

**PEOPLE'S BUDGET  
2009/10**



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**25 February 2009**





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**PROVINCE OF KWAZULU-NATAL**

**Budget address by Dr Z.L. Mkhize,**

**MEC for Finance and Economic Development,**

**On tabling of the 2009 MTEF Budget in the Provincial Legislature**

**25 February 2009**

**Mr Speaker,  
Honourable Premier and colleagues in the Executive,  
Deputy Speaker,  
Honourable members of the Legislature,  
Members of the diplomatic corps  
Business leaders,  
Distinguished guests,  
Ladies and Gentlemen**

## **INTRODUCTION**

### **Global economic down-turn**

I rise once again in front of this House to table what will go down in history as one of the most difficult budgets to craft. The national, and subsequently the provincial economy, experienced a number of endogenous and exogenous shocks during 2008. The effects of these shocks will, to a large degree spill over into 2009 and 2010, and will impact negatively on the performance of the national and provincial economies over the short to medium term. To begin with, the nation experienced significant electricity supply disruptions and constraints during the first quarter of 2008. Fuel and food prices rose to record high levels, causing inflation to accelerate rapidly, reaching a high of 13.7 per cent annual rate in August 2008. These higher prices, together with sustained high interest rates during 2008, reduced the purchasing power of households and narrowed profit margins of many firms, causing a drag on consumption and business fixed investment. For the first time in a decade, the 2008 third quarter GDP growth rate was measured at a mere 0.2 per cent, and is likely to be negative in the fourth quarter.

In August 2008, mounting losses on sub-prime mortgages and mortgage related securities began straining financial institutions in the USA. The repercussions from these losses have triggered a period of severe turbulence in world financial markets. This financial crisis has not stayed confined within the US financial system, but has spread to the real economies of the major economic powers, pushing most of these into a recession. The UK economy, our major trading partner will, for example, register a contraction in 2009. Even China, for long the growth engine of the world economy, is affected, with exports and imports in January reflecting a 17 per cent and 43 per cent decline compared to the previous January.<sup>1</sup>

<sup>1</sup> Figures released by Minister Trevor Manuel at a post budget conference on Friday 13 February (Mercury Business Report 16 February 2009)



## **Impact on South African economy**

The South African economy has not been insulated from these events. Although the direct impacts have been minimal, the indirect impacts have been much more significant, and will continue to affect the national economy during 2009/10. Economic reports are already indicating an overall slowdown in employment growth, and job losses amounting to tens of thousands in several sectors such as mining and the automotive industry. As Minister Manuel stated in his budget speech two weeks ago, "the storm we spoke of last year has broken, and it is more severe than anyone anticipated". That statement reminded me of a poem by Dean Thorpe entitled:

### **THE STORM**

*Hear the thunder rumble, a sound from miles away  
Is it getting nearer, or over for today  
A flash of blinding light, electric in the skies  
Looking out the window, it really hurts my eyes  
After comes the rumble, the clash of cloud on cloud  
Feel the floor vibrating, that one was really loud  
Still more lightning flashes, it hits the old oak tree  
Lightning in the garden, now that's too close for me*

The storm that was thought to be far has finally caught up with us. It is however, my belief that we will weather this storm. It will not be easy, but with focus, strong will and fiscal discipline, we will come out of this crisis.

Mr Speaker, in tabling the 2008/09 budget last year, I reaffirmed our commitment to a strategy we call "step-wise rise to prosperity". This strategy represents government investments at various stages of an ascending ladder, to help our people move from poverty to prosperity. The strategy recognises that the wide gap between the impoverished second economy and the privileged elite at the apex of our economic structures can only be addressed through a targeted and incremental process of transformation and empowerment.

In the face of such severe global economic turmoil, our efforts should now single-mindedly be focused on protecting the poor, providing job opportunities to create a better life, and on creating the wealth at the bottom of the pyramid. We will do this by increasing investments in social services, particularly education, skills development, and health, and in development of infrastructure. This is the only way that our province can cushion its people from the paralysing effects of the prevailing economic slowdown.

## **STRENGTHENING THE EDUCATION SYSTEM**

Mr Speaker, in the Premier's state of the Province address and response by MEC Cronje, it was clearly indicated what this government has invested and achieved in the education sector.





The number of schools with sanitation facilities has increased from 5 379 in 2004/05 to 5 797 in 2008/09. We have made significant strides in the provision of electricity in our schools. In 2004/05, 3 916 schools had electricity. By the end of 2008/09, 4 767 schools will have electricity. The number of outstanding classrooms in the province has declined from 13 559 to 7 451, reflecting our efforts at reducing the backlogs. What is also encouraging is the reduction of the teacher pupil ratio from an undesirable 35 to 1 in 2004/05 to a more appropriate 31 to 1 in 2008/09. By 2010/11, the *Masifundisane* Campaign will have taught more than 670 000 adults how to read and write.

The declaration from the Freedom Charter that the "*doors of education and culture shall be opened*" remains as relevant today as it was 54 years ago when the Freedom Charter was adopted in Kliptown. It is our considered view that education must be elevated from being a departmental issue, or even a government issue, to a societal issue – one that occupies the attention and energy of all our people.

In order to ensure maximum value of our investment in the education of our children, I call upon teachers, a crucial element of our education delivery machinery, to commit to a set of non-negotiables, that is; to be in class, on time, teaching and not abusing learners or neglecting their duty. Otherwise additional funds will not suffice to solve all the problems. The department's management, school principals, parents and learners must honour their responsibility. Little money can do wonders if the attitude is right.

