

BUDGET SPEECH

2010/11



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4 March 2010



ISBN No.: 0-86967-413-7

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PROVINCE OF KWAZULU-NATAL

Budget address by Ms Ina Cronjé MEC for Finance, On tabling of the 2010 MTEF Budget in the Provincial Legislature

4 March 2010

INTRODUCTION

Section 28 (1) of the PFMA requires that the MEC for Finance in a province annually tables, in the Provincial Legislature, a multi-year budget projection of:

- a) *the estimated revenue expected to be raised during each financial year of the multi-year period; and*
- b) *the estimated expenditure expected to be incurred, per vote, during each year of the multi-year period, differentiating between capital and current expenditure.*

In line with this provision, I rise to table in this Legislature the 2010/11 Medium Term Expenditure Framework (MTEF) budget for the Province of KwaZulu-Natal.

*"Don't tell me where your priorities are. Show me where you spend your money and I'll tell you what they are."*¹

Today we will show honourable Members where we intend spending our money, and you can tell us whether they address provincial priorities. But remember, "Money is only a tool. It will take you wherever you wish, but it will not replace you as the driver."²

Or, in the words of our beloved Madiba, *"Money won't create success, the freedom to make it will."*

OUR VISION AND PRIORITIES

2010 is the year in which we will do things differently. The new approach spells out our vision for our country and our province and is expressed in 12 measurable outcomes. These outcomes, with associated activities and defined targets to be reached by 2014, have shaped the 2010 budget allocations:

- Improved quality of Basic Education
- A long and healthy life for all South Africans
- All people in South Africa are safe and feel safe

1 James W Frick

2 Ayn Rand (Russian born American writer and novelist)

- Decent employment through inclusive economic growth
- A skilled and capable work force to support an inclusive growth path
- An efficient, competitive and responsive infrastructure network
- Vibrant, equitable and sustainable rural communities contributing to food security for all
- Sustainable human settlements and improved quality of household life
- Responsive, accountable, effective and efficient local government
- Protected and enhanced environmental assets and natural resources
- An efficient, effective and development oriented public service and an empowered, fair and inclusive citizenship
- A better South Africa and a better World

To achieve our vision embodied in these outcomes, the province has embarked on a detailed information gathering process led by the Office of the Premier. This is conducted through the employment of volunteers. They operate in various communities to survey and record the needs of our communities at a household level. A full set of data for each household will enable us to determine poverty levels, health status, and education levels at community level. This will provide the province with sufficient information to react appropriately in devising policies and plans that will have a meaningful impact on the lives of our people.

The exact cost of employing enough volunteers to conduct household surveys and community mobilization is still being calculated, and will therefore receive the required funding in the 2010/11 Adjustments Estimate. In the meantime lead departments can utilise their existing baselines to finance this programme.

Provincial priorities that are imperative in achieving the 12 outcomes continue to be funded and my colleague MECs will elaborate on this when they table their respective budgets. The priorities include:

- Food security - under the slogan "ONE HOME ONE GARDEN"
- The protection and empowerment of women and children
- Treatment of disease, especially TB and HIV
- Provision of food parcels as an interim measure
- Improved births registration
- Increased access to Early Childhood Development services and schooling
- Provision of school nutrition and free schooling
- Skills development programmes
- The establishment of policing fora and street committees
- The re-integration of identified offenders back into communities
- Social crime prevention
- Implementation of social cohesion and moral regeneration programmes
- Creating markets for young entrepreneurs

ECONOMIC SCENARIO

The current economic crisis has brought forward questions about ethics and values and there is now a strong feeling that our planet needs a new compass to set us on a path of real progress. We have to practice what Nobel prize winner Albert Einstein believed, *"the world will not evolve past its current state of crisis by using the same thinking that created the situation."*³

We must learn from the mistakes we have made and from mistakes made globally. The new growth path to achieving faster growth, higher employment and reduced levels of poverty entails:

- sound macroeconomic policies
- microeconomic reform
- massive education and skills programmes
- public employment programmes and job creation through economic growth
- support to the poor and vulnerable by providing a social safety net
- support to business to grow the economy and create employment
- a capable, efficient and effective government

We will embark on this road with the credo of **DOING MORE WITH LESS**. We will not cut on service delivery but we have to be **more focused and work harder and smarter** to outwit the less than favourable economic landscape.

However, we are meeting in an atmosphere of optimism today. Our economy is no longer in the intensive care unit. In fact we are recuperating beyond expectations due to our sound macroeconomic and fiscal policies. From a rating of 15th last year the World Economic Forum's global competitiveness index now rates South Africa sixth out of 133 countries for *"soundness of banks."*

We welcome the good news by Statistics South Africa that the manufacturing sector, which employs about 1.7 million people, made a dramatic recovery in the fourth quarter of last year. The 10% quarterly increase (adjusted and annualised) in manufacturing boosted our total national fourth quarter gross domestic product (GDP), which expanded by 3.2% in the final three months of the year when compared with the third quarter. Provincial GDP increased by 3.09% (annualised and quarterly) from the third quarter, with a 9% growth in the manufacturing sector in the fourth quarter.

New vehicle sales are now on the increase. Business confidence is improving once again and trade activity is positive. There is an increase in manufacturing and according to the *Manpower's Quarterly Survey*, some companies have recorded a 22% increase in their manufacturing activities and are now considering hiring more workers in the first quarter of 2010. The *Kagiso Purchasing Managers Index* (PMI), a reliable yardstick of factory output, rose sharply to 53.6 points in January 2010 from 52.5 points in December 2009 (*Bureau of Economic Research*).

3 In 1922, Einstein was awarded the 1921 Nobel Prize in Physics, "for his services to Theoretical Physics, and especially for his discovery of the law of the photoelectric effect".

