PROVINCE OF KWAZULU-NATAL

PROVINCIAL TREASURY

ADJUSTMENTS ESTIMATE BUDGET SPEECH

2017/18

Province of KwaZulu-Natal
Address by B.F. Scott – MEC for Finance
The Adjustments Estimate – 2017/18
23 November 2017

A. ECONOMIC REVIEW AND OUTLOOK AND THE FISCAL IMPLICATIONS

Introduction

Madam Speaker, honourable Members of the Provincial Legislature, colleagues, people of KwaZulu-Natal, ladies and gentlemen, last month the Honourable Finance Minister, Malusi Gigaba delivered his brutally honest maiden Medium Term Budget Policy Statement. It was clear in his candid speech that the country is faced with many challenges, which include a poor performing economy, a growing budget deficit, a projected decline in tax revenue, the threat of further credit rating downgrades and a high unemployment rate.

If these challenges are not properly managed, they could lead to South Africa sliding further into non-investment (junk) credit rating status and even seeking an International Monetary Fund (IMF) bailout.

As a country, we thus need to follow from Jackson Brown, Jr, the American author, who once said, I quote, "*The best preparation for tomorrow is doing your best today*". Hence borrowing from his words we, therefore, need to take decisive *actions* and make *"hard choices"* now to ensure a better tomorrow.

Economic performance

As you may be aware, the economy of the country is expected to grow at 0.7 per cent this year, before accelerating slowly to 1.1 per cent in 2018. The subdued economic performance follows the technical recession from which the economy has since emerged, and the credit rating downgrades earlier in 2017. In KZN, economic growth is now expected at 0.5 per cent this year and 0.9 per cent in 2018 and, needless to say, this is far below the growth targets in the NDP, as well as in our PGDS.

Debt

Ladies and gentlemen, given the sluggish economic performance in the country, the debt and debt-service costs are projected to rise significantly over the next three to four years. National Treasury forecasts an increase in the debt-to-gross domestic product (GDP) ratio to 60 per cent by the 2020/21 fiscal year. This ratio was 48.3 per cent in 1993/94.

As demonstrated by the National Minister of Finance, the budget deficit would widen to 4.3 per cent of GDP in the current financial year, far higher than the target of 3.1 per cent projected in February this year.

The gross national debt is projected to reach 61 per cent of GDP by 2022, while debt-service costs will remain the fastest-growing category of public-sector expenditure over the next three years, crowding out the much needed social and economic spending.

The Medium Term Budget Policy Statement shows that the budget expenditure ceiling, as was introduced in the 2014 fiscal year, has been breached by an amount of R3.9 billion for the first time this year.

For the first time, since the 2009 global financial crisis, there is an under-collection of R50.8 billion in tax revenue. With lower economic growth and rising unemployment, which is currently at 27.7 per cent, the outlook remains challenging with regard to tax collections, negatively affecting resources available for government spending.

According to the latest data from Statistics South Africa, the number of unemployed people rose to 6.21 million in the third quarter of this year. The high unemployment rate in the country, especially among the youth, is commonly raised by credit rating agencies as a major setback to South Africa's economic growth prospects. Needless to say, this is a ticking time bomb for our country.

It is partly this harsh reality that Minister Gigaba was candid in admitting that economic growth is a real challenge, and getting growth going will be about the only thing that can boost government's revenue and save the country from its fiscal shortfalls and the looming downgrades by rating agencies.

As indicated by Wendell Erdman Berry, an American prolific author, I quote, *"We do need a new economy, but one that is founded on prudence and care, on saving and conserving, not on excess and waste. An economy based on waste is inherently and hopelessly violent, and war is its inevitable by-product. We need a peaceable economy."*

Consequences of downgrade to junk

Madam Speaker, as you may be aware, we are waiting for the Moody's and Standard & Poor Global credit rating outcomes tomorrow (24 November 2017). The notable and material deterioration in SA's fiscal position might result in the 90 per cent of debt issued in Rand being downgraded to non-investment grade, with potential capital outflows ensuing as a consequence.

Moody's is the only one of the big three rating agencies to still rate SA one notch above junk. If any of these rating agencies cut their '*local debt*' ratings, the government's $125 billion stock of Rand-denominated debt will no longer be eligible for the Citi World Government Bond Index (WGBI).