For its part, the provincial government will continue to improve access of poor South Africans to quality education. This we will do by increasing the number of no-fee schools from 40 per cent to 60 per cent. The budget I am tabling today will indicate the amounts allocated to the expansion of the no-fee schools policy in the coming years.

The total budget for Education has increased from R13 billion in 2004/05 to R21.3 billion in the current financial year, and is poised to increase further in the coming MTEF. By 2011/12, Education's budget will reach R30.4 billion, making it by far the largest budget in the entire country. Likewise, Education's capital infrastructure budget has increased from R308 million in 2004/05, to well over R1 billion in the current financial year, rising to R2.4 billion in 2011/12.

## **SKILLS DEVELOPMENT AND YOUTH EMPOWERMENT**

Our government places great importance on investment in human capital as a key input and a requirement in pursuit of economic growth. Our commitment to human capital formation is evident in the amount of resources we have dedicated to funding FET colleges – this is in line with the national priority of placing Further Education and Training Colleges at the centre of a drive to develop the skills needed by our economy. The nine FET colleges we are financing, provide affordable access to education and training to meet the needs of the labour market and empower our youth. The throughput rate in all our FET colleges has improved from 68 per cent in 2004/05 to nearly 90 per cent in 2008/09.

The KwaZulu-Natal Treasury entered into a Youth Skills Development Training partnership with Ifihlile Training Academy in June 2007. The purpose of this pilot partnership is to ensure a



complete alignment between training and available employment opportunities. The first intake has focused on technical skills in air-conditioning, refrigeration and construction, with a contribution of R39 million at the inception of this partnership. The successful implementation of this venture was due to the collaboration between the Departments of Education, Public Works, Economic Development, Labour, MERSETA and the Youth Commission, resulting to date in the recruitment of 271 learners since June 2007. 17 000 applications were received, indicating the high demand for youth skills development.

Out of this initial batch of 271 learners, 58 learners in construction are already doing their practical training with respective private companies, 54 learners have secured employment, and 3 have opened their own companies. This partnership, that guarantees employment for learners after completing all the modules, has to be expanded. Government has committed massive resources for infrastructure development in the next three years. Growth in the construction industry reached 12 per cent in the past few years. To take advantage of these opportunities, in the coming months, we will be expanding this training programme to include short courses in construction, panel beating, spray painting, landscaping and security, in partnership with the eThekweni and Umgungundlovu FET colleges. Through this programme, an additional 10 000 learners will be trained and attached to jobs in the next three years.

## **Moses Kotane Institute**

To further our education and skills development objectives, a few weeks ago the Honourable Premier launched the Moses Kotane Institute, targeted at facilitating youth access to science and mathematics streams of training. The institute will focus on research, innovation, science and technology. In addition, the institute will focus on training scientists to support the agrarian revolution. All of these are crucial tools to be used to arm our youth with the skills that industry will need. Hopefully, this will bring to an end the phenomenon of unemployed graduates. It is sad to see unemployment among young people who have taken the trouble to attend school and universities to learn, simply because of a skills mismatch. This we will aim to obliterate.

## **ICT Training**

The provincial departments of Economic Development and Education are also strengthening these efforts and spearheading another skills development programme in Information Communication Technology (ICT) and Business Process Outsourcing (BPO) in collaboration with the National Institute for Information Technology (NIIT) from India and the Confederation of Indian Industry (CII). An additional 10 000 students from this province are set to undergo intensive training over the next five years. The focus is on software engineering, networking, website development, database development and integration of website development, computer programming and databases. In due course, Economic Development will indicate the number of jobs that will be created through the establishment of BPO centres attached to government departments.



## HEALTH

In Health, it will be noted that the budget allocation specifically for HIV and AIDS in KwaZulu-Natal has been rising in the past four years, and continues to do so in the 2009 MTEF, and will reach nearly R2 billion in 2011/12.

Mr Speaker, allow me to share with this House significant progress in the fight against HIV and AIDS:

- In 2004/05, the Department of Health had 11 449 patients in their anti-retroviral treatment (ART) programme,
- In 2006/07 this number had increased to 73 641,
- By 2007/08 the number of patients in the programme was 146 537, and
- For the current financial year, the department intends to enroll a total of 205 120 patients.

Latest statistics suggest a declining trend in the neonatal mortality rates in KwaZulu-Natal. From 11 out of every 1 000 live births in the first 28 days in the year 2004/05, this number has now been reduced to on average 9. The correctness of the district health system and primary health care is demonstrated by the increased rate of primary health care utilisation in the province, from 2004/05 to 2008/09 per person, representing a rise from 18 million to 22 million in the total amount of visits to our institutions in the respective years. We have improved our tuberculosis cure rate from 35 per cent in 2005/06 to 85 per cent in 2007/08. For the past four years, the province has not recorded any deaths from cholera. Our district health and central hospital services have increased their OPD headcount from 1.7 million in 2005/06 to 2.7 million in the current financial year.

Additional resources have been allocated to this department to ensure that the mortality rates are reversed, in line with our targets for the Millennium Development Goals. It has to be accepted that, were it not for the financial constraints, the challenges posed by increased burden of disease in this department deserve a much higher allocation than our fiscus can currently afford.

## SUPPORTING SMALL BUSINESSES AND EMPLOYMENT CREATION

A key element of the stepwise rise to prosperity strategy is, of course, the interventions in the informal second economy aimed at supporting co-operatives and small businesses, with the objectives of broadening participation in the economy, creating jobs and making individuals and communities less dependent on the welfare institutions of the state.