The global economy is likewise recovering faster than previously anticipated. As world economic growth is bouncing back from negative territory in 2009 the International Monetary Fund had to adjust its economic growth forecast upwards to 3.9% this year and 4.3% in 2011.

For South Africa, the National Treasury projects real GDP growth to rise to 2.3% in 2010 and 3.2% in 2011. Returning to annual growth rates of 5% and higher will require a much greater effort. We need to broaden economic participation to young people, rural communities and marginalised groups in particular.

For KwaZulu-Natal, Provincial Treasury is forecasting an increase in the gross domestic product (GDP-R) of between 2.2% and 2.7% in 2010. The inflation rate is expected to be within the 6.5% to 7% range. On the whole these indicators are positive signs that give us hope.

But while we are hopeful we need to be reminded that we are still in the recovery ward. Despite the positive growth during the last quarters of 2009 both the national and provincial economies shrank on a year on year basis.

The approximately 25% Eskom tariff increase is lower than initially mooted. However, it will still have an impact on our economy as the table below indicates:

IMPACT OF THE ESKOM TARIFF INCREASES ON THE PROVINCIAL BUDGET				
				Electricity Increase as a % of Budget Increase
Provincial Electricity Increase Year 1	R45 539 964	Provincial Budget Increase Year 1	R3 688 526 000	1.23%
Provincial Electricity Increase Year 2	R106 108 116	Provincial Budget Increase Year 2	R3 283 293 000	3.23%
Provincial Electricity Increase Year 3	R185 752 960	Provincial Budget Increase Year 3	R2 491 916 000	7.45%
Cumulative Provincial Electricity Increase	R337 401 040			
Cumulative Provincial Budget Increase	R9 463 735 000			
As a %	3.57%			

EFFECTS OF THE RECESSION

The effects of this recession are wide and varied. Serious inroads have been made into the gains of accelerated economic growth and employment during the period 2001 - 2008. The impact is best measured in human terms:

The International Labour Organisation reports that about 34 million people across the world lost their jobs in the past 18 months. The World Bank estimates that nearly 200 million people may fall back below the poverty line as a result of the recession. In South Africa 870 000 people have lost their jobs since the crisis began. KwaZulu-Natal lost 220 000 jobs up to the fourth quarter of

2009. When the number of people who have given up looking for work (the discouraged work seekers) is included in the unemployment figures, the statistics are frightening:

KWAZULU-NATAL LABOUR FORCE CHARACTERISTICS						
Quarter	Population of Working Age (15-64 years)	Labour Force	Employed	Unemployed	Not Economically Active	Discouraged Work Seekers
Q1 2008	6 250 000	3 315 000	2 562 000	753 000	2 935 000	183 000
Q2 2008	6 273 000	3 359 000	2 614 000	745 000	2 914 000	167 000
Q3 2008	6 295 000	3 312 000	2 583 000	729 000	2 983 000	186 000
Q4 2008	6 318 000	3 321 000	2 631 000	690 000	2 997 000	224 000
Q1 2009	6 340 000	3 248 000	2 514 000	733 000	3 093 000	271 000
Q2 2009	6 362 000	3 043 000	2 457 000	586 000	3 319 000	448 000
Q3 2009	6 384 000	3 024 000	2 458 000	566 000	3 360 000	480 999
Q4 2009	6 405 000	2 983 000	2 409 000	574 000	3 422 000	452 000

Sadly the effects are most likely to be felt by the poorest. The hardest hit are youth and women who form the vast majority of the poor. The table below gives statistics about unemployment by age. It is clear from this that we need to focus specifically on creating more employment opportunities for young people.

% UNEMPLOYMENT BY AGE, 2009 (SOUTH AFRICA)	
15 - 24	48.3
25 - 32	28.5
35 - 44	17.1
45 - 54	10.8
55 - 64	6.7
TOTAL	24.3 (Narrow definition)

Government has a two-pronged approach – a short term strategy that deals with immediate amelioration represented by the framework agreement,⁴ and a further range of measures that will impact on unemployed and discouraged work seekers. In this regard I want to repeat Premier Mkhize's plea to companies during his State of the Province Address to take advantage of the lay-off training scheme.

The province is also concerned about the persistent income inequality as measured by the Gini-Coefficient.⁵ Between 2001 and 2007, the Gini Coefficient increased from 0.65 to 0.67,

4 National Economic Development and Labour Council (NEDLAC) framework agreement for South Africa's response to the International economic crisis

5 The Gini coefficient is a number between zero and one that is a measure of inequality

indicating widening income inequality. Ideally, the province should be striving for a coefficient closer to zero to indicate equality in terms of income earnings. In simple terms, a coefficient of zero indicates that 10% of the population earns 10% of the income for example – perfect income equality.

IMPLICATIONS FOR THE 2010/11 BUDGET

The recession bit hard into the state coffers. National tax revenue collection has underperformed in 2009/10 with a projected under-collection in tax revenue of some R69 billion. It is expected that this trend will continue in the 2010/11 financial year, as tax revenue growth is expected to lag the recovery.

This underperformance in tax collection against budget means that government has less money to finance its spending programmes. This in turn necessitates increased annual borrowing requirements. In the 2009/10 fiscal year, the country has had to borrow 7.3% of GDP.

While South Africa's reputation for the "soundness of its banks" has benefited us in borrowing money at a lower interest rate, we all know that money is an expensive commodity and we have to be cautious of the consequences of unsustainable debt levels. Generally countries with high debt levels (Japan, Greece, and Italy) can be expected to grow more slowly in the long term than countries with low debt or surpluses (China, Chile).

Increased borrowing pushes up the country's debt stock resulting in higher debt-service costs. According to National Treasury, debt-service costs are already beginning to crowd out other investments, a trend that is likely to persist for the next few years. The national net loan debt is projected to rise from R526 billion at the end of 2008/09 to R1.3 trillion in 2012/13.⁶

Perhaps there is wisdom after all in what former USA President Ronald Reagan said, "We don't have a trillion-dollar debt because we haven't taxed enough; we have a trillion dollar debt because we spend too much." So let us do **MORE WITH LESS**.