This would lead to large amounts of capital flowing out of SA's bond markets as investors move to anticipate the junking of SA's domestic bonds, putting pressure on the Rand exchange rate. Currently, South Africa is the only African government bond market to be incorporated into the index.

Madam Speaker, it thus goes without saying that the fiscal path presented in the Medium Term Budget Policy Statement cannot be sustained. It is for this very same reason that the national government has set up a task team to deal with the fiscal challenges facing the country. The task team is led by the Minister of Finance and will report to the President of the country, Mr Jacob Zuma. The goal of this focused and select team is to come up with the actions needed to restore the sustainability of fiscal policy, and which will be put forward in the February 2018 budget.

"Nobody trips over mountains. It is the small pebble that causes you to stumble. Pass all the pebbles in your path and you will find you have crossed the mountain" – Author Unknown.

B. PROPOSED ADJUSTMENTS

Section 31 of the PFMA determines that provinces must table an Adjustments Budget annually, and that this must be tabled within 30 days of the national Adjustments Budget being tabled. Adjustments are made to the Main Appropriation in terms of Section 31 of the PFMA. These adjustments include the appropriation of funds that have become available to the Province, the shifting of funds between and within Votes, the utilisation of savings under the main division within a Vote for the defrayment of excess expenditure under another main division within the same Vote referred to as virements, approved roll-overs for those departments who could not spend the entire amount voted by the Legislature in that particular year, to name a few.

Provincial Treasury has held various bilateral meetings with departments and public entities over the last few months to assess in-year spending patterns, as well as to discuss any spending pressures that may have arisen since the Main Budget was tabled in March 2017. Due to the tight fiscal position, the province was able to accommodate only a few additional funding requests.

B.1. Financing of the Adjustments Budget

The province continues to remain cash positive as has been the case since May 2010. Provincial Treasury continues to closely monitor the bank balances, as well as the spending pressures projected by departments in-year. The cost-cutting measures continue to be implemented with vigour. All these factors resulted in the province ending the previous year with a positive Net Financial Position and this is, therefore, the source of the bulk of the allocations being made in this Adjustments Budget.

This Adjustments Budget deals with a number of additional allocations, equitable share and conditional grant roll-overs, the movement of funds between departments, the suspension of funds from this year's budget to be allocated back in the new financial year, as well as instances where Legislature approval is required for the change in purpose where funds were specifically and exclusively allocated, among others.

C. NET FINANCIAL POSITION

Table 1 is a snap-shot of the adjustments that are included in the Adjustments Budget that is being tabled today.

Table 1: Net Financial Position - 2017/18

R thousand	2017/18
1. 2016/17 Adjusted Budget - Audited	109 914 452
2. 2016/17 Actual Expenditure - Audited	109 594 851
3. 2016/17 Year-end under-expenditure - Audited	319 601
4. 2016/17 Own Revenue Budget - Audited	3 031 769
5. 2016/17 Own Revenue collection - Audited	3 200 700
6. 2016/17 Year-end over-collection - Audited	168 931
7. 2016/17 Budgeted surplus	452 145
8. Less: 2016/17 Revenue collection already allocated in 2016/17 Adjustments	(44 646)
9. 2016/17 Surplus - Audited	896 031
10. Less: Unspent conditional grants approved for roll-over	128 368
National School Nutrition Programme grant	116 807
National Health Insurance grant	311
Human Settlements Development grant	1 372
Community Library Services grant	9 878
11. Less: Unspent conditional grant funding to be returned to National Treasury	3 543
12. 2016/17 funding available after taking into account cond. grant roll-overs and surrenders	764 120
13. Less: Provincial Commitments	767 421
Vote 5: Spending pressures	200 000
Vote 5: Storm damage to schools	56 687
Vote 11: Spending pressures (Traditional Council Elections)	40 000
Vote 4: Ithala Capital Adequacy Ratio	-
Vote 4: Radical Economic Transformation	12 050
Other spending pressures (Public Works - Property rates)	30 000
Vote 2: FMPPLA and S22 of PFMA determines PL may retain own revenue over-collection	6 829
Vote 7: Health	400 000
Vote 8: Re-allocation from NURCHA	18 954
Vote 8: Stedone Development refund	2 538
Vote 10: KZN Sport Awards sponsorships	363
14. Less: Provincial Roll-overs	124 878
Vote 1: King's palaces renovations	1 313
Vote 2: Ito FMPPLA the Provincial Legislature retains any under-spending from prior year	75 679
Vote 6: Forensic services	10 525
Vote 12: Cross-border crime fighting structure, bus lanes Main Road P577	27 246
Vote 14: Provincial Infrastructure Master Plan	5 866
Vote 15: Feasibility studies for Archive Repository (R2m) and various trfs	4 249
15. Funding available after providing for provincial commitments and roll-overs	(128 179)
16. Funds paid into PRF in 17/18 for allocation in 17/18 Adj Est	21 492
17. Funding available after taking into account revenue received in PRF in 17/18 and allocated back to depts	(106 687)
18. Add: 2017/18 budgeted surplus/ Contingency Reserve	650 000
19. Net financial position (including funds returned to Provincial Revenue Fund)	543 313
20. MinComBud determined that funds should be allocated to Flood Disaster of 10 October 2017:	434 700
Education	133 800
Health	100 900
Transport	200 000
21. Final net financial position	108 613