Our commitment to the co-operatives programme is demonstrated by the fact that, as I speak, we are into the second day of a major international conference on co-operatives in Durban, the





first of its kind in the country. The purpose is to share experiences and learn from the best practices found in Africa and beyond in relation to the promotion, regulation and management of co-operatives. The fact is that, despite sustained government support since 2005, many co-operatives have been under-performing, while others have failed. For this reason, we have embarked on a comprehensive programme, in partnership with the University of Zululand, that will:

- Rehabilitate under-performing or failed co-operatives;
- Promote and support Financial Services Co-operatives, also known as savings and credit co-operatives;
- Establish a co-operative training centre and co-operative bank; and
- Strengthen and expand the scope of co-operatives in key sectors of the economy.

Since 2005, 1 177 primary co-operatives have received funding from Ithala, amounting to R175 231 248. During this period, 6 033 jobs have been created.

The first few years of the co-operatives campaign has yielded good lessons. For us in KwaZulu-Natal, this strategy is fundamental in bridging the gap between the first and second economies and building the rural economy. The main challenges that we have identified in ensuring the sustainability of the co-operatives have been the inadequacy of training, and a lack of consistent and reliable markets for their services and commodities. Intensive training is underway, utilising a team of specialists from Kenya, brought into the University of Zululand, to bolster the training and ensure that the co-operatives strategy is based on a sound footing. Valuable experiences and lessons have enriched the training of staff, including all regional co-ordinators who have just returned from a month-long training session in Kenya. A group of members from secondary and tertiary co-operatives will be dispatched to Kenya for similar short-course training. Scholarships will be announced soon to recruit hundreds of young people to be trained as trainers and managers of co-operatives in Africa and further afield.

Going forward, the intention is to create and strengthen tertiary and secondary co-operatives in key sectors such as clothing and textiles, arts and crafts, agriculture and construction. Government procurement processes have been aligned to ensure access to sustainable markets in these sectors.

Secondary and Tertiary co-operatives will be assisted through a combination of grant, bridging and loan financing to acquire inputs such as seed, fertilizer, construction material, bulk fabrics, and sewing and manufacturing equipment at very competitive prices to support their members at a primary and secondary level. To rehabilitate and strengthen SMMEs and co-operatives and improve repayment of loans, we shall embark on massive training that will ensure that communities benefit from value of the money and not cash. This will negate the negative incentive for people who look for cash hand-outs, as we have seen in the past.

The relevant departments will provide more detail, but we need to ensure that, during these challenging times, our budgetary allocation focuses on fighting poverty, creating jobs, and





providing services to underprivileged communities. Through these strategies, our budget will be spent at the level of the community.

More details of the model being developed to support co-operatives in these priority sectors will be provided in the departmental speech for Vote 4: Economic Development. We will also be indicating the total investments made in skills development and training for co-operatives, as well as the number of jobs that this investment will generate going forward.

## **Ithala**

Ithala is one of the vehicles used by the province to finance small business development. As Members will know, there has been a leadership change in Ithala. This was done to resolve the differences in understanding the implementation of the mandate of Ithala. We also needed to deploy an individual who understands development finance. The insinuation that this strategic decision is an attempt at "covering up corruption" is as unfortunate as it is incorrect; especially that those who make these statements have not had the benefit of the reports. I also believe that the constant attacks on Ithala as an institution are unwarranted. I undertake to fully brief the Finance Portfolio Committee on the redeployments, including all investigations, forensic and otherwise that have been undertaken at Ithala. I will do this because I believe that it is the right thing to do. I will also be indicating the progress made by Ithala on their banking licence application, the expansion of its branch network and the increases in its client base. Let me assure this House that all recent decisions were taken for the good of the institution.

## **Expanded Public Works Programme Incentive grant**

In an effort to reduce the impact of job losses as a result of the economic downturn, a new Expanded Public Works Programme Incentive conditional grant has been created. This grant provides an incentive to provinces and local government to utilise labour intensive methods of service delivery, as encapsulated in the EPWP guidelines. An amount of R84 million has been allocated to KwaZulu-Natal to initiate the incentive programme. Because the programme is on a claim-back basis, I therefore call upon all provincial departments to take advantage of this grant.

## **IMPROVING FOOD SECURITY AND STRENGTHENING RURAL DEVELOPMENT**

The programme to strengthen agricultural co-operatives will be supplemented by an increased focus on land reform projects, post-settlement support, and the implementation of the Makhathini Flats Master Plan – all with the objectives of:

- Maximising the agricultural potential of the province;
- Lowering the cost of food and improving food security;
- Creating jobs; and
- Combating poverty.



The provincial government remains convinced that the agricultural sector in the province has an enormous potential to be expanded.

The Economic Cluster of Cabinet has identified major land reform projects across the province, and has developed a model whereby integrated post-settlement support will be provided to beneficiaries. All relevant provincial departments will be involved. The Land Bank has been approached to assist with the provision of capital and operational finance for these projects.

The Department of Agriculture and Environmental Affairs has been allocated R97.5 million in this MTEF budget as a conditional grant (iLima/Letsema Projects) to implement the Makhathini Master Plan, and to improve food security and production.

This budget furthermore makes provision for a total of R363.4 million to the Departments of Economic Development and Local Government and Traditional Affairs to support the regeneration of small towns, including the building of trading centres in small towns and villages. Feasibility studies will be completed this financial year and the full roll out of this programme will begin in 2009/10.

## **RESPONDING TO NATURAL DISASTERS**

Mr Speaker, KwaZulu-Natal has once again been a victim of several natural disasters in 2008. Within a period of three months (November to January), widespread storm damage affected 9 242 households, displaced 1 821 individuals and claimed 28 lives across all provincial districts. Through the Provincial Disaster Management Centre, KwaZulu-Natal has been able to provide financial assistance to the affected families utilising its own funds. National government has also made a significant financial contribution in an effort to rehabilitate damaged infrastructure.