PARTICIPATION IN BUDGET FORMULATION

In ensuring that this budget addresses the concerns and needs of the people of KwaZulu-Natal, I have embarked on a number of community participation pre-budget road shows. This is an ideal forum for our people to indicate what lies at the heart of their needs and requirements. What has come out quite clearly is that the people want us to address issues such as job creation, economic growth and poverty reduction. Closely linked to these, are a number of severe social challenges such as the HIV and AIDS and TB pandemics that continue to plague the province and the country as a whole, as well as the provision of quality education and skills development.

6 National Treasury Budget Estimates

Our responsibility as the government of KwaZulu-Natal is to ensure that every possible measure is taken to allocate public spending to the priorities of the people. Equally important is to ensure that we spend public money wisely, effectively and efficiently.

Given our moderate economic growth and rising public debt interest costs government is scrutinising departmental performance to improve efficiency, obtain better value for money and move resources to where they are needed most.

To this end I have met with all my colleagues, the MECs, to discuss their budgets vote by vote. This has given us the opportunity to gain insight into spending pressures and to seek solutions together; and I thank them for their enthusiastic participation in these discussions.

THE 2010/11 MTEF

I now turn to the Provincial Fiscal Framework for the 2010/11 MTEF.

Table 1: Summary of provincial payments and estimates by vote

R thousand	Outcome			Main Appropriation	Adjusted Appropriation	Revised Estimate	Medium-term Estimates		
	Audited 2006/07	Audited 2007/08	Audited 2008/09				2010/11	2011/12	2012/13
1. Office of the Premier	303 766	395 396	463 842	454 010	435 718	435 718	419 284	405 145	425 306
2. Provincial Legislature	160 791	209 999	247 649	287 051	306 768	309 356	322 193	353 132	380 684
3. Agriculture, Environmental Affairs and Rural Dev.	1 291 802	1 252 713	1 752 824	1 950 032	1 999 301	1 991 217	2 188 337	2 361 767	2 481 127
4. Economic Development and Tourism	507 910	1 510 954	1 771 422	2 487 690	2 492 401	2 470 752	1 624 798	1 473 278	1 547 147
5. Education	16 218 726	18 406 747	22 991 742	24 609 443	26 058 854	26 271 374	29 034 762	31 600 250	33 292 209
6. Provincial Treasury	506 002	379 645	693 565	624 923	523 449	670 467	640 637	666 077	686 857
7. Health	11 663 951	14 959 441	17 103 101	17 448 526	18 329 163	20 641 179	21 657 681	23 628 833	25 106 593
8. Human Settlements	1 252 921	1 522 181	1 876 146	2 571 813	2 573 713	2 570 713	3 111 613	3 429 147	3 621 603
9. Community Safety and Liaison	59 360	78 797	109 287	127 638	127 638	125 613	140 744	149 207	156 740
10. The Royal Household	38 147	39 114	47 853	40 643	40 643	40 643	43 845	46 214	48 560
11. Co-operative Governance and Traditional Affairs	654 132	744 650	1 020 672	1 092 420	1 093 918	1 053 918	1 061 903	1 129 745	1 186 801
12. Transport	2 539 187	3 121 798	5 025 223	5 147 898	5 231 798	5 204 798	5 631 057	5 930 515	6 267 113
13. Social Development	941 579	1 015 188	1 232 408	1 361 280	1 361 280	1 361 280	1 668 170	1 873 676	1 968 432
14. Public Works	450 267	479 297	731 259	867 440	798 625	793 101	868 214	920 437	967 154
15. Arts and Culture	179 290	206 435	253 289	256 432	267 323	264 323	357 018	328 491	358 124
16. Sport and Recreation	113 566	160 598	213 267	259 187	266 187	261 187	307 107	364 970	383 364
TOTAL	36 881 397	44 482 953	55 533 549	59 586 426	61 906 779	64 465 639	69 077 363	74 660 884	78 877 814

Table 1 gives a summary of provincial allocations by vote.

Education

The lion's share again goes to Education. The **Education** budget is set to rise from R26.058 billion in 2009/10 to R33.292 billion in 2012/13. This shows an average annual growth of 8.5% (nominal) and 3.5% in real terms. This is to give effect to the key priority of government, namely to improve the quality of education.

A total of 1 465 882 learners at our public schools in KZN are expected to benefit from the *NO FEE* policy by 2012/13. There are currently 3 382 no fee schools in the province, including farm schools. The *NO FEE* school policy will be extended to cover Quintile 3 schools in 2010/11. Furthermore, funding has been made available for the re-imbursement of schools in Quintiles 3 to 5 that enroll learners from poor backgrounds.

To address the shortage of school infrastructure, 8 schools are currently being constructed and mobile early childhood development (ECD) classrooms will be delivered to 200 primary schools. In line with this, the number of Grade R classes in the province have increased to 5 500 over the past five years.

A hungry child cannot perform to his or her potential. Therefore, the national school nutrition programme is being extended to cover Quintile 2 secondary schools. This increases the coverage to 1 845 000 learners in 2010/11, rising to 2 168 821 learners in 2012/13.

Health

In terms of **health services**, the budget allocated to the Department of Health increases from R18.329 billion in 2009/10 to R25.107 billion in 2012/13, receiving the second highest share of the provincial budget. An annual average growth of 11.1% (nominal) and 6.0% in real terms is reflected.

This budget will continue to be utilised for improving the provision of health care in the province. This includes the comprehensive management of HIV and AIDS, maternal, neo-natal and women's health and the comprehensive management of TB.