Note: Also to be included in the Adjustments Estimate is an amount of R20.033 million which the KZNGBB returned to the PRF and which is now being re-allocated for office accommodation in Pietermaritzburg

The table provides an analysis of the province’s Net Financial Position, taking into account:

- Under-spending of the 2016/17 budget allocation
- Over-collection of 2016/17 own revenue
- Contingency Reserve for 2016/17
- Approved roll-over of conditional grants
- Repayment to the National Revenue Fund of unspent conditional grants
- Provincial commitments
- Equitable share roll-overs
- Contingency Reserve for 2017/18
- Disaster relief allocation.

What this table does not take into account, is the additional funding allocated to KwaZulu-Natal in the National Adjustments Budget. **The national adjustments are discussed in more detail later.** Various other adjustments, such as the movement of funds between departments, are also discussed later.

The following provides the detail of each line contained in the Net Financial Position:

C.1. 2016/17 Net Surplus

Line 1 of Table 1 begins with the 2016/17 Adjusted Budget, compared to the Audited Actual Expenditure for that year in **Line 2**, resulting in an audited year-end under-expenditure of R319.601 million in **Line 3.**

Line 4 shows the 2016/17 Own Revenue Budget compared to the Actual Revenue collected in that year shown in **Line 5,** resulting in an audited year-end over-collection of Own Revenue of R168.931 million (**Line 6**).

Line 7 reminds us that the province had budgeted for a Contingency Reserve in 2016/17 of R452.145 million and that this amount remained after some funds were allocated during the 2016/17 Adjustments Estimate.

When the 2016/17 revenue was collected, some departments requested that certain parts of the revenue over-collection be allocated back to them in the 2016/17 Adjustments Budget. As such, an amount of R44.646 million of the 2016/17 revenue over-collection was already allocated back to various departments in the 2016/17 Adjustments Estimate as shown in **Line 8.**

The province therefore ended the 2016/17 financial year with an audited positive Net Financial Position of **R896.031 million** as shown in **Line 9**.

C.2. Unspent conditional grants from 2016/17

A portion of this surplus relates to unspent conditional grant funding and therefore needs to be removed from the calculation, as unspent conditional grant funding has to be returned to the national fiscus, unless approved for roll-over, according to DORA. As such, **Line 10** indicates the amounts that remain unspent in the Provincial Revenue Fund, but were approved by National Treasury, to be rolled-over for spending in 2017/18 with respect to four conditional grants. It should be noted that this is not "new" money for the province as the funds are already in the Provincial Revenue Fund. The roll-over approval merely means that these funds can be used to settle some commitments from the prior year. The table shows the following conditional grant roll-overs:

- National School Nutrition Programme grant – R116.807 million
- National Health Insurance grant – R311 000
- Human Settlements Development grant – R1.372 million
- Community Library Services grant – R9.878 million.

Line 11 indicates that a total of R3.543 million has to be returned to the National Revenue Fund in terms of various conditional grants. While it is unacceptable to have to return any funds to the national fiscus, it is important to note that the amount returned in this instance is quite minimal when compared to the conditional grant budget of R17.625 billion i.e. a mere 0.02 per cent. Funds in terms of the following conditional grants have to be returned to the National Revenue Fund:

- Social Sector EPWP Incentive Grant (V9: Community Safety and Liaison) – R1.385 million
- Social Sector EPWP Incentive Grant (V10: Sport and Recreation) – R1.367 million
- EPWP Integrated Grant for Provinces (Vote 10: Sport and Recreation) – R300 000
- EPWP Integrated Grant for Provinces (Vote 14: Public Works) – R363 000
- NHI grant – R90 000
- Community Library Services grant – R38 000.

