

BUDGET SPEECH

2018/19



MS BELINDA FRANCIS SCOTT
MEC for Finance



ISBN No.: 1-920041-22-2

To obtain further copies of this document, please contact:

Provincial Treasury

Treasury House

5th Floor

145 Chief Albert Luthuli Road

Pietermaritzburg

3201

P.O. Box 3613

Pietermaritzburg

3200

Tel: +27 (0) 33 – 897 4310

Fax: +27 (0) 33 – 897 4617

PROVINCE OF KWAZULU-NATAL

Budget address by Ms B.F. Scott

MEC for Finance,

On tabling of the 2018/19 MTEF Budget in the Provincial Legislature

16 March 2018

The 2018 projections by the World Bank, International Monetary Fund and the Organisation for Economic Co-operation and Development (OECD) indicate that the global economy is experiencing a cyclical recovery, showing a rebound in investment and manufacturing activity. As a result, the global economy is expected to have improved to 3% in 2017 and to remain at 3.9% in 2018 and 2019.

Following the global trend, the South African economy grew by 1.3% last year, and is expected to improve to 1.5% this year and 1.8% in 2019. This expected upturn will largely be driven by increased business and investor confidence, a stronger Rand and lower inflation, and will support consumer spending.

The optimism surrounding the South African economy is supported by the OECD, and the Goldman Sachs reports citing stronger activity in trading partners, which is expected to boost exports, as well as investment to support growth in 2019. However, the long-term challenges facing the country include the creation of a stronger, more inclusive and more resilient economy.

The projected recovery in the national economic performance is further confirmed by the seasonally adjusted Barclays Purchasing Managers' Index (PMI), which rose to 50.8 index points in February 2018. The February PMI suggests that the local manufacturing sector started the year on relatively solid ground compared to previous readings. The healthier PMI reading is also supported by the South African Chamber of Commerce and Industry's business confidence index, which increased to 96.4 in December 2017 from 95.1 in the previous month.

Economic outlook in KZN

Similar to the national projections, the provincial economic outlook is also on an upward trajectory but expected to grow by 1.2% and 1.3% in 2018 and 2019, respectively. The key sectors contributing to KZN's economy, particularly in job creation and poverty alleviation, are: manufacturing, construction, transport, finance, tourism and others. The turnaround in the economies of our trading partners will benefit KZN, since we contribute meaningfully to the South African GDP.

Fiscal policy

Madam Speaker, despite the encouraging economic outlook, the country's financial position is still under severe pressure, demanding that we make tough decisions. As stated by the former Minister of Finance last month, Honorable Malusi Gigaba, while tabling the national budget, I quote, "*The fiscal proposals will cause discomfort, but they are necessary to protect the integrity of the public finances*".

The VAT rate was increased to 15%, while government expenditure was reduced by R85 billion over the next three years. However, while making hard choices, we have tried to ensure that our decisions are implemented in a way that protect core service delivery programmes as far as possible. A commitment was made to fund fee-free higher education and the phased-in roll-out is provided for.

The former Minister indicated that, despite an improved outlook, the government still faces a revenue shortfall of R48.2 billion in the current financial year, with carry-through. However, the consolidated deficit is projected to narrow from 4.3% of GDP this year to 3.5% in 2020/21. A narrower deficit, stronger Rand and lower borrowing costs will result in gross government debt stabilising at 56.2% of GDP by 2022/23.

These changes demonstrate that the economic and fiscal outlook has improved since the Medium Term Budget Policy Statement (MTBPS) was tabled.

This improvement should allow the rating agencies to have a more favourable outlook and should be enough to avoid a downgrade when Moody's review the country's credit worthiness next week Friday (23 March 2018).

THE BUDGET CONTEXT AND FISCAL POLICY CONSIDERATIONS

National context

Focus areas and priorities for 2018 are: job creation and small business development, youth development, infrastructure spending, regional integration and development, land reform and agricultural development, comprehensive social protection, education and skills, and an integrated plan to fight crime. In his State of the Province Address (SOPA) on 28 February, the Honourable Premier announced that the province is launching a Youth Development Fund and indicated that the current allocation would be reprioritised to ensure that at least R50 million is allocated to this Fund. This reprioritisation will be given effect to when we table the 2018/19 Adjustments Estimate.

These priorities must be contextualised in terms of the country's current economic climate, as this determines the affordability thereof in terms of the level and speed at which we roll out our plans. Global and local economic risks remain, particularly around projected revenue collection, while our debt service burden remains high. It is against this background, and to ensure that the primary deficit target is achieved while funding some new priorities, that the continued roll-out of National Treasury's fiscal consolidation programme remains a priority.

The fiscal consolidation cuts effected against all three spheres of government over the 2018/19 MTEF are necessary to keep our country's finances on a sustainable path. For provinces, the cuts are effected against both the equitable share and the conditional grant allocations, with National Treasury indicating that they have tried to keep the equitable share cuts to a minimum for provinces. This way, a fair portion of the provincial contribution to fiscal consolidation is borne by poor performing conditional grants and infrastructure grants that can absorb a delay in the implementation of planned projects.

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

Provincial context

Once again, KwaZulu-Natal's funding is being cut over the 2018/19 MTEF and I am reminded of our dear Madiba when he said *"After climbing a great hill, one only finds that there are many more hills to climb."* It seems that this province has had many hills to climb over the last few years, and there are more hills ahead of us.

Some of the budget cuts implemented against the province over the MTEF relate to the annual data updates of the equitable share formula, while some cuts relate to National Treasury's ongoing fiscal consolidation plan. As mentioned, National Treasury indicated that efforts were made to protect the provincial equitable share from these cuts as far as possible.

The changes to the 2018/19 MTEF framework for the country reflect both fiscal consolidation, as well as some additions to assist provinces with the pressures they face, and I will elaborate on these additions shortly.

As mentioned, there are two types of budget cuts effected against the provincial equitable share but, on the other hand, the provincial own revenue sees a small upward revision when compared to the previous MTEF. There are also fiscal consolidation cuts effected against the province's conditional grant allocation, and this is discussed in more detail a little later.