The budget allocated to the Department of Health will provide for the treatment of 33 918 308 people at Primary Health Care Facilities in 2012/13. This is an increase of 7 727 150 from the 2009/10 financial year. Of these 1 775 407 are children under the age of 5 years.

The new born Nevirapine uptake rate is set to remain at 100% over the entire MTEF. The newborn baby AZT uptake is planned to be increased from 91% in 2009/10 to 100% in 2012/13. The total number of registered ART patients on treatment is set to more than double between 2009/10 and 2012/13, increasing from 335 148 patients to 695 557 patients.

Transport

The budget allocated to the Department of **Transport** increases from R5.232 billion in 2009/10 to R6.267 billion in 2012/13 which shows an average annual growth of 1.3% in real terms (6.2% nominal). This will enable the department to continue to construct, maintain and repair the provincial road network; plan, regulate and provide an integrated transportation system; and manage road traffic. It will also allow the department to rehabilitate 1 400 000 m² of road per year and reseal 1 800 000 m² of tarred road, among others. A number of projects are implemented using labour intensive methods, and the MTEF sees the continued use of *Zibambele* contractors with 40 000 contractors being employed annually. Through the EPWP projects, the department will be creating 5.240 million person days of work annually.

Human Settlements

The budget of the Department of **Human Settlements** rises from R2.574 billion in 2009/10 to R3.622 billion in 2012/13, which is an average annual increase of 6.9% in real terms (12.1% nominal). This allocation allows the department to continue to accelerate housing delivery in rural areas throughout the province and to continue with the slums clearance programme aimed at eradicating all slums in the province by 2014. In terms of the rural housing programme administered by this department, the department plans to complete 43 702 houses over the

MTEF. The department receives a new conditional grant in 2010/11 of R133.800 million to assist with the rehabilitation of community settlements affected by severe storms and flooding during 2008 and 2009.

Access to social services such as **housing** and **potable** water in KwaZulu-Natal has improved steadily over the years. For example, more than 1.3 million households now have access to decent housing compared to 910 000 in 2001. The number of households without access to potable water has declined from 594 000 in 2001 to about 100 000 currently.

Agriculture, Environmental Affairs and Rural Development

The Department of **Agriculture, Environmental Affairs and Rural Development** will focus on rural development, agrarian reform, social and economic infrastructure development and sustainable natural resource management. The budget allocated to the department increases from R1.999 billion in 2009/10 to R2.481 billion in 2012/13 which is an annual average real increase of 2.5% (7.5% nominal). This allocation will ensure that 791 956 food insecure households will benefit from the food security interventions over the MTEF. Furthermore, more than 800 000 beneficiaries per year will be receiving seed packs.

Social Development

The budget of the Department of **Social Development** increases from R1.361 billion in 2009/10 to R1.968 billion in 2012/13, which is an annual average increase of 7.9% in real terms (13.1% nominal). The department will continue to focus on various initiatives, such as the National Youth service, victim empowerment, substance abuse and HIV and AIDS programmes.

Co-operative Governance and Traditional Affairs

The Department of **Co-operative Governance and Traditional Affairs** sees an increase in its budget allocation from R1.094 billion in 2009/10 to R1.187 billion in 2012/13. This is a decrease of 2.0% in real terms (increase of 2.8% nominal). This budget growth is low due to the Province recalling all World Cup 2010 funding post 2010, to the Provincial Revenue Fund. The department will, however, continue to focus on the local government turnaround strategy, infrastructure investment, capacity building and co-operative governance.

Economic Development and Tourism

The Department of **Economic Development and Tourism's** budget allocation in 2009/10 is R2.492 billion. This decreases to R1.547 billion in 2012/13, mainly due to the completion of the airport portion of the Dube Trade Port (DTP) project administered by the department. This reflects negative growth of 18.6% (14.7% nominal). The allocation allows for the continuation of projects such as the Richards Bay Industrial Development Zone, the Moses Kotane Institute (which trains teachers and students in mathematics and science) and DTP. The department will also be initiating new projects, such as the Tourism Buddy programme which trains guides on the correct protocol and information required to assist foreign tourists during the 2010 World Cup. Also, the allocation provides for the establishment of the Agri-Business Development Agency which is a special purpose vehicle focusing on improving the land reform process and providing support to emerging farmers, including the sourcing of appropriate markets.

Public Works

The Department of **Public Works'** budget increases from R798.625 million in 2009/10 to R967.154 million in 2012/13, which is an average annual real increase of 1.7% (6.6% nominal). This allocation will be used for continued payment of property rates on all provincial properties, the expansion of the IDIP programme to other departments as well as continuing the mentoring and training of the construction industry in KwaZulu-Natal.

Provincial Treasury

The budget allocation of the **Provincial Treasury** increases from R523.449 million in 2009/10 to R686.857 million in 2012/13, which includes a substantial amount of R235 million per year, being a provision for the interest costs related to the provincial overdraft. This interest on the overdraft allocation is kept constant over the MTEF, resulting in an average annual real growth of only 4.5%. The allocation also provides for the Municipal Support Programme which continues to support and assist municipalities in improving their level of financial management and reporting.

Office of the Premier

The **Office of the Premier's** budget allocation decreases from R435.718 million in 2009/10 to R425.306 million in 2012/13, which is a decrease in real terms of 5.4% (0.8% nominal) due to the fact that the full Soccer Development allocation is moved to the Department of Sport and Recreation from 2011/12. Among others, their allocation allows the Office of the Premier to complete phase 2 of the provincial Nerve Centre; undertake a number of activities in relation to hosting five soccer teams (Greece, Algeria, Nigeria, Cameroon and Paraguay) during the 2010 World Cup; and to continue focusing on training public servants at the Provincial Public Service Training academy, with the intention of training 6 000 public servants in 2010/11.