For 2008/09, National government has allocated a total of R638.5 million to:

- Transport (R616.8 million);
- Education (R16.7 million); and
- Agriculture (R5 million).

For 2009/10, the Department of Housing has been allocated an additional R150 million to rebuild houses destroyed by storms. These allocations are over and above the baseline provisions in the budget.

## **Fighting crime**

Members will recall that KwaZulu-Natal introduced a programme to recruit crime fighting volunteers in 2007/08. Between 2007/08 and 2011/12, a total of R260 million has been allocated to this programme, and by 2009/10 a total of 2 100 will have undergone the necessary training. This is an indication that KwaZulu-Natal is serious about fighting crime. These efforts are over and above the initiatives announced in the budget speech by Minister Manuel, increasing the numbers and remuneration of police and upgrading the criminal justice infrastructure.



## ECONOMIC INFRASTRUCTURE INVESTMENTS

As both President Motlanthe and Minister Trevor Manuel have emphasised in recent weeks, government's investment in infrastructure, amounting to R787 billion nationally over the next three years, is key to mitigating the tough economic conditions currently gripping the country.

### Roads

In this province, we have made significant investments in economic infrastructure over the last three years, as an integral part of our growth and development strategy. Our provincial roads rank among the best in the country. A total of 1.9 million m<sup>2</sup> of surfaced roads have been resealed in 2008/09, compared to 679 thousand square metres in 2004/05. 18 pedestrian bridges will be completed by the end of the 2008/09 financial year, providing much needed access to schools and clinics. Some of the roads in the Department of Transport's portfolio are constructed by local residents through the *Zibambeke* programme, thus creating much needed employment opportunities for our people. The details were provided by the Premier in his State of the Province address.

### Dube Trade Port and international airport

The construction of the new airport at La Mercy is at 50 per cent completion, and the first phase will be completed by May 2010 in time for the 2010 World Cup.

Key milestones achieved to date include:

- The start of the installation of roof sheeting on the passenger terminal building, with final completion of the roof scheduled for June 2009; and
- The initiation of the installation of the baggage handling system in the terminal.

The Cargo Terminal building is nearing completion, and the Air Bridges, which have been factory tested in Spain, are making their way by sea to Durban. These large structures will be visible to the public as they make their way from the port to the site. Key future milestones include:

- The completion of the building of the Passenger Terminal, Cargo Terminal, Runway, Aprons and Taxiways on 29 January 2010.
- The access road will be completed by 15 March 2010. All other construction related to the airport will be completed by 30 March 2010, followed by a period of testing and commissioning prior to opening in early May 2010.

It is my view, that many people in this province have under-estimated the impact that the Dube Trade Port will have on economic growth and development in the province. The Trade Zone will provide dedicated space for import to, and export from KwaZulu-Natal of high value goods, and



by providing the state-of-the-art air freight handling facilities, is expected to attract industries such as motor components, electronics, clothing and textiles, perishables and value-added logistics, which depend on specialised and dedicated cargo handling facilities.

From 1 October 2009, the Emirates Airline will connect KZN with the rest of the world by launching a daily service between Durban and Dubai in the Middle East.

## **2010 FIFA World Cup Legacy projects**

The KwaZulu-Natal government has made a number of infrastructure investments which will ensure that the province successfully hosts the world during the 2010 World Cup, and leaves a lasting legacy for our people beyond the World Cup.

Construction of the world class Moses Mabhida Soccer Stadium, to which the province has made a significant contribution, is well on schedule and, on the 13<sup>th</sup> of January 2009, we witnessed the last piece of the 350m arch being fitted. The provincial government has also, through the Department of Local Government and Traditional Affairs, invested a total of R137 million towards the development of other stadia that will be positioned as potential training venues for some of the teams participating in the World Cup.

These include:

- Harry Gwala stadium in Pietermaritzburg;
- Ugu Sports & Leisure Centre in Zotswa, Port Shepstone;
- Umhlathuze Multi-sports Centre in Richards Bay;
- Monte Vista Sports Centre in Newcastle;
- King Goodwill Zwelithini stadium in Umlazi;
- Princess Magogo stadium in KwaMashu; and
- Sugar Ray Xulu stadium in Cleremont.

The provincial Department of Transport, for its part, is spending a total of R2.269 billion in upgrading road infrastructure and improving access to the main soccer venues and the King Shaka International Airport, in preparation for the World Cup.

## **GOOD GOVERNANCE AND FINANCIAL MANAGEMENT**

Mr. Speaker, the House will also recall that, in tabling the 2008/09 budget, I emphasised the importance of good governance and financial management. I would still like to make a similar call to all Accounting Officers to refrain from wasteful expenditure, and exercise prudence in financial management. This call is even more important now that we are faced with serious fiscal resource constraints, both as a province and as a country. We need to do more with less. We need to be able to account properly for the expenditure we incur in our respective departments.





## Audit Outcomes

It was such a pleasure to learn of the outcomes of the 2007/08 audits carried out by the Auditor General. 13 departments received unqualified audit reports compared to only 5 in 2004/05. Likewise, the number of qualified audit reports declined from 9 to 3 in the last audit. The province had no disclaimer. This bears testimony to improvements in financial management. We commend the Accounting and Chief Financial Officers for the good work.