KZN's Provincial Equitable Share (PES) amendments

Description	2018/19	2019/20	2020/21
1. PES reduction due to data updates of formula	(216 033)	(249 029)	(507 354)
2. Fiscal consolidation budget cuts	(303 318)	(333 621)	(353 910)
3. Own Revenue (OR) update	43 404	40 578	(17 413)
4. Total PES and OR adjustments	(475 947)	(542 072)	(878 677)

The first provincial equitable share cut relates to the data updates of the provincial equitable share formula and this is shown in Line 1 in the table. This formula is updated annually and looks at school enrolment numbers, health patient load data, and population data, amongst others. The new shares across provinces are phased in over 3 years with KZN's share at the end of the 3 years being at 21%, from the

2017/18 weighted share of 21.1%. While the decline seems relatively small in terms of percentage, the implication is quite large in Rand value due to the magnitude of the provincial budget and, as such, the province loses R216 million, R249 million and R507.4 million over the MTEF.

The second provincial equitable share cut relates to National Treasury's continued roll-out of their fiscal consolidation plan. These cuts are shown in Line 2 of the table. National Treasury indicated that significant cuts are made against all 3 spheres of government, and these cuts amount to R85 billion as announced in the MTBPS late last year. The cut is being made to place the country on a sustainable path. Of this cut, the amount that is being cut from KZN's equitable share is R303.3 million, R333.6 million and R353.9 million over the MTEF.

As mentioned, the provincial own revenue numbers show a minor upward adjustment over the MTEF, largely as a result of improved interest revenue anticipated to be collected, and this assists to a degree to offset the budget cuts as shown in Line 3.

As a result of these significant budget cuts, the Provincial Executive Council held an urgent Finance *Lekgotla* on 7 February 2018 to decide how these budget cuts should be effected, while trying not to compromise the province's priority spending areas and keeping our eye on protecting the delivery of frontline services.

To quote George Osborne: "*Cutting budget deficits can never be just an exercise in economics.*"

The Finance *Lekgotla* took cognisance of the fact that this is the fifth consecutive year that the province's equitable share allocation is being significantly cut. This, therefore, means that it is going to be difficult to absorb these budget cuts, and that the continued implementation of cost-cutting alone will not be sufficient to absorb these budget cuts. The Finance *Lekgotla* was held after the MECs for Finance for provinces were called to a Budget Council meeting which took place on 30 January 2018. Due to the lateness of these budget cuts being finalised, it was agreed that the budget cuts for 2018/19 would be proportionately allocated against all 15 Votes but, while the departments would be notified of the quantum of the cut immediately after the *Lekgotla*, they would only need to effect these budget cuts in the 2018/19 Adjustments Estimate. This was done so that the departments had time to go back and to properly plan where and how they would effect these budget cuts. The budget cuts are only needed in 2018/19, though, as the Contingency Reserve was set at R1.3 billion for 2019/20 and 2020/21 when the budget was tabled last year, and the difference between the R650 million Contingency Reserve which KZN has set as a norm for itself, and the higher Contingency Reserve of R1.3 billion was then used to offset the budget cuts in those two years.

The departments have been tasked to submit the impact of the budget cuts to Provincial Treasury so that these can be tabled before the Executive Council. The detail of these budget cuts will be elaborated on when I table the Adjustments Budget later this year.

Within this constrained fiscal environment, we will endeavour to give real effect or meaning to the commitments and directives given by our Premier in the SOPA 2018 address. We will lead with integrity and ensure that we grow an inclusive economy that is targeted, effective and improves the services delivered to our people.

Additions to KZN's provincial equitable share

Besides the equitable share budget cuts, National Treasury is also adding some funds to the provincial fiscus, largely in the outer year of the MTEF.

Social Development receives R45.1 million in 2019/20 and R47.5 million in 2020/21 to support organisations that provide statutory social welfare services on behalf of the department. Social Development also receives funding for prevention and early intervention programmes to fight the abuse of women and children. R42.4 million, R60.2 million and R63.4 million is provided over the MTEF to strengthen work in this area.

National Treasury provides an amount of R2 billion in 2020/21 and this is allocated proportionately to all Votes, being a provision for the shortfalls relating to the above budget wage agreement.

FUNDING FOR SOME PROVINCIAL PRIORITIES

The table below is included as a reminder of various provincial priorities that were allocated additional funding in previous MTEFs and in the 2017/18 Adjustments Estimate, but with the understanding that these would receive additional funds over the 2018/19 MTEF.

Provincial priorities funded using Provincial Cash Resources

Description	2018/19	2019/20	2020/21
Funded from 2016/17 Net Financial Position	61 440	128 112	-
V2: Zero-base adjustment	-	34 569	-
V9: Carry-through for new structure	8 515	-	-
V15: Archive Repository	52 925	93 543	-
2016/17 Main Budget	55 082	-	-
V1: Poverty Eradication Master Plan	12 919	-	-
V2: Zero base budget adjustment	32 923	-	-
V4: Rhino anti-poaching	9 240	-	-
In 2017/18 MTEF	821	879	-
V1: KZNGBB offices	821	879	-
Changes from 2017/18 Net Financial Position	295 211	(26 232)	25 908
V15: Archive rescheduling	(52 925)	(93 543)	-
V15: Archive rescheduling	73 130	67 311	25 908
V15: Arts Academy resched. & change in purpose (Winston Churchill)	18 500	-	-
V15: Arts Academy resched. & change in purpose (Music Academy)	13 000	-	-
V13: Suspension from 2017/18	55 000	-	-
V5: Disaster relief September 2017 wind storms	20 000	-	-
V5: Disaster relief October 2017 flooding	63 800	-	-
V7: Disaster relief October 2017 flooding	50 450	-	-
V6: Treasury/ Health assistance plan	15 500	-	-
V7: Treasury/ Health assistance plan	38 756	-	-
Total funded from Provincial Cash Resources	412 554	102 759	25 908

I will not go into detail with regard to all these allocations as they were covered in detail in previous Main and Adjustments Budget speeches. I will thus only highlight a few of the allocations:

- The table shows the re-scheduling of the **Archive Repository** funding in line with project requirements, as requested by the Department of Arts and Culture. It also shows the suspension of funds from 2017/18 to 2018/19 and the change in purpose of funds to be used by the Department of Arts and Culture for the **refurbishment of the Winston Churchill Theatre** and funding for a **Music Academy in Ladysmith**.
- Social Development had requested that R55 million be suspended from their 2017/18 budget and be allocated back to them in 2018/19. These funds will be used in 2018/19 for **various infrastructure projects** (R21 million), to purchase **tools of trade** (R16 million) and for **ICT infrastructure** (R18 million).
- Education and Health had requested that the **disaster funding** allocated to them for repairs to infrastructure brought about by severe storms in the province in September and October 2017, be allocated to them partially in 2017/18 and partially in 2018/19, and this is given effect to by allocating some of these funds to these two departments in the 2018/19 main budget.
- Similarly, for the **Treasury/Health assistance plan**, some of the funds were allocated to Health and Provincial Treasury in 2017/18 and the balance in 2018/19, in line with project requirements.

PROVINCIAL FISCAL FRAMEWORK FOR 2018/19

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

Summary of provincial fiscal framework

R thousand	2018/19	2019/20	2020/21
1. Receipts			
Baseline allocation	122 912 369	131 629 852	137 688 095
Transfer receipts from national	119 719 335	128 320 824	134 197 070
<i>Equitable share</i>	99 740 600	106 840 842	112 717 088
<i>Conditional grants</i>	19 978 735	21 479 982	21 479 982
Provincial own receipts	3 193 034	3 309 028	3 491 025
Increase / (Decrease) in allocation	(659 215)	(1 687 296)	1 594 535
Transfer receipts from national	(702 619)	(1 727 874)	1 611 948
<i>Equitable share</i>	(476 919)	(477 340)	1 280 588
<i>Conditional grants</i>	(225 700)	(1 250 534)	331 360
Provincial own receipts	43 404	40 578	(17 413)
Revised allocation	122 665 708	130 045 316	139 308 538
Transfer receipts from national	119 016 716	126 592 950	135 809 018
<i>Equitable share</i>	99 263 681	106 363 502	113 997 676
<i>Conditional grants</i>	19 753 035	20 229 448	21 811 342
Provincial own receipts	3 236 438	3 349 606	3 473 612
Provincial cash resources	412 554	102 760	25 908
2. Planned spending by departments	122 491 654	129 300 386	138 658 538
3. Contingency Reserve	174 054	744 930	650 000

As mentioned, the equitable share and the conditional grant allocations are affected by the cuts implemented by National Treasury, while additions were made to the provincial allocation by National Treasury towards priorities in Social Development, as well as funding in the outer year for the above-budget wage agreement. The province has made an aggregate marginal upward revision to its provincial own revenue projections, with the main contributor to this increase being Provincial Treasury. The table above shows the fiscal framework for the 2018/19 MTEF.

The revised allocation under Line 1 shows that KwaZulu-Natal's total budget allocation from National Treasury is R119 billion in 2018/19, R126.6 billion in 2019/20 and R135.8 billion in 2020/21. When we add our provincial own revenue and provincial cash resources to this, the total allocation over the MTEF is R122.7 billion, R130 billion and R139.3 billion.

Line 2 shows that the provincial departments are planning to spend R122.5 billion, R129.3 billion and R138.7 billion over the MTEF. Line 3 shows that the province continues to budget for a Contingency Reserve with 2018/19 showing a low Contingency Reserve of only R174.1 million. As mentioned, though, the departments will be effecting budget cuts of R475 million between now and when we table the Adjustments Budget in November 2018, and these budget cuts will bring the Contingency Reserve back to R650 million. The Contingency Reserve for 2019/20 is R744.9 million, and R650 million in 2020/21.

The Contingency Reserve is being kept for a number of reasons, but mainly to protect the province against the impact of unforeseen expenditure pressures when they arise, for example for drought relief.

CONDITIONAL GRANTS

As mentioned, National Treasury advised that fiscal consolidation budget cuts were also made to the conditional grant allocations to provinces. KZN's portion of the conditional grant cuts over the MTEF are R225.7 million in 2018/19 and R1.3 billion in 2019/20, while there is an increase of R331.4 million in 2020/21. National Treasury indicated that reprioritisation and reductions were made against grants with fast growth, low spending and/or where the impact on economic growth and service delivery was less. Some grants benefit from additions, while **one new grant** is incorporated into the fiscal framework.

The following are the amendments made to the conditional grant allocation:

- The **Land Care grant** under the Department of Agriculture and Rural Development (DARD) sees a decrease of R985 000 in 2019/20 and R302 000 in 2020/21, with no additions or reductions in 2018/19. This grant's allocation amounts to R12 million, R12.4 million and R13.1 million over the MTEF.

- The **Comprehensive Agriculture Support Programme (CASP) grant** reduces by R36.5 million in 2019/20 and by R22.6 million in 2020/21. The National Department of Agriculture, Forestry and Fisheries (DAFF) has decided on an approach to grow and transform the sector, including the commercialisation of black farmers that display such potential. Funds are, therefore, cut from the provincial CASP grant to form a fund held under DAFF. This is a co-funding model aimed to assist potential commercial farmers to leverage both public and private funds.
- The **Ilima/Letsema Projects grant** under DARD receives an inflationary increase of R4.1 million in 2020/21. This grant stands at R71.3 million, R75.3 million and R79.4 million over the MTEF.
- The province receives R124.6 million in 2018/19 (which is an increase from the R78.2 million received in 2017/18) with regard to the **EPWP Integrated Grant for Provinces**, allocated to various departments, as follows:
 - DARD receives R7.3 million
 - Arts and Culture receives R2 million
 - CoGTA receives R4.6 million
 - EDTEA receives R3.7 million
 - Education receives R2 million
 - Health receives R8.9 million
 - Human Settlements receives R11.5 million
 - Public Works receives R6 million
 - Sport and Recreation receives R2 million
 - Transport receives R76.6 million.
- The province receives R76.4 million in 2018/19 (which is a decrease from the R78.2 million received in 2017/18) with regard to the **Social Sector EPWP Incentive Grant for Provinces** allocated to various departments, as follows:
 - Community Safety and Liaison receives R10.3 million
 - Education receives R27 million
 - Health receives R24.2 million
 - Social Development receives R13.5 million
 - Sport and Recreation receives R1.4 million.
- The **Education Infrastructure grant** is cut by R57.9 million, R237.4 million and R40.7 million over the MTEF as a result of the fiscal consolidation budget cuts. This grant's revised allocation amounts to R1.9 billion, R1.8 billion and R2 billion over the MTEF. Some projects will have to be rescheduled or implemented at a slower rate to accommodate this budget cut.