Arts and Culture

The Department of **Arts and Culture's** budget allocation increases from R267.323 million in 2009/10 to R358.124 million in 2012/13. This is an increase of 5.2% in real terms (10.2% nominal). This increase is influenced by the fact that 2010/11 includes a substantial once-off allocation of R56.943 million for a number of infrastructure projects, such as the renovations of halls and camp sites and the construction of arts centres. The department is also commencing the process of provincialising public libraries in 2010/11, which is being done in a phased-in approach.

Sport and Recreation

The Department of **Sport and Recreation** sees its budget allocation increasing from R266.187 million in 2009/10 to R383.364 million in 2012/13 which is an average annual increase of 7.8% in real terms (12.9% nominal). As mentioned earlier, this substantial real growth is influenced by the movement of Soccer Development funding from the Office of the Premier. A large portion of the department's allocation relates to the Mass Sports and Recreation Participation Programme conditional grant which funds the promotion of mass participation within schools and communities through a number of selected sports and recreation activities.

Provincial Legislature

The budget of the **Provincial Legislature** increases from R306.768 million in 2009/10 to R380.684 million in 2012/13, which is an average annual real increase of 2.5% (7.5% nominal). This allocation is inclusive of the remuneration of the Members of this House. The allocation also provides for public participation events, aimed at improving the interaction between the Legislature and the citizens of the Province.

Community Safety and Liaison

The Department of **Community Safety and Liaison's** budget increases from R127.638 million in 2009/10 to R156.740 million in 2012/13, which is an average annual real increase of 2.2% (7.1% nominal). This allocation provides for the Volunteer Social Crime Prevention Programme which aims to drive social crime prevention through visible policing.

Royal Household

The **Royal Household's** budget allocation increases from R40.643 million in 2009/10 to R48.560 million in 2012/13, which is an average annual real increase of 1.2% (6.1% nominal). The intention is for this vote to be listed as a public entity during the course of the year, where after it will be incorporated into Vote 1: Office of the Premier.

*"Finance is the art of passing money from hand to hand until it finally disappears."*⁷

Own-revenue estimates

Due to the continued existence of the provincial overdraft the province is not able to realise any interest from the provincial revenue fund. As a result, we have had to revise downwards the provincial own-revenue by R115.226 million in 2010/11, R126.857 million in 2011/12 and R105.237 million in 2012/13. After factoring in these downward revisions, the province is estimating to collect R1.804 billion, R1.943 billion and R2.068 billion over the MTEF mainly from motor vehicle licence fees, gaming and health patient fees. However, the Province needs to explore more ways in which we can increase our own revenue and Provincial Treasury is working on proposals in that regard.

Reprioritisation

Preparing this framework required the province to look seriously at reprioritising the existing provincial baseline. For example, allocations for 2010 Soccer World Cup related expenditure, which were still in departments' baselines, had to be recalled to the provincial *fiscus* for reallocation to other priority areas, as these allocations would no longer be required for Soccer World Cup purposes post 2010. Therefore, amounts of R172.513 million, R181.139 million and R193.196 million over the 2010/11 MTEF are returned to the provincial revenue fund for reallocation. These amounts are mainly from the Department of Co-operative Governance and Traditional Affairs, who funded the construction of stadia for the World Cup in five districts.

Additional Allocations from the Equitable Share

The province receives some additional allocations from the equitable share over the 2010/11 MTEF.

However, most of the additional funding is specifically ear-marked for wage related costs, as can be seen in **Table 2** below.

Table 2 Provision for National Priorities

(R thousands)	2010/11	2011/12	2012/13
Policy Priorities funded through the Equitable Share			
Inflationary Adjustments	2 118 108	2 262 733	2 408 177
Higher than anticipated wage settlement	1 173 546	1 310 567	1 448 912
Education OSD	651 970	655 283	658 597
Health OSD	292 592	296 883	300 668
Provincial Treasury	5 000	5 000	5 000
To strengthen municipal support units	5 000	5 000	5 000
Total	2 123 108	2 267 733	2 413 177

As indicated in the table above amounts of R2.123 billion, R2.268 billion and R2.413 billion are added to the provincial equitable share over the MTEF period. These amounts will finance the following:

- The carry-through costs of the higher than anticipated 2009 wage agreement (11.5% instead of the budgeted 5.5%)
- The implementation of the OSD for educators
- The implementation of the OSD for health practitioners
- Strengthening of the municipal support unit in Provincial Treasury.

It is important for this House to note that these additional allocations are still not sufficient to cover the full costs of the wage agreement and the implementation of various OSDs. According to our estimates there is a **R1.1 billion shortfall** for those two expenditure areas, and if not fully funded in future, the shortfall will carry-through the 2010/11 MTEF, with serious budgetary implications.

Besides the amounts mentioned above the province also receives a fairly small increase in its equitable share allocation due to various updates of the data that informs the equitable share formula. The bulk of this is allocated to financing some provincial priorities, which I will discuss later.

Conditional Grants

Conditional grant funding shows strong growth over the 2010/11 MTEF increasing by R2.158 billion, R2.301 billion and R3.405 billion. It should be noted that the amounts discussed here are included in the allocations per vote in **Table 1**.

The province receives four new conditional grants in the 2010/11 MTEF, these being:

- the Technical School Recapitalisation grant to improve conditions at technical schools and modernise them to meet acceptable standards
- the FET College Sector grant (which was previously equitable share funded), to commence planning for the eventual shift of these colleges to the newly established national Department of Higher Education and Training
- the Expanded Public Works Programme grant for the Social Sector, to subsidise non-profit organisations working in home community based care programmes for the Departments of Health and Social Development
- the Housing Disaster Relief grant, to rehabilitate community settlements that were affected by severe storms and flooding during November and December 2009.