## Over expenditure

I am, however, disturbed by the prevailing trend of budget overruns in the province. This House will recall that the province over-spent its 2007/08 budget by a net amount of R164.3 million, largely due to the R1.03 billion over-expenditure in the Department of Health. This trend is continuing this financial year. According to the latest in-year monitoring (IYM) report, the province will overspend by R1.9 billion in total, with the Department of Health projecting to over-spend by R1.4 billion. Part of this over-expenditure is explained by an increase in the serious disease burden countrywide, necessitating repetitive visits to health facilities, overshooting of the target for recipients of the Anti Retroviral Treatment, as well as the implementation of the Occupation Specific Dispensation (OSD) for nurses. In fact, seven out of nine provincial Health departments are projecting to over-spend their 2008/09 allocations. This is the reality we have to contend with and we need to adopt a different approach towards financing Health. While I appreciate these expenditure pressures, I am of the view that we can still do much more to contain over-expenditure. I would like to send an unambiguous message to all Accounting Officers. You cannot spend the budget you do not have. Full stop.

As per Cabinet resolution, I also would like to inform the Accounting Officers that all provincial departments are requested to reduce their *Goods and Services* expenditure by 5 per cent in the 2009/10 financial year. We will do this by reducing the use of consultants and promotional advertising, and by using competitive procurement processes. This should allow the province to return to a balanced budget within two financial years. Our Treasury has undertaken a groundbreaking research model that provides micro-analysis of expenditure patterns to track details and location of expenditure. This has proved helpful in identifying areas of over-expenditure, and has been adopted by national departments. Most over-expenditure occurs in *Goods and services* and personnel costs.

## Fighting Corruption

Mr. Speaker, the Premier addressed the matter of corruption as a cause of concern for which the government has taken major steps to prevent and uproot.

38 investigations relating to fraud and corruption in the province have been conducted by our forensic investigations team. Some of these have resulted in disciplinary hearings, criminal charges and convictions. A full report in this regard will be given to the Finance Portfolio committee.



We have now been successful in rolling out project *Unembeza* across all provincial departments. As Members will recall, the main objective of this project is to identify fraud and corruption vulnerability in the provincial IT systems and networks. To all of those cyber-fraud syndicates who are hell bent on defrauding the province, this is the message: **We will find you and arrest you.**

The Performance Budgeting System (PBS) is now implemented in all departments. By the end of the first quarter of 2009/10, the province will be able to use PBS to monitor performance against the allocated budget.

These initiatives will go a long way to reduce corruption and improve efficiency.

## MUNICIPAL SUPPORT PROGRAMME

Our work in supporting our municipalities continues. Mr. Speaker, this House will recall that the Provincial Treasury introduced the Municipal Support Programme in the 2007/08 financial year. The programme was designed to specifically address the following:

- To identify the cause of financial problems experienced by the municipalities; and
- To implement measures through a financial recovery plan that will place the municipalities on a sound and sustainable financial position.

Provincial Treasury has successfully implemented the first phase of the Municipal Support Programme at seven municipalities: uMgungundlovu and Sisonke District Municipalities, Ubuhlebezwe, Mandeni, Greater Kokstad, Ingwe and Impendle Local Municipalities. Some of the major achievements of the Municipal Support Programme to date include:

- Updating general ledgers;
- Performing important reconciliations;
- Implementing conditional grant registers to ensure that unspent grants are cash backed; and
- Established accurate cash flow status and projections.

A partnership with the Development Bank of Southern Africa's (DBSA) *Siyenza Manje* project as part of Phase 3 has now been formalised and we will be assisting a number of other municipalities.

## THE 2009 FISCAL FRAMEWORK – RECEIPTS

Mr. Speaker, let me now turn to the 2009 fiscal framework. The receipts side of the framework is made up of three main sources, namely the equitable share, conditional grants and provincial own-revenue. After factoring in additional equitable share allocations, conditional grants and increases in provincial own-revenue, the total baseline for KwaZulu-Natal increases from R58 billion in 2008/09 to R60.5 billion in 2009/10, and it rises to R71.7 billion in 2011/12 (refer to Table 1).



## Downward revisions of the Equitable share

Crafting this fiscal framework has not been easy. Mr. Speaker, let me share with this House the difficulties we have encountered in putting together the 2009 fiscal framework. The first challenge relates to the equitable share allocation for KwaZulu-Natal. This House will know that equitable share allocations are formula-driven. There has been a slight population decline in our province. After updating the statistics that inform the equitable share, KwaZulu-Natal actually had a reduction in its share. A total of R1.5 billion has been reduced from the provincial equitable share over the 2009 MTEF, due to unfavourable trends in the data that informs the formula.

In January 2009, we were further informed by National Treasury that, due to lower than anticipated revenue collection at a national level, which is a direct result of the world-wide economic slowdown, further reductions in the equitable shares of all provinces needed to be made. As a result, KwaZulu-Natal's equitable share was further reduced by R432.3 million in 2009/10, R539.1 million in 2010/11, and R645.3 million in the outer year of the MTEF. This is the first time in many years that we have seen these kinds of reductions. On a positive note, however, the overall provincial budget is still increasing, albeit at a lower rate compared to the previous years. Over the 2009 MTEF, the provincial budget increases by 10 per cent annually in nominal terms, on average.