- The **HIV and AIDS (Life-Skills Education) grant** under Education is cut by R447 000 in 2018/19 and by R539 000 in 2019/20, while showing inflationary growth of R2.8 million in 2020/21, with the allocation amounting to R58.9 million, R62.2 million and R65.5 million over the MTEF.
- The **National School Nutrition Programme grant** under Education shows inflationary growth in the outer year of the MTEF and is not affected by the fiscal consolidation cuts. The grant stands at R1.5 billion, R1.6 billion and R1.7 billion over the MTEF.
- The **Maths, Science and Technology grant** under Education is reduced by R1.8 million and R1.9 million in 2018/19 and 2019/20, respectively, while increasing marginally by R552 000 in 2020/21. This grant's allocation, therefore, amounts to R61.2 million, R66.6 million and R67.1 million over the MTEF.
- The **Learners with Profound Intellectual Disabilities grant** was first introduced in 2017/18 and now receives increases of R12.5 million, R15.7 million and R18 million over the MTEF, bringing the grant total to R27.2 million, R33.3 million and R35.6 million over the MTEF. The Department of Basic Education amended provincial allocations to ensure that allocations between provinces reflect the actual burden of learners needing the services provided for by the grant.
- The **Health Professions Training and Development grant** under Health sees an inflationary increase of R20.4 million in 2020/21. The allocation to this grant amounts to R351.2 million, R370.9 million and R391.3 million over the MTEF.
- The **Health Facility Revitalisation grant** sees an increase of R74.5 million in 2018/19, a decrease in 2019/20 of R38.1 million and an increase of R25.3 million in 2020/21, bringing the grant total to R1.2 billion, R1.1 billion and R1.2 billion over the MTEF. Some fiscal consolidation cuts were effected but, on the other hand, KZN benefits from the incentive nature of this grant in 2018/19.
- The **National Tertiary Services grant** sees an inflationary increase of R127 million in 2020/21. The grant allocation amounts to R1.8 billion, R1.9 billion and R2 billion over the MTEF.
- The **HPV grant** grows by R2.6 million in the outer year and the grant then stands at R45 million, R47.5 million and R50.1 million over the MTEF.
- The **Comprehensive HIV, AIDS and TB grant** increases over the MTEF by R191.3 million, R2.5 million and R590 million for the expansion of the ARV programme. The grant total thus amounts to R5.7 billion, R6.1 billion and R6.7 billion over the MTEF. National Treasury indicated that a new grant component has been added to this grant, namely the Community Outreach Services component and, of the grant total, R262.4 million, R281.2 million and R281.2 million is ring-fenced to be spent on this component of the grant. This is done in order to move towards the integration of this type of health worker into the health services

platform, given how instrumental they have been in improving health access in South Africa, particularly in rural and vulnerable populations. This component aims to harmonise and standardise the work of the ward-based primary health care outreach teams. Funds are also added to this grant for that purpose.

- The **Human Settlements Development grant** sees a reduction of R578.3 million, R699 million and R465.8 million over the MTEF, partly due to fiscal consolidation cuts and partly due to the creation of two new grants in the sector, namely the Title Deeds Restoration grant and the Emergency Housing grant (held by the national Department of Human Settlements). The grant's amended allocation is thus R3.2 billion, R3.3 billion and R3.5 billion over the MTEF. Reprioritisation was undertaken and the department will thus focus mainly on projects with a greater yield of units in order to achieve the Medium Term Strategic Framework targets. The number of units, sites and all housing opportunities across various projects had to be reduced as a result of the budget cut.
- The **Title Deeds Restoration grant** is a new grant and receives R101.4 million, R107.1 million and R113 million over the MTEF. These funds were previously ring-fenced in the Human Settlements Development grant for the eradication of backlogs in title deeds registration, and this new grant is thus created by shifting funds from the Human Settlements Development grant to ensure that funds allocated for this purpose cannot be diverted for other purposes. The department has already cleared 162 892 title deed registration backlogs to date and will work on the balance of 138 496 over the MTEF.
- The **Mass Participation and Sports Development grant** sees a fiscal consolidation cut of R33.3 million, R33.6 million and R26.8 million over the 2018/19 MTEF. This brings the total grant allocation to R98.7 million, R104.9 million and R111.6 million over the MTEF. In order to effect the reduction, the National Department of Sport and Recreation informed provinces that there will be a reduction in national tournaments. The reduction was also effected against transfers to various institutions, such as to KZN Gymnastics, KZN Hockey (Coastal and Midlands) and KZN Volleyball.
- The **Provincial Road Maintenance grant** sees a reduction of R106.3 million, R298 million and R200.8 million over the MTEF, bringing this grant's total to R1.8 billion, R1.8 billion and R1.9 billion over the MTEF. The sector took a decision to protect the Public Transport Operations grant from budget cuts as far as possible, with the sector's fiscal consolidation cuts thus predominantly effected against the Provincial Road Maintenance grant. The department has indicated that the cuts will mainly affect road maintenance projects.
- The **Public Transport Operations grant** thus sees fairly minor reductions of R15.4 million in 2018/19 and R16.2 million in 2019/20, while growing by R62.1 million in 2020/21. The grant's new allocation is therefore R1.1 billion, R1.2 billion and R1.2 billion over the MTEF. The reduction will affect the provision of subsidised public transport services.