Most of the existing conditional grants will receive an inflationary increase only in the 2012/13 financial year, with the following exceptions:

- The Infrastructure Grant to Provinces allocated to Education, Health and Transport sees a decrease of R2.136 million in 2010/11 due to a technical adjustment made by National Treasury, and increases in 2011/12 and 2012/13 of R17.265 million and R285.696 million in 2012/13, respectively. R52.954 million of the 2012/13 additional funding is earmarked specifically for the improvement of school infrastructure.
- The Comprehensive HIV and AIDS grant receives substantial additional funding over the 2010/11 MTEF as follows: R485.729 million in 2010/11, R787.325 million in 2011/12 and R1.151 billion in 2012/13. This is added to support government's commitment to addressing the HIV and AIDS pandemic. In support of this, the CD4 count threshold for TB sufferers and pregnant women moves from 200 to 350, and triple therapy is provided to all children born with HIV and AIDS.
- The Public Transport Operations grant has become a conditional grant from 2009/10. The allocation in 2009/10 only provided funding for 2009/10 at that stage. The conditional grant allocation now provides funding for the entire 2010/11 MTEF as follows: R714.587 million in 2010/11, R773.473 million in 2011/12 and R815.611 million in 2012/13.

Provincial Priorities funded

As a result of the provincial overdraft Cabinet agreed to allocate only funding to those provincial priorities deemed essential and to rather focus any additional funding received on ensuring that the provincial overdraft is managed downward. Therefore, the additional equitable share allocation as a result of data updates which I referred to earlier, was used to manage the provincial bank overdraft downward. In addition the 2010 funding recalled from the departments post 2010 was also used for this purpose. The following provincial priorities, amounting to R328.169 million, R330.351 million and R355.984 million over the MTEF received additional funding:

- R235 million being a provision for the payment of interest on the overdraft
- The function shift to all departments for the management of ill health of personnel (Policy on Incapacity Leave and Ill Health Retirement)
- Carry-through costs of the 2009/10 Adjustments Estimate, i.e. Statutory increases for MPLs
- Implementation of the job evaluation review for the Provincial Legislature
- Municipal support programmes
- The provincialisation of community libraries.

Table 3 below provides the provincial fiscal framework. This table indicates that the budget allocation of the Province (inclusive of the equitable share, conditional grants and provincial own receipts) amounts to **R70.289 billion in 2010/11, rising to R81.097 billion in 2012/13.**

Table 3: Summary of provincial fiscal framework

R thousand	2010/11	2011/12	2012/13
1. Receipts			
1.1 Baseline allocation	66 244 990	71 681 718	74 722 613
Transfer receipts from national	64 326 196	69 612 150	72 549 567
Equitable share	54 742 454	58 748 345	61 685 762
Conditional grants	9 583 742	10 863 805	10 863 805
Provincial own receipts	1 918 794	2 069 568	2 173 046
1.2 Increase / (Decrease) in allocation	4 043 665	4 784 592	6 374 966
Transfer receipts from national	4 158 891	4 911 449	6 480 203
Equitable share	2 000 380	2 610 530	3 075 337
Conditional grants	2 158 511	2 300 919	3 404 866
Provincial own receipts	(115 226)	(126 857)	(105 237)
1.3 Revised allocation	70 288 655	76 466 310	81 097 579
Transfer receipts from national	68 485 087	74 523 599	79 029 770
Equitable share	56 742 834	61 358 875	64 761 099
Conditional grants	11 742 253	13 164 724	14 268 671
Provincial own receipts	1 803 568	1 942 711	2 067 809
2. New funding available for distribution (excluding conditional grants)			
Equitable share	2 000 380	2 610 530	3 075 337
Provincial own receipts	(115 226)	(126 857)	(105 237)
Funding received for FET (as grant)	584 806	619 819	650 810
Recall 2010 funding	172 513	181 139	193 196
3. New funding available for distribution	2 642 473	3 284 631	3 814 106
Less: National priorities (wage agreement, OSD and municipal support)	2 123 108	2 267 733	2 413 177
Less: Provincial priorities	328 169	330 351	355 987
4. Increase/(Decrease) in budgeted surplus	191 196	686 547	1 044 942
Budgeted surplus as per Explanatory Memorandum to 2009/10 Budget Statements	1 020 096	1 118 879	1 174 823
5. Budgeted surplus after above changes	1 211 292	1 805 426	2 219 765

PAYING OFF THE OVERDRAFT

*"Annual income twenty pounds, annual expenditure nineteen six, result happiness. Annual income twenty pounds, annual expenditure twenty pound ought and six, result misery."*⁸

I am confident that the province will see its way out of the current bank overdraft situation over the 2010/11 MTEF, in the light of:

- continuing the baseline trajectory of departments taking into account the 7.5 % reduction in the value of the *Goods and Services* budgets
- the continued implementation of the Cabinet-approved cost-cutting measures
- the Province implementing the first charge rule

8 Charles Dickens

7.5% Reduction

The House will recall that the Province began budgeting for a surplus from the 2009/10 financial year; and that the source of this surplus was the implementation of the 7.5% cut in departments' *Goods and Services* budgets. The aim was to repay the provincial overdraft over three years. The implementation of the various OSDs and the higher than anticipated 2009 wage agreement resulted in the Province projecting to not achieve the desired surplus in 2009/10. This therefore necessitates that the province continues to budget for a surplus. To ensure that future growth and service delivery are not continuously hampered by rises in the bank overdraft and the associated interest costs, the MTEF allows for a reduction in the provincial bank overdraft which not only costs us money, but we also lose income.

The surplus then consists of keeping the departments' budgets at the reduced amounts (i.e. after the 7.5% cut in the value of the *Goods and Services* budgets), as well as only allocating a portion of the amount that the Province receives due to the data updates of the equitable share formula, to provincial priorities. In a nutshell: every cent we save will go into paying back our overdraft.