**Table 1: Summary of Provincial Fiscal Framework**

(in 000 Rands)	2009/10	2010/11	2011/12
<b>1. Receipts</b>			
<b>Baseline Allocation</b>	<b>58 055 268</b>	<b>64 016 931</b>	<b>67 348 629</b>
Transfer receipts from national	56 335 923	62 166 686	65 387 369
<i>Equitable share</i>	49 022 008	53 678 048	56 898 731
<i>Conditional grants</i>	7 313 915	8 488 638	8 488 638
Provincial own receipts	1 719 345	1 850 245	1 961 260
<b>Increase / (Decrease) in allocation</b>	<b>2 407 685</b>	<b>2 228 059</b>	<b>4 333 089</b>
Transfer receipts from national	2 482 001	2 159 510	4 224 781
<i>Equitable share</i>	967 754	1 064 406	1 849 614
<i>Conditional grants</i>	1 514 247	1 095 104	2 375 167
Provincial own receipts	(74 316)	68 549	108 308
<b>Revised allocation</b>	<b>60 462 953</b>	<b>66 244 990</b>	<b>71 681 718</b>
Transfer receipts from national	58 817 924	64 326 196	69 612 150
<i>Equitable share</i>	49 989 762	54 742 454	58 748 345
<i>Conditional grants</i>	8 828 162	9 583 742	10 863 805
Provincial own receipts	1 645 029	1 918 794	2 069 568
<b>2. New funding available for distribution (excluding conditional grants)</b>	<b>893 438</b>	<b>1 132 955</b>	<b>1 957 922</b>
Equitable share	967 754	1 064 406	1 849 614
Provincial own receipts	(74 316)	68 549	108 308
<b>3. Less Non-discretionary Expenditure Responsibilities</b>	<b>1 982 485</b>	<b>2 382 003</b>	<b>3 557 405</b>
Carry-through costs of 2008/09 Adjustments Estimate	29 315	30 472	32 458
Inflationary Adjustments (Higher than anticipated wage agreement, LTSM and Medical G&S)	1 277 938	1 380 199	1 365 249
Provincially identified priorities	211 172	90 059	81 308
Funding of national spending priorities (2009/10 priorities)	464 060	881 273	2 078 390
<b>4. Surplus/(Deficit) [2-3]</b>	<b>(1 089 047)</b>	<b>(1 249 048)</b>	<b>(1 599 483)</b>
Add Re-allocation from baseline budgets	1 089 047	1 249 048	1 599 483
<i>Growth Fund</i>	543 000	652 070	652 070
<i>SMME Fund</i>	193 950	187 487	280 404
<i>Co-operatives Fund</i>	234 550	170 326	261 310
<i>Dube TradePort</i>	-	205 648	345 338
<i>Reprioritisation of funds - Interest overdraft and arts centres</i>	117 547	33 517	60 361
<b>5. Net discretionary funding available for allocation to provincial priorities</b>	<b>-</b>	<b>-</b>	<b>-</b>





In order to protect key social programmes targeted at the poor households and individuals from the negative effects of these reductions, we needed to reprioritise the provincial budget. The reprioritisation allowed us to release a total of about R3.7 billion from the Department of Economic Development's SMMEs, Growth Fund and Co-operatives programmes (Table 1). Mr. Speaker, this reprioritisation does not mean that we consider these programmes less important. The reprioritisation was necessitated by the tight fiscal constraints we face as a result of the economic downturn. We have, however, retained sufficient resources in the budget to ensure that we still deliver on our development mandate with regard to the SMMEs and Co-operatives programmes.

## **ADDITIONAL ALLOCATIONS**

Mr Speaker, let me briefly indicate to the House some of the departments that have received additional allocations. I will not list them all.

### **Health**

The Department of Health's budget increases from R17.8 billion in 2009/10, to R22.2 billion in the outer year of the MTEF. Factored into this budget are additional allocations of R926.2 million, R1.14 billion and R1.71 billion (both equitable share and conditional grants) over the three years to finance both national and provincial priorities. Some of the programmes that will benefit from these additional resources include:

- MDR/XDR Tuberculosis;
- Occupation Specific Dispensation for professional health workers;
- Combating infant and child mortality;
- Medical goods and services;
- Comprehensive HIV and AIDS programme; and
- Hospital Revitalisation programme.

### **Education**

The total budget for the Department of Education rises to R24.8 billion in 2009/10, and will reach R30.4 billion in 2011/12. This includes additional allocations of R895.9 million, R1.46 billion and R2.45 billion over the three years of the MTEF to fund some of the following expenditure areas:

- Increasing the number of teachers to reduce the teacher/learner ratio;
- Extension of No Fee policy to Quintile 3 schools;





- Learner-teacher support material;
- Expansion of the school nutrition programme; and
- School infrastructure.

## Social Development

Social Development's baseline increases to R1.1 billion in 2009/10, rising to R1.3 billion by 2011/12 to strengthen care and services to older persons, crime prevention, child care and protection, and services to persons with disabilities. This increase in baseline includes an additional allocation of R107 million to finance early childhood development.

## Transport

Transport's baseline increases to R4.5 billion in 2009/10, and further to R5.1 billion in 2011/12. This increase includes R734.8 million, R87.3 million and R261.3 million to accommodate expenditure on:

- Road infrastructure;
- Public transport operations; and
- Continued construction of Sani Pass.

## Housing

Housing's budget increases to R2.1 billion in 2009/10, rising to R2.8 billion in 2011/12. This increase includes amounts of R439.4 million, R360.8 million and R796.2 million added to the two housing conditional grants, namely:

- Disaster management; and
- Integrated Housing and Human Settlement Development.

This House will also be pleased to know that the province has allocated R72.8 million, R69.9 million and R76.4 million to the **Legislature**. Early last year, the Provincial Treasury and the Legislature undertook a zero-base budgeting exercise to determine whether the baseline for the Legislature is adequate, given the important oversight function the Legislature has to perform. The results of the exercise showed that the baseline was not adequate. Part of this additional allocation is therefore made to correct that inadequacy.

The allocations in the rest of the departments are covered in the table as shown.



The additional allocations to departments over the MTEF period are summarised in Table 2 in the printed speech.