- The **Early Childhood Development grant** came into effect from 2017/18 and now sees a reduction of R4.8 million and R5.1 million in 2018/19 and 2019/20, while increasing by R2.5 million in 2020/21. This brings the grant total to R107.5 million, R113.6 million and R121.2 million over the 2018/19 MTEF. This grant has two components, namely a Maintenance component with R10.1 million, R10.7 million and R11.4 million over the MTEF, and a Subsidy component with R97.4 million, R102.9 million and R109.8 million over the MTEF.
- The **Social Worker Employment grant** was also introduced in 2017/18 and receives an inflationary allocation of R4.2 million in the outer year of the MTEF. This brings the grant's allocation to R57.9 million, R62.5 million and R66.7 million over the MTEF. This grant will go a long way in reducing the number of our unemployed social work graduates, many of whom are our youth.
- The **Community Library Services grant** sees a reduction of R8.3 million and R8.8 million in 2018/19 and 2019/20, respectively, while increasing by R1.4 million in 2020/21. The reductions relate to the fiscal consolidation budgets cuts and the revised baseline of the grant is thus R174.4 million, R183.9 million and R194.1 million over the MTEF.

INFRASTRUCTURE

As detailed in the Provincial Growth and Development Plan 2018, under Strategic Goal 4: Strategic Infrastructure, "*Studies confirm that infrastructure development is the foundation for poverty reduction and economic growth in developing countries.*" In line with national government policy, public sector investment is seen as being integral in building overall levels of investment in fixed assets, which is vital to achieving growth and development targets. Substantial and large scale infrastructure development is underway and 15 of the 18 Strategic Integrated Projects (SIPs) contained in the National Infrastructure Master Plan has direct reference to, and implications for KZN.

As mentioned, a number of infrastructure conditional grants see fiscal consolidation budget cuts over the 2018/19 MTEF but, despite this, the province is **budgeting to spend R12.5 billion in 2018/19, R12.6 billion in 2019/20 and R13.2 billion in 2020/21 on various infrastructure projects**. This includes both equitable share and conditional grant funded infrastructure. Not included in this are the amounts budgeted for infrastructure by Human Settlements where the asset, in the end, does not belong to government and these are, therefore, excluded from the infrastructure table. If they are added, **the total infrastructure spend increases to R15.2 billion, R15.5 billion and R16.3 billion over the MTEF**. This is a considerable injection of funds into the provincial economy. A detailed list of all infrastructure projects that will be implemented in 2018/19, as well as over the MTEF, is contained in the *Estimates of Capital Expenditure* which I am also tabling today.

Let me also mention that the R120 million that the province received from the European Union four years ago to roll-out Techno-hubs has been efficiently utilised. In this regard, the Techno-hubs of Richards Bay, Newcastle and Ray Nkonyeni are ready for occupation, while a developer-ready site has been delivered in Msunduzi. Yesterday (15 March 2018) at the Dube TradePort, we hosted the Techno-hub investor Expo to showcase these iconic developments.

Some infrastructure projects planned for the 2018/19 MTEF:

Transport

The **Department of Transport will spend R22.1 billion** over the 3 years of the 2018/19 MTEF. Some of the projects they will be implementing include:

- Main Road P700 corridor, located from Ulundi to Empangeni, comprising the upgrade of 93.5 kilometres from gravel to blacktop surface. Of this, 84.5 kilometres has been constructed to date. In 2018/19, the department plans to construct the balance of 9 kilometres.
- Main Road P318 is located at the foot of the Drakensberg Mountains in the Sani Pass area. This road comprises the upgrade of 13.6 kilometres with 12 structures from gravel to blacktop surface. The department has advertised a contract for a further 11.4 kilometres, and anticipates to complete this in 2019/20.
- The construction of the uMzimkhulu Public Transport Facility is anticipated to commence in 2018/19 with completion anticipated in 2019/20.
- The construction of the uMlalazi River bridge in uMlalazi.
- The following are upgrade projects that will be implemented in 2018/19 using labour intensive construction methods:
 - District Road D1613, located in the key economic hub of Inanda, Ndwedwe and KwaMashu, comprising 3.68 kilometres. An estimated 250 EPWP participants will be employed, with an impact on over 1 000 people in the local community.
 - Local Road L1578 to be upgraded from gravel to concrete. This road is located in the Folweni area in eThekweni and comprises 2.5 kilometres. An estimated 400 EPWP participants will be employed.
 - District Road D954 and Local Road L1099 are located in the Umzumbe area and collectively comprise 7 kilometres to be upgraded. An estimated 100 EPWP participants will be employed.

Health

The **Department of Health's infrastructure budget is R5.4 billion** over the 2018/19 MTEF. The department will use this allocation for various projects, including the following:

- The main infrastructure project over the MTEF is the continued construction of the Dr Pixley Ka Isaka Seme Hospital which is planned for completion in 2019/20. The amount budgeted for this project over the MTEF is R885.3 million.
- Smaller projects include the continued construction of a 192 bed surgical ward block at Ngwelezane Hospital, with an allocation of R198.9 million over the MTEF, as well as upgrading the nursery and repairing the storm water sewer and parking at King Edward VIII Hospital for which the department has budgeted R114.8 million over the MTEF.
- The department will finalise repairs to Wentworth Hospital, Prince Mshiyeni Hospital, King Edward VIII Hospital and the Provincial Pharmaceutical Supply Depot which were damaged by floods.

Education

The **Department of Education is budgeting to spend R6.8 billion** over the 2018/19 MTEF. The following are some of the infrastructure projects that will be undertaken:

- The department is planning on constructing a number of new schools over the MTEF. These include uMtamtengwayo Primary school in the Pinetown district, Mkhamba Gardens Primary school in the uThukela district, as well as Mahlabeni Primary school in the uMkhanyakude district, among others.
- The department was allocated some funding in 2017/18 and 2018/19 to undertake repairs as a result of various natural disasters that took place in the province in September and October 2017. The allocation amounts to R83.3 million in 2018/19, and the department will continue to repair 324 schools damaged by wind storms in September 2017, and 170 schools damaged by floods in October 2017. Mobile classrooms were provided to affected schools as an interim solution while the repairs are underway.
- A number of existing projects are at an advanced stage of completion and the department will continue with these over the MTEF. These include the La Mercy Maths and Science Academy in the Pinetown district which is currently 75% complete, the Hhoye Secondary school which is 80% complete, and the Khindi Jobe Secondary school which is 75% complete. These are both in the uMkhanyakude district, as well as Siphumelele Secondary school in the King Cetshwayo district which is currently 50% complete.