Table 3 above indicates that the surplus budgeted over the 2009/10 MTEF increases by the amount that the Province receives, but does not allocate for spending to the departments. Therefore the budgeted surplus of the province increases from R1.211 billion in 2010/11 to R1.805 billion in 2011/12 and to R2.220 billion in 2012/13. **This should be sufficient to pay off the provincial overdraft over the 2010/11 MTEF, as long as the Province is not again affected by higher than budgeted wage agreements.** The provincial and national *fiscus* has been placed under immense pressure as a result of the 2009 wage agreement. As Minister Ghordan announced in his speech on 17 February 2010, it will be necessary to moderate salary increases going forward to ensure that funds are also available for **growth in public service employment and so that spending on service delivery is not compromised.**

Cost-Cutting Measures

When tabling the 2009/10 Adjustments Budget, I indicated to this House certain cost-cutting measures to ensure that the Province returns to a healthy financial position. The focus of these cost cutting measures is for the Province to **do more with less**. It should be noted that these measures were not only implemented for the duration of the 2009/10 financial year, **but will remain in place at least until the provincial overdraft has been fully repaid.** Please allow me to repeat these measures:

- Freezing of **all** posts (in exceptional circumstances, the Executive Authority can approve the filling of essential/critical posts - with a report being sent to the Office of the Premier and the Provincial Treasury)
- No furniture or equipment to be bought (excluding those that are funded by conditional grants)
- Essential training to be done in-house (exceptions to be approved by the HODs)
- Overseas trips to be rationalised
- Business class travel only for MECs and HODs (and the Speaker and MPLs as decided by the Legislature)
- Car hire bookings - class of vehicle to be lowered

- Catering for meetings to be stopped
- Kilometre controls be implemented on travelling (1750 kilometers per month per official unless there are exceptional circumstances - the exceptions should be approved by the HODs)
- Officials to travel together unless absolutely unavoidable
- Only essential trips to be undertaken
- Meetings, strategic planning sessions and workshops to be held in departments' offices instead of private venues
- Air travel to be limited to important meetings with only one official to attend on behalf of the department, unless otherwise required
- No team building exercises or year-end/Christmas functions (only permitted if paid for by the staff themselves)
- Cut down on unnecessary overnight accommodation. Staff to sleep over only if the total distance to and from the destination is more than 500 kilometers
- Where there are one-day meetings in other provinces, officials must travel there and back on the same day (where possible)
- No performance bonuses to be paid from 2010/11
- No promotional items to be purchased (t-shirts, caps, bags, etc)
- No leave conversion payments to be made (leave to be taken)
- Strict control of overtime
- Re-evaluate the hosting of provincial events (including budget dinners)
- Implement transversal cell phone policy to curtail costs
- Spending on travel to be investigated with a view to reducing costs - including hotel and flight bookings
- Introduce bulk media buying
- Review policy on subsidised vehicles for officials
- Fraud and corruption in the public service to be eliminated
- Supply Chain Management to be strengthened to eliminate collusion between suppliers and government officials.

We point out that most of these cost cutting measures are simply elements of good governance and should stay in place even when the provincial overdraft has been paid off. *"Good government is the outcome of private virtue"* – let us remind ourselves of this.⁹

9 John Jay Chapman

I am pleased to report that the vast majority of departments are enthusiastically implementing our cost cutting measures and some are even going beyond what is required. This is highly appreciated and with that kind of support we will turn the corner - I have no doubt about that.

Implementation of the First Charge Rule

In addition to the 7.5% reduction mentioned earlier the Province implemented the first charge rule (in terms of Section 34(2) of the PFMA) for the first time during the 2009/10 Adjustments Estimate. This was done as some departments' over-expenditure in prior years was of such a level that the 7.5% reduction was insufficient for them to repay their over-expenditure amounts. This meant that the affected departments, namely Education, Health and Transport saw a further reduction in their budgets available for spending, in order to fully pay back the over-expenditure they had incurred in 2008/09. Therefore these departments' budgets available for spending was reduced in 2009/10 by R111.466 million for Education, R758 million for Health and R185.492 million for Transport. Important to note and understand, though, is that these amounts were not removed from their budgets but were allocated to *Unauthorised Expenditure* to allow the necessary accounting treatment of these amounts by Provincial Treasury. These amounts were then the first installment of the first charge rule.

In 2010/11, Education and Transport are affected by the second installment of the first charge rule, with their budgets available for spending reducing by R106.039 million and R185.466 million, respectively. Health is not yet being charged the second installment, to allow the Joint Task Team, comprising officials from Provincial Treasury and the Department of Health, more time to implement their turnaround strategy.

Furthermore, the Standing Committee on Public Accounts (SCOPA) approved several amounts to be authorised and these will be included in the next Authorisation of Unauthorised Expenditure Bill, to be tabled in the Provincial Legislature. However, several amounts were not approved for authorisation, and therefore become a first charge against those votes. The votes affected are:

- **Education** - R27.563 million to be implemented as a first charge in 2010/11
- **Human Settlements** - R18.606 million to be implemented as a first charge in two equal installments of R9.303 million in 2010/11 and 2011/12
- **The Royal Household** - R11.299 million to be implemented as a first charge in three equal installments of R3.766 million in 2010/11, 2011/12 and 2012/13
- **Transport** - R200 000 to be implemented as a first charge in 2010/11.

PROCUREMENT REFORMS AND FIGHTING CORRUPTION

It is clear that government does not have any room to manoeuvre. Spending on budget is the ONLY option.

Besides the cost cutting measures adopted by Cabinet there is still more wasteful expenditure we need to cut. Our procurement system remains a cause for concern. As Minister Gordhan put it: *"A major site of both wastage and inefficiency is in our procurement system. Through a combination of corrupt practices, inefficient procurement, poor planning and in some instances, collusion by the private sector, we are not getting the kind of value from our purchases that our people deserve"*.

Our provincial cost cutting measures directed all departments to take immediate steps to eradicate fraud and corruption, which continues to be a drain on the provincial fiscus.