**Table 2: Summary of additional allocations, 2009/10 MTEF**

	2009/10	2010/11	2011/12	2009/10	2010/11	2011/12
	R000			Percentage share		
<b>Vote 1: Office of The Premier</b>	<b>21 725</b>	<b>3 016</b>	<b>3 188</b>	<b>2.4</b>	<b>0.3</b>	<b>0.2</b>
Amafa Multi-Media Centre	18 885	-	-	2.1	-	-
Carry-through of 2008/09 Adjustments Estimate: 2008 wage agreement	2 840	3 016	3 188	0.3	0.3	0.2
<b>Vote 2: Provincial Legislature</b>	<b>72 821</b>	<b>69 914</b>	<b>76 437</b>	<b>8.2</b>	<b>6.2</b>	<b>3.9</b>
Increase in baseline ( Zero-base budget)	25 230	26 542	27 789	2.8	2.3	1.4
Once-off special allowance for members after elections	9 510	-	-	1.1	-	-
Carry- through of 2008/09 Adjustments Estimate:	38 081	43 372	48 648	4.3	3.8	2.5
2008 increase in salaries of members	7 490	7 490	7 490	0.8	0.7	0.4
Funding of political parties	25 000	30 000	35 000	2.8	2.6	1.8
Increase in road and air transport costs	5 591	5 882	6 158	0.6	0.5	0.3
<b>Vote 3: Agriculture and Environmental Affairs</b>	<b>10 355</b>	<b>10 997</b>	<b>11 623</b>	<b>1.2</b>	<b>1.0</b>	<b>0.6</b>
Carry-through of 2008/09 Adj. Est. - Ezemvelo KZN Wildlife - 2008 wage agreement	10 355	10 997	11 623	1.2	1.0	0.6
<b>Vote 4: Economic Development</b>	<b>(971 500)</b>	<b>(1 215 531)</b>	<b>(1 539 122)</b>	<b>(108.7)</b>	<b>(107.3)</b>	<b>(78.6)</b>
Reduction in Growth Fund	(543 000)	(652 070)	(652 070)	(60.8)	(57.6)	(33.3)
Reduction in SMME Fund	(193 950)	(187 487)	(280 404)	(21.7)	(16.5)	(14.3)
Reduction in Co-operatives Fund	(234 550)	(170 326)	(261 310)	(26.3)	(15.0)	(13.3)
Reduction in Dube TradePort	-	(205 648)	(345 338)	-	(18.2)	(17.6)
<b>Vote 5: Education</b>	<b>742 117</b>	<b>1 031 355</b>	<b>1 568 669</b>	<b>83.1</b>	<b>91.0</b>	<b>80.1</b>
Carry-through of 2008/09 Adjustments Estimate - 2008 wage agreement	715 680	760 052	803 375	80.1	67.1	41.0
Provincial Priorities	-	15 000	80 370	-	1.3	4.1
Expansion of teachers to reduce teacher/learner ratio in Q1 schools	-	15 000	20 000	-	1.3	1.0
Extension of No Fee policy to Q3 schools	-	-	60 370	-	-	3.1
National Priorities (2009/10 MTEF)	26 437	256 303	684 924	3.0	22.6	35.0
Learner Teacher Support Materials	26 437	29 854	18 074	3.0	2.6	0.9
Extension of No Fee policy to Q3 schools	-	172 533	215 113	-	15.2	11.0
Expansion of teachers to reduce teacher/learner ratio in Q1 schools	-	53 916	387 203	-	4.8	19.8
Support to inclusive education	-	-	64 534	-	-	3.3
<b>Vote 6: Provincial Treasury</b>	<b>147 511</b>	<b>241 440</b>	<b>369 167</b>	<b>16.5</b>	<b>21.3</b>	<b>18.9</b>
Carry-through of 2008/09 Adjustments Estimate	24 402	25 774	27 979	2.7	2.3	1.4
2008 wage agreement	8 168	8 674	9 169	0.9	0.8	0.5
Project Unembeza	16 234	17 100	18 810	1.8	1.5	1.0
OSD for doctors (for Dept of Health)	108 109	215 666	322 669	12.1	19.0	16.5
Municipal support	15 000	-	-	1.7	-	-
Overdraft interest charges	-	-	18 519	-	-	0.9
<b>Vote 7: Health</b>	<b>828 336</b>	<b>947 082</b>	<b>1 265 981</b>	<b>92.7</b>	<b>83.6</b>	<b>64.7</b>
Carry-through of 2008/09 Adjustments Estimate - 2008 wage agreement	325 292	345 460	365 152	36.4	30.5	18.6
Provincial Priorities	10 000	19 785	42 000	1.1	1.7	2.1
Tuberculosis - MDR/XDR	10 000	-	-	1.1	-	-
Reducing infant and child mortality	-	19 785	42 000	-	1.7	2.1
National Priorities	493 044	581 837	858 829	55.2	51.4	43.9
Phasing in OSD for doctors and specialists	-	-	-	-	-	-
Tuberculosis - MDR/XDR	21 622	37 742	41 517	2.4	3.3	2.1
Personnel costs for Health - (shortfall OSD for nurses)	237 841	237 232	236 624	26.6	20.9	12.1
Reducing infant and child mortality	86 488	129 399	172 090	9.7	11.4	8.8
General Health capacity	-	-	301 158	-	-	15.4
Medical goods and services	147 093	177 464	107 440	16.5	15.7	5.5
<b>Vote 9: Community Safety and Liaison</b>	<b>1 086</b>	<b>1 154</b>	<b>1 219</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>
Carry-through of 2008/09 Adjustments Estimate - 2008 wage agreement	1 086	1 154	1 219	0.1	0.1	0.1
<b>Vote 12: Transport</b>	<b>22 720</b>	<b>24 129</b>	<b>133 060</b>	<b>2.5</b>	<b>2.1</b>	<b>6.8</b>
Carry-through of 2008/09 Adjustments Estimate - 2008 wage agreement	22 720	24 129	25 504	2.5	2.1	1.3
Roads and other economic functions	-	-	107 556	-	-	5.5
<b>Vote 13: Social Development</b>	<b>12 461</b>	<b>13 232</b>	<b>121 543</b>	<b>1.4</b>	<b>1.2</b>	<b>6.2</b>
Carry-through of 2008/09 Adjustments Estimate - 2008 wage agreement	12 461	13 232	13 987	1.4	1.2	0.7
National Priorities	-	-	107 556	-	-	5.5
Early Childhood Development	-	-	107 556	-	-	5.5
<b>Vote 15: Arts &amp; Culture</b>	<b>3 577</b>	<b>3 799</b>	<b>(56 346)</b>	<b>0.4</b>	<b>0.3</b>	<b>(2.9)</b>
Carry-through of 2008/09 Adjustments Estimate - 2008 wage agreement	3 577	3 799	4 015	0.4	0.3	0.2
Reduction in baseline due to completion of art centres in 2010/11	-	-	(60 361)	-	-	(3.1)
<b>Vote 16: Sport &amp; Recreation</b>	<b>2 229</b>	<b>2 368</b>	<b>2 503</b>	<b>0.2</b>	<b>0.2</b>	<b>0.1</b>
Carry-through of 2008/09 Adjustments Estimate - 2008 wage agreement	2 229	2 368	2 503	0.2	0.2	0.1
<b>Total</b>	<b>893 438</b>	<b>1 132 955</b>	<b>1 957 922</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>