COST-CUTTING

The cost-cutting measures remain in place. The provincial cost-cutting measures and those issued by National Treasury must continue to be adhered to. Every little saving helps us to protect service delivery spending in these times of continuous budget cuts. To quote an African proverb *“If you think you are too small to make a difference, you haven’t spent a night with a mosquito.”*

I will not repeat the cost-cutting measures in this speech as they remain largely unchanged from the previous year. The full list is contained in Chapter 2 of the *Estimates of Provincial Revenue and Expenditure* which I am tabling today, while National Treasury's cost-cutting measures can be found on their website.

OVERVIEW PER VOTE FOR THE 2018/19 MTEF

This section indicates the amounts budgeted per department and provides a broad overview of what these funds will buy. The table below shows the 2018/19 MTEF budget per department.

Budgets per Vote

	Medium-Term Estimates			
	2018/19	Percentage of Total	2019/20	2020/21
1. Office of the Premier	787 137	0.6%	822 568	874 699
2. Provincial Legislature	565 214	0.5%	600 520	640 797
3. Agriculture and Rural Development	2 324 108	1.9%	2 430 041	2 591 362
4. Economic Development, Tourism & Enviro. Affairs	3 009 296	2.5%	3 180 694	3 363 243
5. Education	50 903 682	41.6%	53 785 299	57 880 610
6. Provincial Treasury	650 900	0.5%	677 272	721 408
7. Health	42 347 664	34.6%	44 957 135	48 323 976
8. Human Settlements	3 647 237	3.0%	3 787 798	4 057 407
9. Community Safety & Liaison	224 949	0.2%	228 047	242 765
10. Sport and Recreation	451 953	0.4%	476 702	506 970
11. Co-operative Governance & Traditional Affairs	1 679 082	1.4%	1 777 022	1 891 067
12. Transport	10 062 047	8.2%	10 437 852	11 064 285
13. Social Development	3 287 882	2.7%	3 482 394	3 710 768
14. Public Works	1 587 932	1.3%	1 681 234	1 788 742
15. Arts and Culture	962 571	0.8%	975 808	1 000 439
Total	122 491 654	100.0%	129 300 386	138 658 538

Departments appear in order of the size of their budget:

Education

As per Christine Gregoire, an American politician and lawyer and the second female governor of Washington: *“Education is the foundation upon which we build our future.”* As such, the largest portion of the provincial budget still goes to the Department of Education at 41.6%. The budget allocation over the MTEF is R50.9 billion, R53.8 billion and R57.9 billion. This budget will be used for various activities as detailed below, amongst others.

The largest share of the department's budget allocation is for the provision of personnel. The focus over the MTEF will be on improving curriculum delivery, particularly through ensuring access to high quality Learner Teacher Support Material (LTSM). Processes for procurement of textbooks and stationery start early in the calendar year to ensure that schools receive their learner materials before the commencement of the new school year. Additional resources will also be provided to schools through curriculum delivery. These will include, among others, kits for learners who are enrolled in Mathematics and Science, as well as consumables for practical work. All learners in quintiles 1, 2 and 3 schools will continue to be fed through the National School Nutrition Programme grant. Funds are also allocated for the construction and maintenance of ECD classes, as well as procurement of LTSM for these schools. There will be regular monitoring

of curriculum coverage by the School Management Teams. The schools will receive well prepared lesson plans, coupled with assessment exercises and memoranda. These exercises will help teachers to get feedback after teaching each aspect of work. The schools will have curriculum delivery targets which will be monitored by the circuit management on a monthly basis. The department will also continue to focus on providing education for learners with special needs. The department will roll-out various infrastructure projects, as mentioned.

Health

To quote the Scottish philosopher, Thomas Carlyle: *“He who has health has hope; and he who has hope, has everything.”* As such, the second largest portion of the provincial budget goes to the Department of Health at 34.6%. The budget over the MTEF is R42.3 billion, R45 billion and R48.3 billion, and continues to be for the delivery of primary health care services to the approximately 88.1% uninsured population of KZN, as well as preventive, promotive, screening, referral, rehabilitative, curative and emergency medical services delivered through fixed clinics, community health centres and district hospitals. The delivery of hospital services which are accessible, appropriate and effective, and the provision of general specialist services, including a specialised rehabilitation service, and a platform for training health professionals and research, also remain priorities of the department. Their role is also to provide tertiary health services and to create a platform for the training of health workers. The department will focus specifically on the management of medical negligence incidents to minimise the cost of medico-legal claims.

The main cost drivers for the department are the payment of salaries, the high rate of inflation on medicines and medical supplies and services, payments to the National Health Laboratory Services for tests performed, increased demand for health services, as well as increased catering and fuel costs. Other contributing factors are the increasing demand for the treatment of TB, specific projects such as the reduction of infant and child mortality through immunisation, and the change to the Universal Test and Treat programme for patients diagnosed with HIV and AIDS, amongst others. The department will also roll-out various infrastructure projects, as mentioned.

The department increased its budget in 2017/18 to clear the backlog in the procurement of medical equipment, and this budget remains at this higher level in 2018/19 with strong growth in 2019/20, to continue addressing the backlogs.

Transport

The Department of Transport receives 8.2% of the provincial budget. The budget allocation is R10 billion, R10.4 billion and R11.1 billion over the 2018/19 MTEF. The bulk of the department's budget allocation is for the investment in the provincial road network in respect of the construction and upgrade of roads and the maintenance of the provincial road network. Various projects will be undertaken over the MTEF,

including the construction of new gravel roads, new blacktop roads, new cause ways, new pedestrian and vehicle bridges, amongst others. In 2018/19, the department will also continue to provide the subsidisation of bus services, as well as to continue to undertake law enforcement and road safety campaigns. From 2018/19, the learner transport services function moves from this department to the Department of Education.