Line 12 then indicates the funding available for allocation after taking into account the conditional grant roll-overs and surrenders, with this being **R764.120 million**.

C.3. Provincial commitments since tabling of the 2017/18 MTEF budget

There are a number of provincial commitments that have arisen since the 2017/18 MTEF budget was tabled in the Legislature, which require funding. It should be noted that in some instances, the funds will only be allocated to the receiving department in the 2018/19 MTEF as this is when the funds are required. Where allocations will only be made after the 2017/18 Adjustments Estimate, this is indicated as such (these amounts will be formalised when the 2018/19 MTEF budget is tabled). The provincial fiscus is not in a position to fund all areas of spending pressure that have arisen, but the following areas receive additional funding in the amount of **R767.421 million** in this Adjustments Budget:

- **Education spending pressures** – The department has experienced significant budget pressures in-year mainly against their *Compensation of employees* (*COE*) and *Goods and services* budget. The *COE* pressure is partly due to the department providing for annual wage increments at below the rate prescribed by National Treasury, but also because of the budget cuts effected relating to the decision to remunerate *Izinduna*. The *Goods and services* pressures are largely due to anticipated travelling to schools for advisory services, provision for 2017 examination logistics, including printing and publication costs for the National Senior Certificate, supplementary exams, etc. As such, R200 million is allocated to the department to assist with these pressures, and the department also indicated that they have identified areas of savings amounting to R419 million to off-set their spending pressures.

- **Education storm-damaged schools** – On 17 September 2017, strong winds damaged a number of schools across the province and the MEC for Education then asked that the department be assisted with funding to repair these storm-damaged schools. A total of 324 schools were affected and the estimated cost of repairing these schools amounts to R56.687 million. While disaster-related damage and associated costs should be raised with the Provincial and National Disaster Management Centres, this is often a lengthy process and it is unlikely that these funds would be received in the current year. As such, R56.687 million is specifically and exclusively allocated to the Department of Education to repair these storm-damaged schools, but with the undertaking that these funds merely provide bridge-funding to start the repair work until the funds are reimbursed by the National Disaster Management Centre. These funds are allocated to the department over two years i.e. R36.687 million in 2017/18 and R20 million in 2018/19.

- **Co-operative Governance and Traditional Affairs (COGTA) spending pressures as a result of reprioritization undertaken to fund 50 per cent of *Izinduna* payment** – The department indicated that they have experienced a number of spending pressures as a result of having to fund 50 per cent of the bill in terms of the remuneration of *Izinduna*. While a number of their pressures are being addressed through internal reprioritization, an amount of R40 million is being allocated to the department for the Traditional Council elections. These funds are specifically and exclusively allocated for this purpose.

- **Economic Development, Tourism and Environmenatl Affairs (EDTEA): Ithala SOC Limited Recapitalisation requirement** – The department requested R170 million (consisting of R60 million required for the recapitalization in 2017/18 and a further R110 million required in 2018/19) to ensure that Ithala meets its minimum Capital Adequacy Ratio. It was determined that EDTEA will be in a position to fund the 2017/18 recapitalization requirement from savings identified from within their budget and no additional funds are therefore allocated towards this in the 2017/18 Adjustments Estimate.

- **EDTEA: Radical Economic Transformation** – In the 2017/18 MTEF Main Budget speech, I indicated that additional funds would be allocated for this purpose in the 2017/18 Adjustments Estimate once the project has gained momentum and a costing exercise has been done. As such, R12.050 million is allocated to EDTEA for this purpose, with further funds added by the department through internal reprioritization. The funds added to the department from the provincial fiscus are specifically and exclusively allocated and may therefore not be used for any other purpose.

- **Public Works payment of property rates** – The municipal property rates budget is under pressure due to high increases in municipal rates by some municipalities, as well as the upgrading of various government buildings which then attract higher property rates. In this regard, R40.826 million was requested by the department, but the fiscus can only afford to allocate R30 million with the balance to be addressed by the department through internal reprioritisation.

- **Provincial Legislature: Own revenue retention** – the Provincial Legislature retains any own revenue collection and is thus allocated any over-collection from the prior year in terms of Section 22 of the PFMA, as well as the Financial Management for Parliament and Provincial Legislatures Act (FMPPLA). As such, R6.829 million is allocated back to the Legislature in the 2017/18 Adjustments Estimate.