## The Legislature PPP project

Mr. Speaker, it is important for this House to know the progress made with regard to the construction of the new Legislature Complex. As most to us will know, the building of the Legislature will be procured through a Public Private Partnership process. After delays in finalisation of the process due to technical legal issues, the Legislature, with the assistance of the Transaction Advisors, undertook an in-depth review of the feasibility study previously submitted to the National Treasury to align it with the Legislature Policy adopted in October 2008. The required authorisations have now been obtained for both the Feasibility Study and the Request for Proposals.

The request for the expression of interest was advertised on 7 December 2008, and nineteen groups/persons expressed interest in submitting proposals for the project. The first milestone date is the submission of proposals by the bidders on 27 March 2009, and it is anticipated that financial close could be reached by the end of August 2009, at which stage a final funding commitment must be made by the MEC for Finance.

In a PPP procurement, the first payment is only due after the completion of the complex and the successful relocation of the Legislature, which is expected to be in 2011/12. Details of the estimated cost contained in the feasibility study cannot be made available until the selection of the preferred bidder(s) is made. Once the actual numbers are available, provision will be made in the next MTEF cycle.

Mr Speaker, having made these allocations, the Province of KwaZulu-Natal proudly tables a balanced budget with positive growth. As I mentioned earlier, balancing this budget has been achieved largely through internal reprioritisation of the provincial baseline.

I humbly request Members of the Legislature, as they will be voting on these allocations in the coming days, to familiarise themselves with the details as contained in Budget Statements 1 and 2.

Mr Speaker, drafting a budget is a team effort. There are several players who have contributed in various ways to the budget proposals we are tabling today. Let me start by thanking the Premier, Hon. J.S. Ndebele and the entire Cabinet for the leadership demonstrated in drafting the 2009 MTEF. I am also indebted to Minister Manuel and the rest of Team Finance for the deep insights and technical advice provided on national policy priorities which form the backbone of this budget.

To the Chairperson of the Finance and Economic Development Portfolio Committee, Ms Belinda Scott and the rest of the Committee, I would like to say: Thank you for the robust engagements with the Provincial Treasury on all fiscal matters.

The expenditure proposals contained in this budget have been a matter of intense discussions at the Ministers' Committee on the Budget (MinComBud). I therefore extend my sincere appreciation for the work done by the MinComBud MECs Thusi and Mabuyakhulu.





Lastly Mr. Speaker, I wish to thank all the officials in both my departments for ensuring that the budget documentation we are presenting today is of high quality. To Sipho Shabalala, who has just been redeployed to Ithala, thank you for your sterling work on the technical aspects of this budget. I would also like to convey the same sentiment to the Acting Head of Treasury Leslie Magagula, Mthombeni and the rest of the Treasury team, officials in the Department of Economic Development led by Carol Coetzee and the staff at the Ministry. To my wife, May and my daughters and son, thank you for putting up with my hectic schedule. Without your support, my work would have been impossible.

Mr. Speaker it is my honour to formally table the Appropriation Bill, 2009 for the Province of KwaZulu-Natal for consideration in this House, together with the Budget Statements and other associated budget documentation.

Mr. Speaker,

When the storm was raging and its power was felt by the economies in the United States, Europe and Asia, the South African economy was resilient. We need to draw strength from that experience and unite and hold each others hands: government, labour, private sector, big business and small business to help our country to survive.

Maybe we may be able to say it in the poetic words of G. Rynk

*Thunder BOOMS.  
I hear the sound.  
Lightning FLASHES.  
I see the sight.  
The sky turns black within an instant,  
A storm begins to form.  
The wind blows hard.  
I feel its power.  
People run.  
They try to hide.  
They are afraid of the storm.  
I do not move.  
I stand very still.  
I have no fear of the storm.*

May South Africa face the storm without fear.

I thank you.

