we are feeling positive and enthusiastic after the Springboks won the Rugby World Cup for the fourth time. This most celebrated victory drew us together, cheered the team on and celebrated with them as a nation when they brought the trophy home.

This was a much-needed victory at a time where we have sometimes felt overwhelmed and confronted by difficult issues, such as elevated levels of load shedding, the high crime rates, rising fuel costs, rising inflation, the negative impact of climate change and the weaker than expected economic growth. This, in our view, exacerbates poverty, deepens inequality and worsens unemployment.

It is important to remain positive and resilient during such difficulties and to take the necessary bold steps to ensure that we return to the inclusive growth path we had planned for ourselves. Nobody hopes and plans for bad days, but when they do happen, it is our responsibility as a nation to roll up our sleeves and to take the necessary steps to return to a stronger position.

As we are still in this celebratory mood, feeling positive about our native land, and the great things that continue to bring joy and renew our hopes for a brighter future, one is reminded of the wise words by the Former President Thabo Mbeki when he said,

“The evolution of humanity says that Africa reaffirms that she is continuing her rise from the ashes. Whatever the setbacks of the moment, nothing can stop us now.”

The National Minister of Finance, Mr Enoch Godongwana, explained in his Medium-Term Budget Policy Statement (MTPBS) which he tabled on the 1st of November 2023, that various steps are being taken to ensure the support of economic growth, to stabilise public finances and to protect the social wage. In terms of supporting the economy, we have accelerated the intensive work to stabilise electricity generation and supply, more focus has been placed to

ensure improvement in the logistics sector, while other focal areas are constantly supporting infrastructure investment and strengthening efficient and effective procurement by the state. Central to improving our economy are continued efforts in fighting crime and corruption and it is for this reason that I will explain later the allocations being made in this Adjustments Budget to the provincial Crime Fighting Initiative which our Honourable Premier announced in her State of the Province Address earlier this year.

As the Springboks showed us, when we stand together in unity as a nation, we can achieve great things.

Honourable Speaker, a lot of thought has gone into preparing this Adjustments Budget. It is always easier to table a budget in a time of plenty, and a little more challenging to do so at a time when resources are scarce. We had to consider many issues, including the requests made by provincial departments and public entities who continue to feel the pinch of fiscal consolidation budget cuts that remain within their baselines. This had to be weighed up against many other competing needs for critical service delivery, while wrestling with budget cuts made by National Treasury in their efforts to stabilise government finances.

2. ECONOMIC OUTLOOK

When we make amendments to our budgets, this is done in the context of the prevailing economic conditions at the time.

Madam Speaker, the economic conditions across the world remain largely subdued, although marginal improvements have been realised when compared to March 2023 when the main budget for this year was tabled. The world economy has been generally resilient, with global supply chain bottlenecks dissipating and food prices, as well as consumer price inflation, moderating. As Minister Godongwana indicated in his MTBPS speech, the International Monetary Fund (IMF) forecasts that global growth will slow from 3.5 per cent in 2022 to 3 per cent in 2023 and to 2.9 per cent in 2024.

The real domestic economic performance was stronger than expected in the first half of 2023 despite the extensive electricity load shedding, deteriorating rail transport and ports infrastructure, as well as other structural challenges. Economic growth is projected at 0.8 per cent for our country this year and 1.1 per cent in 2024.

The subdued economic performance has had a negative impact on the national revenue collection. Given the low domestic growth and lower-than-expected international commodity prices, the national revenue collection is now expected

to be R56.8 billion less than initially estimated in the main budget in February 2023.

However, as indicated by Minister Godongwana, in the MTBPS earlier this month, government continues to implement structural reforms to address these challenges that have hindered much-needed growth. This includes continued efforts to ensure adequate energy supply which is critical for sustainable growth and attracting investment into the country.

Madam Speaker and Honourable Members, the economy of our province cannot be isolated from the challenges currently facing the country. KwaZulu-Natal's economic growth is projected at 0.5 per cent this year before expanding marginally to 0.8 per cent and 2.3 per cent in 2024 and 2025, respectively. The outlook largely reflects the impact of numerous structural constraints, as I have explained above.