- **Health/ Provincial Treasury Intervention plan** – As mentioned in the Executive Statement which I tabled in this House on 24 May 2017, Health and Provincial Treasury are working on a joint intervention plan to address weaknesses in areas such as Supply Chain Management (SCM), internal control, asset management, clearing of accruals, among others. An amount of R400 million is allocated towards this intervention plan, with the bulk of the allocation allocated to Health and some allocated to Treasury. Most of these funds will be allocated in 2017/18, but some will only be allocated in 2018/19.

- **Human Settlements: allocation of funds received in-year to be used for housing projects** – The department requested that funds returned to them in 2017/18 by the National Urban Reconstruction and Housing Agency (NURCHA) (R18.954 million) and a refund in terms of the Stedone Development project (R2.538 million) be allocated back to them for allocation towards housing projects. As such, these amounts are allocated to the department in the 2017/18 Adjustments Estimate.

- **Sport and Recreation: sponsorships for annual Sport Awards** – The department received a number of sponsorships amounting to R363 000 towards the hosting of the annual Sport Awards. As these funds were received in the Provincial Revenue Fund, they have to be appropriated back to the department in order for them to spend this amount. As such, these funds are allocated to the department in the 2017/18 Adjustments Estimate.

C.4. Provincial Roll-overs

Line 14 indicates the provincial equitable share roll-overs that have been approved, with these amounting to **R124.878 million**. The detail of these roll-overs is provided below:

- **Office of the Premier** receives an equitable share roll-over totalling R1.313 million, having under-spent their 2016/17 budget allocation by R5.909 million. This is a second roll-over of the funds for the maintenance and repairs to the **King's Palaces**. An amount of R8 million was rolled-over to 2016/17 but could not be entirely spent as a result of delays that were experienced with the refurbishments.
- **Provincial Legislature** retains its surplus Voted (operational) funds every year, without having to submit a request to Provincial Treasury for the roll-over of committed funds like provincial departments do. This is in line with both the PFMA and the FMPPLA. As such, the under-expenditure in respect of the **operational budget** is appropriated back to the Legislature in the 2017/18 Adjustments Estimate. The statutory allocation is a direct charge and is therefore not appropriated, hence any unspent statutory funding must be paid back to the Provincial Revenue Fund. As such, R75.679 million is rolled-over for the Legislature. It should be noted that the Legislature under-spent their 2016/17 budget allocation by R80.957 million, but R5.279 million related to their statutory allocation and has to be surrendered to the Provincial Revenue Fund.
- **Provincial Treasury** under-spent their 2016/17 budget allocation by R32.039 million and receives a roll-over of R10.525 million mainly relating to some **forensic investigations** taking longer than anticipated, as well as some service providers submitting invoices too late for payment in 2016/17.
- **Transport** under-spent their 2016/17 budget allocation by R27.929 million and receives a roll-over of R27.246 million. Of this amount, R25.246 million is for the construction of **bus lanes on Main Road P577** in the eThekwini Metro while the balance of R2 million is for the specifically and exclusively appropriated funds relating to the **planning of the cross-border crime fighting structure** between the border of South Africa and Mozambique. The planning was undertaken by the service provider, but the invoices had not been submitted to the department for payment by year-end.

- **Public Works** under-spent their 2016/17 budget allocation by R6.523 million and receives a roll-over of R5.866 million relating to commitments associated with the development of the **Provincial Infrastructure Master Plan**.
- **Arts and Culture** under-spent their 2016/17 budget allocation by R18.085 million, and R9.878 million of this related to the Community Library Services grant. The department receives an equitable share roll-over of R4.249 million with regard to **transfers** to the Msunduzi Municipality (R400 000) and Nquthu Municipality (R1.119 million) in respect of the staffing and operational costs of the Tatham Art Gallery and library provincialisation funds, respectively, transfers to Umgababa Youth Festival (R250 000) and Gumba Festival (R400 000), Love to Live (R80 000), as well as for the feasibility study of the **Archive Repository** (R2 million).