The department will continue to mainstream EPWP into its work to achieve its target of 58 260 work opportunities in 2018/19. This will be done by increasing its focus on labour intensive construction. In this regard, R200 million worth of projects will be implemented using labour-intensive construction.

Human Settlements

The Department of Human Settlements receives R3.6 billion, R3.8 billion and R4.1 billion over the MTEF. The main purpose is for the provision of housing to various sectors of the population including rural areas and informal settlements, with the bulk of the funding being provided *via* the Human Settlements Development grant. The department is responsible for the implementation and monitoring of housing delivery within all districts including the eThekweni Metro, through various subsidy mechanisms in terms of national and provincial policies. The department also provides for the facilitation and integration of housing sector planning, education of stakeholders in housing sector planning, alignment of the housing budget with the current and future housing needs, and the capacitation of housing stakeholders for housing delivery through mentorship and training.

Continued focus on slums clearance projects remains a provincial priority. It is anticipated that these projects will provide alternative and permanent housing for 134 601 families currently living in slums, with 24 522 units expected to be built over the MTEF. In 2018/19, it is expected that some 4 110 units will be completed.

The department will continue with the implementation of the Cornubia Integrated Residential Development Programme north of Durban as a national priority catalytic project in 2018/19. Over the 2018/19 MTEF, a total of 2 704 units will be built accommodating the same number of families.

Social Development

The Department of Social Development receives R3.3 billion, R3.5 billion and R3.7 billion over the 2018/19 MTEF. The bulk of the department's budget allocation is mainly for the provision of social work practitioners. The budget includes national priority funding allocated for the improvement of the quality of services provided by NPOs. The Social Worker Employment grant will be used to fund the carry-through costs of 166 social workers who were absorbed in 2017/18. In 2018/19, the department will continue to implement the rationalisation of services rendered through funded NPOs, to ensure that the funding needed for the carry-through costs of the 6% increase given to NPOs in 2015/16 is funded in 2018/19.

The department will continue to provide social welfare services such as services to older persons, persons with disabilities, care and services to families, as well as child care and protection services, amongst others.

Economic Development, Tourism and Environmental Affairs

EDTEA receives R3 billion, R3.2 billion and R3.4 billion over the MTEF. The bulk of the budget caters for transfers to its public entities, namely the Richards Bay IDZ, Dube Trade Port, Ezemvelo KZN Wildlife, amongst others. The budget also provides for various projects and programmes, including implementation of the Black Industrialists programme and Operation Vula, implementation of Industrial Economic Hubs, amongst others. The department will forge partnerships with institutions of higher learning such as Durban University of Technology to provide training for the youth, disabled, women and unemployed to equip them with relevant skills to become employable and run successful businesses that will create more job opportunities. Operation Vula will focus on various sectors, including clothing, furniture, manufacturing, bakeries, agriculture and infrastructure development.

In addition, the department will focus on the development and establishment of the Ladysmith Black Mambazo Music Academy in Ladysmith. The department is also in the process of designing a 5-year Master Plan for formalisation of the informal economy aimed at streamlining all informal economy activities in the province, thus facilitating the transition from the informal to the formal economy, in line with radical economic transformation.

The implementation of community-based, rural and township tourism projects remains a priority as part of radical economic transformation within the sector. EDTEA will continue to partner with key stakeholders in the implementation of key tourism projects.

Agriculture and Rural Development

The Department of Agriculture and Rural Development receives R2.3 billion, R2.4 billion and R2.6 billion over the MTEF, and will focus on providing support to food insecure communities at subsistence and household food production level. Continued support will also be provided to commercial farmers, though, with the aim of improving agricultural production, as well as focusing on the development of rural communities through agri-villages and a co-ordinated approach to rural development.

Through the Food and Nutrition Security programme, the department has budgeted R203 million for interventions including One-Home-One-Garden, Community gardens, One-Hectare-One-Household, Institution gardens, One-Household-One-Fruit tree (or more), indigenous goats, indigenous chickens, as well as mushrooms.

The department will prioritise infrastructure projects comprising nurseries, grazing camps, dams, boreholes, irrigation schemes, diptanks, poultry, piggeries, etc. These facilities will assist smallhold farmers to increase productivity and move up the ladder towards commercial farming.

Public Works

The Department of Public Works receives R1.6 billion, R1.7 billion and R1.8 billion over the MTEF, which will largely be used for the payment of property rates relating to provincial properties, as well as continuing with the implementation of GIAMA projects, including condition assessments of various properties and infrastructure. In 2018/19, condition assessments of 209 district offices and four district hospitals will be undertaken, and maintenance plans will be developed for these facilities.

The department will continue to ensure that the EPWP generates more work opportunities towards creating sustainable jobs, which will contribute meaningfully to poverty alleviation, and this will continue to be extended to beneficiaries with disabilities. The department has set a target of 6 000 work opportunities and 600 Full Time Equivalents in 2018/19 in this respect. The department will continue with the provincial co-ordination and monitoring of the EPWP and will support 66 public bodies, made up of 54 municipalities and 12 provincial departments reporting on EPWP to ensure that their set EPWP targets are attained.

Co-operative Governance and Traditional Affairs (CoGTA)

CoGTA receives R1.7 billion, R1.8 billion and R1.9 billion over the MTEF and the department will continue to co-ordinate, support, promote and enhance governance, administration and public participation in local government, as well as provide support and build capacity within traditional institutions. The department will continue to support the installation and recognition of *Amakhosi* and will ensure that the Traditional Council elections, which were initially planned for 2017/18 but were postponed to 2018/19, are transparent, free and fair.

The department's role is also to promote informed integrated planning and development in the province. This includes developing traditional master settlement plans in consultation with *Amakhosi* to achieve structured planning in rural areas. They will also support municipalities with the development of nodal plans for towns, and to accommodate growth in small town nodes.

The department will map data relating to climate change to enhance the province's response to this critical issue. In this regard, Disaster Management Centres will be supported and maintained, and assistance will be given to all districts and departments with regard to disaster risk management planning.