Despite these challenges, we remain resolute in our efforts to rehabilitate, reconstruct and reignite the growth potential of our provincial economy. This includes investment attraction through our Special Economic Zones, as well as expanding and refocusing the functioning of our strategic Durban and Richards Bay ports as part of the KwaZulu-Natal Logistics Hub.

Madam Speaker, we continue to support various emerging industries, such as maritime, cannabis and hemp, that have the potential to uplift our local economies. As you are aware, we successfully hosted the Cannabis Expo in Bergville recently where significant interest by community and commercial growers was established and wherein we hope to see off take contracts concluded following the issuing of licenses to the local farmers.

It should be applauded that in the recent Quarterly Labour Force Survey (QLFS), KwaZulu-Natal recorded the largest employment increase, while the unemployment rate has fallen by 1.6 per cent in the third quarter of 2023.

We will continue to realise improvement in employment levels. Through programmes such as the *Mass Jobs War Room*, we envision creating close to 500 000 employment opportunities. We also continue to support our young people through various programmes, as they are a large component of the unemployed.

3. LEGAL BASIS OF THE 2023/24 ADJUSTMENTS BUDGET

The National Minister tabled the National Adjustments Estimate, as well as the MTBPS, in Parliament on the 1st of November 2023. Treasury Regulation 6.6.3 requires provinces to table a Provincial Adjustments Estimate in the Provincial

Legislature within 30 days of the national Adjustments Budget being tabled and I am therefore tabling the 2023/24 Adjustments Estimate of Provincial Revenue and Expenditure in this House today, noting that this date falls in line with the date stipulated by the Treasury Regulations. Section 31 of the Public Finance Management Act (PFMA) further makes provision to the circumstances under which the province may table an Adjustments Budget.

The Adjustments Estimate I am tabling today considers all changes National Treasury is making to the provincial budget, allocations being made from provincial cash resources, as well as the suspension (or movement) of funds between Votes. The Adjustments Estimate also deals with the virement and shifting of funds within Votes and allows departments to make changes to their budgets to take into account changes in circumstances. To quote a well-known African proverb, *“The wind does not break a tree that bends”* – this proverb speaks of adaptability and says that we can stand strong if we are adaptable to change.

Section 43 of the PFMA determines that Legislature approval is required for certain virements, while some can be approved by the respective Accounting Officer or by Provincial Treasury. In cases where Legislature approval is required for specific virements, we have highlighted these in grey shading in the 2023/24 Adjustments Estimate of Provincial Revenue and Expenditure book which I am tabling today. These virements are also explained in an explanatory memorandum which is also distributed today which I would encourage all Honourable Members to study to enhance their oversight of sector departments.

4. ADJUSTMENTS TO THE 2023/24 BUDGET

Putting together this Adjustments Budget was by no means an easy task. There are so many competing needs, yet the fiscal resources to allocate towards these needs are limited. The Ministers’ Committee on the Budget (MinComBud) and the Provincial Executive Council met on several occasions to consider what was being requested and to look at what was available for allocation. These discussions were robust and provided the guidance and the leadership required in difficult times such as the one we are facing as a province.

National Treasury was also engaged throughout this process. There was uncertainty initially in terms of whether the 2023 wage agreement was going to be funded by an additional allocation from National Treasury or not, and this complicated and delayed the decision-making process.

As a result of the continued impact of fiscal consolidation budget cuts made in previous budget processes, which remain in our baseline, as well as the costs

of the 2023 wage agreement, significant budget pressures are evident in the monthly In-year Monitoring (IYM) reports submitted to Provincial Treasury by departments. We have held discussions at both a political and technical level in this regard, and some of the allocations made today will help to reduce the budget pressures evident in these IYMs. Where they do not offset them completely, departments have been reminded of the responsibility they have in terms of Section 39(2) of the PFMA which places the onus of remaining within budget on each Accounting Officer.