After funding the provincial commitments and roll-overs, the funding available becomes overdrawn by **R128.179 million** as shown in **Line 15.**

C.5. Allocation of funds received in Provincial Revenue Fund in 2017/18

Some of the amounts allocated to departments in the 2017/18 Adjustments Estimate, as I have described, are possible as these funds were paid into the Provincial Revenue Fund during the 2017/18 financial year. The funds that were paid into the Provincial Revenue Fund amount to R21.492 million, as shown in **Line 16,** and relate to Human Settlements in respect of the NURCHA and Stedone refunds, as mentioned.

C.6. Contingency Reserve

Line 18 reminds us that KZN has budgeted for a Contingency Reserve of R650 million in 2017/18.

Line 19 indicates that the province will then have a **positive Net Financial Position of R543.313 million** once all these allocations have been made.

C.7. Flood Disaster allocation

On the eve of the Adjustments Budget calculations being finalized, the province was ravaged by a severe storm which wreaked havoc mainly on the coastal part of the province. The storm caused localized flooding which resulted in tremendous damage to a number of our provincial facilities, including hospitals, schools and roads.

In the face of this crisis, the Provincial Executive Council felt that the province had no choice but to allocate funding to start repairing these facilities as a matter of urgency, and that this should be allocated from the remaining balance in the Net Financial Position. Education, Health and Transport were tasked to immediately undertake an assessment of the damage to their facilities as a result of the storm and Provincial Treasury offered the services of the Infrastructure Support Team to assist in this regard. The reports received within days of the storm indicated that R434.700 million is required to repair the infrastructure damaged by the storm and this is shown in **Line 20.** Of this amount, Education receives R133.800 million, Health receives R100.900 million and Transport receives R200 million. These funds are partly allocated in 2017/18 and partly in 2018/19, in line with requests by the department.

Again, as with the disaster funding allocated to Education with regard to the wind storm of 17 September 2017, as mentioned, disaster-related damage and associated costs should be raised with the Provincial and National Disaster Management Centres, but this is often a lengthy process and it is unlikely that these funds would be received in the current year. As such, these funds are specifically and exclusively allocated to these three departments to repair the storm-damaged infrastructure, but with the undertaking that these funds merely provide bridge-funding to start the repair work until the funds are reimbursed by the National Disaster Management Centre.

C.7. Final Net Financial Position

Once this disaster allocation has been made, the **Net Financial Position** amounts to **R108.613 million**. This amount will be held in reserve to help buffer the provincial bank account in the event that the province over-spends its budget.

D. SUSPENSION OF FUNDS/ CHANGE IN PURPOSE

The provincial Adjustments Estimate process provides for the allocation of funds, for the internal reprioritization of funds by departments, as well as the suspension of funds or for changing the purpose of funds where these have been specifically and exclusively allocated to departments.

A suspension of funds occurs when a department has recognized that there are unforeseen delays in some of their projects, and they then request that the funds be suspended from their budget in the current year to be re-allocated to them in the next or future years. A change in purpose is where funds were specifically and exclusively allocated to a department but the department wants to change the purpose for which the funds are allocated. Such a change in purpose of specifically and exclusively allocated funds requires Legislature approval. The following suspensions and change in purpose are included in the 2017/18 Adjustments Estimate:

- **Arts and Culture** requested that the funds allocated to them over the 2017/18 MTEF for the construction of an **Archive Repository** be suspended from their Vote and re-scheduled. The Archive Repository received additional funding when the 2016/17 Net Financial Position was prepared last year. Since then, though, this project has seen some delays and Arts and Culture has, therefore, requested that the amount allocated to the department thus far be re-scheduled as follows: R5 million in 2017/18, R78.948 million in

2018/19 and R73.129 million in 2019/20. This will be formalised in the 2017/18 Adjustments Estimate, as well as over the 2018/19 MTEF.

- Similarly, Arts and Culture requested that the R33.500 million allocated to the department in 2017/18 for the construction of an **Arts and Culture Academy** be supported for a change in purpose of these funds as the amounts allocated are insufficient to construct an Academy of this nature. As such, the department requested that R20.500 million of these funds be used for the **refurbishment of the Winston Churchill Theatre** in Pietermaritzburg, and that R13 million be allocated toward the **development of a Music Academy in Ladysmith**, which is a project to be jointly undertaken with EDTEA. As these funds were specifically and exclusively allocated, the change in purpose will need to be approved by the Legislature in this 2017/18 Adjustments Estimate, in line with Section 43(4)(a) of the PFMA. The department is also requesting that these funds be re-scheduled to be used partially in 2017/18 (R2 million), and the balance in 2018/19 (R31.500 million). Provincial Treasury will work closely with the department to ensure realistic costing of these two projects.