Arts and Culture

The Department of Arts and Culture receives R962.6 million, R975.8 million and R1 billion over the 2018/19 MTEF. The department will continue to uphold its core mandate of ensuring cultural advance of all people in the province through hosting various cultural events and provision of reading and writing material. The digitisation of museum artefacts will be accelerated with the purchase of digitisation equipment. This intervention will allow for public access to museum collections via the KZN Heritage portal, which is in its final stages of development. In addition, the department will focus on the transformation of existing museums to better portray the diverse cultures of the province.

A total of 230 public libraries will receive funding in support of staffing and operational costs. New books will be purchased to add to the available collection of 3.3 million items.

The department will complete the Ngwavuma and Bilanyoni libraries in 2018/19 and will continue with the construction of libraries in Mtubatuba, Richmond, uMhlatuze, Nqutu and Dannhauser, and will upgrade and maintain existing library facilities. The department will purchase books supporting school curriculum and tertiary education modules to satisfy the demand for educational support in public libraries.

Office of the Premier

The Office of the Premier receives R787.1 million, R822.6 million and R874.7 million over the 2018/19 MTEF. The functions of the Office of the Premier include the co-ordination of provincial policy and planning processes, the provision of provincial leadership and inter-departmental co-ordination, and the promotion of a culture of human rights consciousness and gender sensitivity across the province, amongst others. The budget allocation is for cross-cutting and transversal activities, such as Operation Sukuma Sakhe, integrity management, youth development, the Nerve Centre, support to His Majesty the King, as well as transfers to its three public entities, Amafa, the KZN Gaming and Betting Board and the Royal Household Trust.

Provincial Treasury

Provincial Treasury receives R650.9 million, R677.3 million and R721.4 million over the MTEF. The bulk of the department's budget is for financial governance, internal audit and SCM. Treasury will continue to provide technical support in the development of the Provincial Infrastructure Master Plan. Treasury will also continue to monitor the spending of departments and public entities, with the aim of keeping provincial spending within budget, with a particular focus also on infrastructure spending. In this regard, various oversight bodies will continuously be kept informed of the provincial budget performance. The current practice of monitoring all departmental bank balances on a daily basis to ensure effective cash flow management will be maintained.

Treasury will continue to enforce compliance with all SCM prescripts in provincial departments, municipalities and public entities and establish and maintain a strategic link between financial management reforms and procurement processes. Comprehensive compliance assessments will be undertaken to ensure that incidents of irregular expenditure relating to SCM processes are reduced.

Support will be given to departments and public entities in an effort to improve audit outcomes. Treasury will continue to provide internal audit services to departments by performing risk-based audits, with specific focus on overall good governance, and will roll out the revised provincial risk policy and framework.

From 2018/19, the Municipal Finance unit becomes a stand-alone programme and will continue to be responsible for municipalities' budgets, accounting and reporting, as well as the Municipal Support Programme.

Provincial Legislature

Provincial Legislature receives R565.2 million, R600.5 million and R640.8 million over the MTEF. The bulk of the Legislature's budget relates to the areas of law-making and oversight, as well as public participation. Public involvement initiatives like *Taking Legislature to the People* will continue. The Legislature will strive to increase stakeholder involvement in line with the constitutional mandate of facilitating public involvement in the legislative and other processes of the Legislature. Departments will be invited to a stakeholder summit to present their respective APPs which identify their performance indicators and targets for the year ahead. The public will be engaged in the presentations of the APPs. The committees will provide oversight to ensure that the Executive delivers high quality services which are in line with the targets in their APPs.

Sport and Recreation

The Department of Sport and Recreation receives R452 million, R476.7 million and R507 million over the MTEF and aims to promote, develop, administer and fund sport in KZN. It also ensures advancement of participation in sports and recreation, talent identification, and the promotion of performance excellence, as well as the construction of sports and recreation facilities.

Some of the plans for 2018/19 include the construction of 71 sports and recreation facilities, comprising one basic sport and recreation facility, 11 outdoor gyms, 11 multi-purpose courts, 11 kick-about sport facilities, 33 children's play gyms and four new resourced district hub fitness centres.

Training will be provided to 450 educators and volunteers in coaching, technical officiating, and team management. In addition, the department is targeting to provide 400 identified schools with sport equipment and attire.

The department will continue to place a high priority on promoting active healthy lifestyles among citizens in an effort to promote the fight against lifestyle diseases and obesity.

Community Safety and Liaison

The Department of Community Safety and Liaison receives R224.9 million, R228 million and R242.8 million over the MTEF. The bulk of the department's budget is for community safety initiatives, including the Voluntary Social Crime Prevention Programme, maintenance of Community Safety Forums and Community Policing Forums, crime awareness campaigns (victim empowerment, drug abuse, etc.), police station evaluations, justice, crime prevention and security, dealing with stock theft, cross border conflicts, and taxi violence, amongst others.

CONCLUSION

Despite the budget cuts, our commitment to the people of KwaZulu-Natal is that we will protect government's key priority programmes as far as possible so that we do not lose sight of our vision of ensuring a better life to all.

Our fiscal discipline has helped us in the past and will help us again to deal with the budget cuts, while remaining focused on our key priority programmes. It is important for all of us to take joint ownership of the cost-cutting measures as these are not only the responsibility of Provincial Treasury. We all have a role to play. We must improve efficiencies in our spending so that we can re-direct more and more funds to core service delivery programmes for the benefit of our people, especially during this time of continued fiscal consolidation.

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

I want to thank our Honourable Premier, Mr T.W. Mchunu, and my Provincial Executive Council colleagues for their support. My gratitude also goes to the Ministers' Committee on the Budget (MinComBud). We had to take a number of really tough decisions in preparing this budget and we did so in unison. To quote Oprah Winfrey, *"Where there is no struggle, there is no strength."*

I would also like to extend my gratitude to the Minister of Finance and National Treasury officials for their guidance and technical support during these difficult times.

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

I thank the Heads of Departments, Chief Financial Officers and all provincial government officials for the role they play in managing their budgets.

Thank you HoD Magagula and your team for working incredibly long hours, under even tighter deadlines than ever before, to produce such detailed budget documents. I think I speak on behalf of the whole province when I say that we are very proud of you!

Thank you to my family for their love and support.

I thank you.