I am pleased to say that the province remains cash positive as has been the case since May 2010, despite these budget pressures. The provincial cash balances are being managed very tightly by Provincial Treasury who reviews the bank balances daily and engages with departments on the payment runs to be processed. These checks and balances should help us to remain cash positive by year-end as we are able to block all transactions with the exception of *Compensation of employees'* payment runs.

4.1 Amendments by National Treasury to the Budget

Several changes are made to the provincial budget by National Treasury, both in terms of the Provincial Equitable Share allocation and the conditional grant allocation.

4.1.1 Amendment to the Provincial Equitable Share

The 2023 wage agreement was calculated to cost this province R5.4 billion. National Treasury is allocating R3.8 billion, specifically for the Department of Education and the Department of Health only. This means that the amount allocated to the province by National Treasury for the 2023 wage agreement constitutes 70 per cent of the total required funding for the province, whilst representing 78 per cent of what was calculated to be required by the two departments.

This amount of R3.8 billion is allocated proportionately to these two departments in this Adjustments Budget. This results in **Vote 5: Education** receiving R2.3 billion and **Vote 7: Health** receiving R1.5 billion.

4.1.2 Amendment to the Conditional Grant Allocation – Roll-overs

Unspent conditional grant funding relating to the previous financial year must be returned to the national fiscus, unless approved for roll-over, according to Section 22 of the Division of Revenue Act. The province recorded an audited under-spending of R628.4 million at the end of 2022/23 against a budget of

R26.2 billion, having spent 97.6 per cent of the conditional grant budget by year-end.

Departments have to request approval for the roll-over of these funds from National Treasury and must prove that the funds were committed at year-end. In these engagements, the province was able to prove that R589.5 million of the unspent funds were committed and were thus approved for roll-over, while R38.9 million was not committed and must be returned to the National Revenue Fund with the majority relating to Early Childhood Development grant of R38.804 million.

The conditional grants approved for roll-over are as follows, and are included in the 2023/24 Adjustments Budget:

- The **National School Nutrition Programme grant** under Vote 5: Education under-spent by R141.2 million and the full amount was rolled over.
- The **Human Settlements Development grant** under Vote 8: Human Settlements under-spent by R360.3 million. The full amount was rolled over.
- The **Informal Settlements Upgrading Partnership grant** under Vote 8: Human Settlements under-spent by R32.3 million and the full amount was rolled over.
- The **Provincial Emergency Housing grant** under Vote 8: Human Settlements under-spent by R23.8 million and the full amount is rolled over.
- The **Provincial Roads Maintenance grant** under Vote 12: Transport under-spent by R31.8 million and the full amount was rolled over.

4.1.3 Amendment to the Conditional Grant Allocation – Fiscal Consolidation Cuts

As indicated by Minister Godongwana in his MTBPS speech, a decision was taken to reduce government spending in-year as a result of lower revenue performance, a higher wage bill and higher projected debt-service costs. These fiscal consolidation budget cuts are effected entirely against the province's conditional grant allocation. In aggregate, the conditional grant budget for KwaZulu-Natal is R26.3 billion, and R1.3 billion is being cut from this budget by National Treasury. The following conditional grants' budgets are cut, and the departments must amend their business plans and delivery targets in-year:

- The **Comprehensive Agriculture Support Programme grant** under Vote 3: Agriculture and Rural Development is cut by R17.6 million.

- The **Ilima/Letsema Projects grant** under Vote 3: Agriculture and Rural Development is cut by R6.5 million.
- The **Land Care grant** under Vote 3: Agriculture and Rural Development is cut by R800 000.
- The **Early Childhood Development grant** under Vote 5: Education is cut by R8.3 million.
- The **Education Infrastructure grant** under Vote 5: Education is cut by R296.4 million.
- The **HIV and AIDS (Life Skills Education) grant** under Vote 5: Education is cut by R3.1 million.
- The **Maths, Science and Technology grant** under Vote 5: Education is cut by R8.1 million.
- The **District Health Programmes grant** under Vote 7: Health is cut by R275.4 million.
- The **Health Facility Revitalisation grant** under Vote 7: Health is cut by R90.4 million.
- The **Human Settlements Development grant** under Vote 8: Human Settlements is cut by R334.7 million.
- The **Informal Settlements Upgrading Partnership grant** under Vote 8: Human Settlements is cut by R89.3 million.
- The **EPWP Integrated Grant for Provinces** is cut by R1.9 million against various Votes.
- The **Social Sector EPWP Incentive Grant for Provinces** is cut by R6.3 million against various Votes.
- The **Community Library Services grant** under Vote 10: Sport, Arts and Culture is cut by R8 million.
- The **Mass Participation and Sport Development grant** under Vote 10: Sport, Arts and Culture is cut by R8.8 million.
- The **Provincial Roads Maintenance grant** under Vote 12: Transport is cut by R103.5 million.