- **Social Development** requested to suspend R55 million from their current year's budget for these funds to be allocated back to them in 2018/19. The **savings** arise from unanticipated delays in filling funded **posts**, as well as due to staff exits. While approval was received to fill 129 posts and these were advertised in February 2017, the plan was to have them filled by April 2017. Progress was affected by protest action during March and April 2017, and these posts are therefore now at various stages of the recruitment process. 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).

The following is also being formalised in this Adjustments Budget: **The KwaZulu-Natal Gaming and Betting Board** (KZNGBB) was requested to return an amount of approximately R20.800 million a few years ago to the Provincial Revenue Fund. These funds were initially allocated for the entity to acquire new **office accommodation** for their operations. This has been a challenging process and the entity has only recently secured **rental space in Pietermaritzburg** for their offices and the amount will therefore be returned to the KZNGBB in the 2017/18 Adjustments Estimate for this purpose. Part of these funds were already allocated to the entity when the 2017/18 MTEF budget was prepared, and the balance of R20.033 million is allocated to them in the 2017/18 Adjustments Estimate. This is shown as a footnote to Table 1.

E. REVISIONS TO EQUITABLE SHARE AND CONDITIONAL GRANT ALLOCATION

The 2017/18 Adjustments Budget sees **no additions** being made to KwaZulu-Natal's **Provincial Equitable Share**, nor the **Conditional Grant** allocation by National Treasury.

F. TECHNICAL ADJUSTMENTS/INTERNAL REPRIORITISATION

Other than these adjustments, the Adjustments Budget also contains virements and shifts undertaken by departments in re-organising their budgets in-year.

As a reminder, **a *virement* is the utilisation of savings or under-spending under one main division/sub-division/economic classification of a Vote toward the defrayment of excess expenditure under another main division/sub-division/economic classification of the same Vote.** That is, the original purpose of the funds has changed.

A *shift* on the other hand is the re-allocation of funds incorrectly allocated during the 2017/18 Estimates of Provincial Revenue and Expenditure budget process, or where funds are shifted due to the re-classification of expenditure. This also includes functions shifted within a Vote to follow the internal transfer of functions. That is, the original purpose of the funds remains the same.

Important to note in terms of Section 43 of the PFMA is that **Legislature approval** is required for any decrease in funds **specifically and exclusively** allocated for a particular purpose, any **decreases in *Capital***, as well as **decreases in *Transfers and subsidies*** to another institution. Any such proposed decreases are highlighted in the 2017/18 Adjustments Estimate which I am tabling today.

In terms of Treasury Regulation 21.1.1, any gifts, **donations or sponsorships of amounts up to R100 000** may be approved by the relevant Accounting Officer. Where the amount exceeds R100 000, Legislature approval must be sought. In instances where such gifts, donations and sponsorships exceed R100 000, these have been included separately in the 2017/18 Adjustments Estimate, and are shown as a separate item in the Adjustments Appropriation Bill.

G. CONCLUSION

Four departments were showing significant projected over-spending at mid-year, with the most significant being Education, Health and Transport. These departments have been directed by the Provincial Executive Council to prepare turnaround plans to show how they will contain the projected over-spending. It is essential that this spending pressure be controlled as, without these plans, the provincial fiscus is at risk. The Contingency Reserve that remains is not sufficient to protect the provincial fiscus if these departments over-spend their budget at currently projected levels.

I am confident, though, that we will be able to manage these pressures. We need to improve the efficiency of our spending to ensure continued service delivery to the people of KZN.

To quote William. J. Brennan, Jr, Former Associate Justice of the US Supreme Court: *"We must meet the challenge rather than wish it were not before us."*

In conclusion, I convey my sincere appreciation to the Honourable Premier, my Honourable Provincial Executive Council colleagues, as well as the Honourable Members of the Ministers' Committee on the Budget (MinComBud) for their assistance in finalising this Adjustments Budget.

The support received from the Finance Portfolio Committee, under the capable chairmanship of Hon. Nkosi, is acknowledged with appreciation.

Lastly, let me thank my Treasury officials for ensuring that the budget documentation we are tabling today is accurate and of high quality.

It is my honour to formally table the KZN Adjustments Appropriation Bill, 2017, for consideration in this House. I look forward to the debate on this Bill.

Thank you.