We also appeal to our business people to give government value for money. Inflating prices just because it is government can never be justified. Do not collude with corrupt officials - it is stealing from the poorest and robbing others of service delivery. We need to change the mindset from *"making a killing"* to *"making a living"* if we want all our people to benefit.

The days of giving work to companies who cannot deliver a service and only act as intermediaries are numbered. So are the days of civil servants who use the state to enrich themselves. A number of arrests have already taken place and more are to come.

The purpose of South Africa's policy of Black Economic Empowerment (BEE) has never been to enrich only a few people. It is essentially a growth strategy, targeting the South African economy's weakest point: inequality. We have to broaden the base that is associated with growth, development and enterprise development, and not merely redistribute existing wealth. Empowerment is about building capabilities so that people can contribute to economic development and improve their lives and livelihoods, not about extracting large economic rents from government.

Supply Chain Management

The Province is developing a system that will eliminate fraud in our supply chain management and give us value for money. Treasury, together with the Office of the Premier, are finalising this system.

The Premier emphasised in his State of the Province Address, ***"Government is investigating a shared services model to ensure efficient management of tenders and regular price comparison to eliminate the possibility of inflated prices."***

Prices are mainly inflated when government departments procure goods and services through a ***"request-for-quotations"*** instead of a competitive tender process.

The new system will provide all departments with the most current prices of all items. The price list will be updated on a daily basis and officials who procure goods and services above market-clearing price will have to explain why.

It will work like the Reuters system which publishes going prices of all commodities traded in the market place and will block the issuing of orders if the price is above the listed price for that item.

It will also allow service providers to bid against one another on the strength of competitive prices to supply particular goods or services.

Before the system is introduced government will do a spend-analysis province wide. The analysis will indicate what are the most frequently procured goods and services; what is the annual expenditure on these items across government; and who the main suppliers are, etc.

It will provide a direct link to existing general period contracts already negotiated by National Treasury (in general period contract prices are almost always cheaper). An aspect of the system also entails the re-negotiation of all existing provincial contracts to ensure value for money.

We envisage that the system will be finalised during the 2010/11 financial year. It is about time that government becomes a price maker - not a price taker - given the size of its procurement expenditure.

CAPITAL EXPENDITURE

The province has set aside R11.093 billion in 2010/11 growing to R12.9 billion in 2012/13 for infrastructure development within the various departments. This increase in capital expenditure recognizes the positive effect infrastructure investments have on employment creation and economic growth.

Since 1994, the Province has embarked on the eradication of infrastructure backlogs to promote equity for the citizens and improve access to public services throughout the Province. This manifested itself mainly in the construction of social infrastructure such as schools, clinics and roads. **Most of the structures built since 1994, are now due for major maintenance and rehabilitation.** For the desired life of facilities to be reached, structures must continually be maintained. The general consensus among experts is that an amount that is equal to 4% of the replacement value of an asset is adequate to keep the structure in a "new" condition, with a scheduled maintenance programme.

About 49 per cent of the infrastructure allocation will be spent on maintenance of infrastructure. Maintaining the provincial assets will prolong the lifespan of the asset base. Where possible, departments are also urged to utilise the Expanded Public Works Programme (EPWP) guidelines to increase the labour absorption in their infrastructure maintenance programmes. This will allow the province to access the EPWP incentive grant.

The EPWP Incentive grant has been increased from **R84 million in the current year to R169.470 million** for 2010/11. Again there is no cap on the amount that may be spent and provinces may apply for more EPWP funding. This is a great initiative that enables departments to create job opportunities, while delivering services at the same time. Given the high unemployment rate labour intensive projects must be at the centre of all our initiatives.

In an effort to help departments with infrastructure development, Provincial Treasury co-ordinates the **Infrastructure Delivery Improvement Programme (IDIP)**, with the departments of Education, Health on the client side and the Department of Public Works, as an agent. The client departments have streamlined their infrastructure planning capability considerably, while the management of their respective projects has also improved. Due to the visible success of the IDIP programme, it has been agreed to extend IDIP beyond the initial three-year time horizon. National Treasury will continue to fund the implementation of the programme. However, provinces have been requested to fund the first two months of the 2010/11 financial year until National Treasury has finalised the procurement model.

THANK YOU

Several role players have contributed in various ways to ensure that we are able to table the 2010/11 budget today. I take this opportunity to express my gratitude to the Premier, Dr. Z.L. Mkhize and the entire Cabinet for the leadership and support demonstrated in preparing the Provincial Recovery Plan, and the 2010/11 MTEF budget. We are also indebted to Minister Pravin

Gordhan for his wisdom and guidance in preparing the MTEF budget. The Team Finance has provided sound technical advice during this process and I thank them sincerely.

The members of the Ministers' Committee on the Budget (MinComBud) have worked tirelessly alongside me, in crafting the budget which I am tabling today. We engaged in lively debate on many complicated issues along the way, which has added to the value of the documents I am presenting today.

To the Chairperson of the Finance Portfolio Committee, Ms Belinda Scott and the rest of the Committee, we look forward to continued robust engagements with you.

I would also like to thank the officials in my department, ably led by S'miso Magagula, for ensuring that the budget documentation is of excellent quality.

CONCLUSION

It is now my honour to table the Appropriation Bill, 2010 for the Province of KwaZulu-Natal for consideration in this House, together with the Estimates of Provincial Expenditure (previously known as the Budget Statements). I call upon the Members of the Legislature to robustly debate this Appropriation Bill.

To my fellow MECs, *"Our incomes are like our shoes; if too small, they gall and pinch us; but if too large, they cause us to stumble and trip."*¹⁰ May your incomes in the new financial year be like a nice pair of shoes, not too small, but large enough to slip into and be comfortable.

¹⁰ John Locke (philosopher)

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