4.2 Amendments to the Budget from Provincial Cash Resources

Besides the amendments made to the provincial budget by National Treasury, some allocations are also made from provincial cash resources. These

provincial cash resources became available for allocation in this Adjustments Budget from four sources.

The first source is from the under-spending from the prior year, as well as the revenue over-collection from that year. As a result, the province had a positive net financial position of R1.1 billion at the end of 2022/23. Part of this related to the conditional grant under-spending where National Treasury approved roll-overs of R589.5 million while R38.9 million must be returned to the National Revenue Fund, as indicated earlier. After taking this into account, R490 million remained available for allocation in this Adjustments Budget.

The second source is the Contingency Reserve that we budgeted for this year of R126.8 million.

Thirdly, when the main budget was presented in this House earlier this year, we indicated that we would supplement the Contingency Reserve by looking into uncommitted surpluses held by the provincial public entities. We undertook an extensive study of all cash and cash equivalent balances held by the public entities and were able to source R222.6 million from various entities. Important to note is that sourcing these funds from these entities will not have a negative impact on their operations.

The fourth source is where departments have collected unbudgeted revenue in the current year which they have requested to be allocated back to them in-year. Two departments made such requests with R73.9 million becoming available in this manner.

These four sources resulted in R913.2 million in provincial cash resources being available for allocation in this Adjustments Budget.

There were several competing needs and the allocations made fall in line with the available resource envelope. The following departments receive additional funds in this Adjustments Budget:

- **Vote1: Office of the Premier** receives R30 million for legal fees for His Majesty, the King.
- **Vote 2: Provincial Legislature** receives R60.1 million for the following:
 - R26.2 million relates to the operational under-spending from 2022/23 which is automatically allocated back to the Legislature in line with the Financial Management for Parliament and Provincial Legislatures Act (FMPPLA).

- R3.5 million relates to the revenue over-collection from the prior year which is allocated back to the Legislature in line with FMPPLA and the PFMA.
- R7.4 million relates to over-spending of the direct charge (or MPLs' remuneration) in 2021/22 of R941 000, in 2022/23 of R1.1 million and in 2023/24 of R5.4 million). This relates to unanticipated exit packages paid in the prior years, while 2023/24 also relates to the 3 per cent increase in MPLs' salaries, backdated to 1 April 2022. As this is a direct charge on the Provincial Revenue Fund, any over-spending must be honoured by the Provincial Revenue Fund.
- R15 million for voter education activities in the lead up to the 2024 general elections.
- R8 million towards purchasing a new Enterprise Resource Planning (ERP) system to replace the current SAP system.
- **Vote 5: Education** receives R97 million to assist with budget pressures emanating from the 2023 wage agreement not being fully funded. This amount is allocated specifically towards electricity costs for eThekweni.
- **Vote 8: Human Settlements** receives R1.8 million as the department under-spent against the donor funding received in the prior year towards the April 2022 flood disaster response. These donor funds were not fully spent in 2022/23 and are therefore rolled over for spending in 2023/24. This Vote also receives R7.6 million towards its budget pressures, with these funds allocated to the department from revenue collected in-year from the sale of housing units, as well as recalling unspent balances from municipalities where the housing projects were completed and minimal unspent balances remained.
- **Vote 11: Co-operative Governance and Traditional Affairs (COGTA)** receives R2.5 million. These funds were received from the African Union in 2022/23 towards the April 2022 flood disaster response. These funds were allocated to Vote 1: Office of the Premier in 2022/23 but were not spent by year-end. A decision was taken to roll over these unspent funds for Vote 11: COGTA to roll out water provision services relating to the April 2022 flood disaster in 2023/24.
- **Vote 12: Transport** receives R130 million towards budget pressures in providing learner transport services. This allocation is not for the expansion of the service, but to cover current costs which are under pressure because the baseline for this service requires correcting, as well as the impact of fuel price increases. This Vote also receives R66.3 million from revenue

the department collected in the current year and these funds are allocated for the department to reimburse the registering authorities for the expenses they incur when acting as collecting agencies for motor vehicle registration and licensing fees.

- **Vote 13: Social Development** receives R47.9 million towards budget pressures arising from previous fiscal consolidation budget cuts which the department has found difficult to fully adapt to, aggravated by the unfunded 2023 wage agreement.
- **Vote 14: Public Works** receives R470 million towards budget pressures in the payment of property rates. This allocation takes into account that the baseline for these payments requires correcting, as well as the fact that there was an escalation in municipal property rates as a result of the implementation of the new General Valuation Rolls by some municipalities.

4.3 Suspension of Funds

There are two types of suspensions of funds, namely where a department requests for funds to be suspended from their Vote in one year, for re-allocation in the next year, while the second type of suspension of funds is where funds are moved from one or more Votes, and allocated to another or other Votes.

There are three suspensions of funds included in this Adjustments Budget, as follows:

- **Vote 1: Office of the Premier** had requested during the 2022/23 Second Adjustments Estimate, that R30 million be suspended from their Vote in that year, but to be allocated back to their Vote in 2023/24 for the provincial Broadband Connectivity project.
- **Vote 6: Provincial Treasury** suspended an amount of R5 million from their Vote and for allocation to **Vote 14: Public Works** for the government precinct PPP Transaction Advisor costs.
- The Honourable Premier made a commitment in her State of the Province Address earlier this year that the province would take serious steps towards fighting crime. In this regard, she mandated that departments would each contribute R10 million towards this, while public entities would also contribute. As such, R10 million is suspended from various Votes with a total value of R100 million made available in this regard. Public entities contribute a further R21.2 million thus making a total of R121.2 million available. These funds are allocated to **Vote 9: Community Safety and Liaison** who will use the funds for various crime fighting activities, jointly with the South African Police Service. The approach includes

strengthening the functioning and visibility of community safety structures, providing technological support, infrastructure improvement, strengthening social crime prevention, among others.

5. CONCLUSION

This Adjustments Budget was prepared under difficult circumstances with limited resources needing to be stretched as far as possible, in order for our slogan to make '**a Rand go an Extra Mile**' a reality. We deliberated frequently and intensely to see in which way we can make the biggest impact. While we did not have the resources to address all additional funding requests, I do believe that the allocations we have made will have an impact on important service delivery programmes, while also ensuring that our risk of over-spending has been mitigated. We need to look forward and continue to monitor our provincial spending. All Accounting Officers are called to take Section 39 (2) of the PFMA seriously and to ensure that they take the necessary steps to remain within this Adjusted Budget.

"However long the night, the dawn will break" – African proverb.

I would like to thank the Honourable Premier, Ms Nomusa Dube-Ncube and the Honourable Members of the Provincial Executive Council, and in particular the Members of the Ministers' Committee on the Budget, for their support in putting together this difficult Adjustments Budget.

I wish to thank the Treasury officials under the leadership of the HOD, Ms Carol Coetzee, for ensuring that the budget documentation is of its usual high quality.

To the Chairperson, Mr TV Xulu, and members of the Finance Portfolio Committee, as well as STACOV, we look forward to engaging on the Adjustments Budget and commit to assist you in your oversight role.

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

It is my honour to formally table the Adjustments Appropriation Bill, 2023 for the Province of KwaZulu-Natal for consideration in this House to be read with the Adjustments Estimate of Provincial Revenue and Expenditure. I trust that the debate and vote on this Bill will be constructive and fruitful.

I thank you.