

# **Western Cape Government**

## **Medium Term Budget Policy Statement 2017**

**and**

## **Adjusted Estimates of Provincial Expenditure 2017**

**Speech**

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23 November 2017

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*2017 Medium Term Budget Policy Statement and  
2017 Adjusted Estimates of Provincial Expenditure Speech*

Honourable Speaker and Deputy Speaker

Honourable Premier and Cabinet Colleagues

Honourable Leader of the Official Opposition

Honourable Leaders of Opposition Parties

Honourable Members of the Western Cape Legislature

Senior officials of the Western Cape Government

Citizens of the Western Cape

Special Guests

Ladies and Gentlemen

Good morning and thank you for the opportunity to deliver the Western Cape Government's 2017 Medium Term Budget Policy Statement and the 2017 Western Cape Adjusted Estimates of Provincial Expenditure in the House today.

Honourable Speaker, I would also like to welcome in the House colleagues from Rwanda, Malawi, Gambia and Uganda who are attending the GIZ Africa Financial Governance Programme.

Earlier this week I had the pleasure of sharing our financial governance journey with them and I am pleased that we could learn from each other.

Honourable Speaker, this year and the following three years will be challenging as a result of the political economy and the impact of the fiscal envelope over the MTEF.

There is much **uncertainty** and the recent developments at the National Treasury, state capture and the precarious position of state-owned entities places Government's fiscal strategy at risk.

These risks are so serious that I have dedicated a full chapter to it in the MTBPS.

The MTBPS is this Government's response to these risks and its other statutory mandates.

Madam Speaker, despite these challenges, we are determined to navigate through these difficult times. Our principles and values remain our guiding framework for action.

As a result of the fiscal challenges, growing needs, and shrinking budgets, we are careful not to take on any unfunded mandates.

Madam Speaker, we are clear that major water infrastructure projects are the **responsibility of the National Department of Water and Sanitation.**

The Minister of Local Government, the Honourable Anton Bredell will make further announcements in this regard during the tabling of his Department's Adjusted Budget in this House later this month.

## **ECONOMIC CONTEXT**

Madam Speaker, South Africa's economic performance continues to reflect protracted trends of subdued growth and this trend is expected to remain over the medium term.

Continued structural constraints include low levels of investor and business confidence in the domestic economy and high levels of unemployment as key factors contributing to the persistently muted economic growth.

The 2018 Budget continues to be informed by the current economic environment and developments impacting on the Province.

The South African economy remains fragile and this is reflected in the downward revision of overall growth for 2017 to 0.7 per cent in the 2017 National Medium Term Budget Policy Statement (MTBPS) from 1.3 per cent at the time of 2017 National Budget in February of this year.

## **CRITICAL FISCAL AND DELIVERY RISKS FACING THE PROVINCE**

Madam Speaker, the 2017 National Medium Term Budget Statement highlighted a number of risks in its fiscal risk statement. These are:

- Underperformance of the economy and revenue projections;
- More pronounced strain and imbalances within public finances as the public sector wage bill increasingly crowds out other spending;
- The rising share of debt-service costs on the national fiscus;
- The build-up of unpaid accounts and fiscal imbalances; and
- The continued financial and operational deterioration of major state-owned companies.

Amid the constrained economic and fiscal context, the Provincial MTBPS tabled in 2016 outlined key risks for the Province in its Provincial Risk Statement.

Key risks at a provincial level include the growing demand for public services as the population and poverty grows, **water security**, the **drought**, the medium and long term impact of the Avian Influenza outbreak, the expected increase in the occurrence of fires in the Western Cape during the upcoming fire season, crime, ageing infrastructure and infrastructure backlogs.

The Western Cape is in the midst of a severe water crisis which has both economic and social implications for the Western Cape.

Besides the impact on consumers, the current drought is posing an enormous risk to the agricultural industry with an estimated 17 000 employment opportunities at risk.

Other sectors affected include the tourism sector, certain manufacturers and the construction sector.

From a public sector perspective, the Western Cape Government has committed to explore innovative ways to deliver on its infrastructure mandate.

The impact of the drought will also place increased strain on public resources at provincial and municipal level.

The WCED impact on school nutrition could be a significant risk due to the increasing cost of food due to the current drought being experienced in the Province.

Furthermore, the uncertainty of the impact of the water crisis may affect the construction sector as water is a key input in the production process and may also impact on the cost of infrastructure delivery.

I have had discussions with the Minister of Transport and Public Works, the Honourable Donald Grant about the impact of the drought and Cabinet has also considered proposals in this regard.

The Minister of Agriculture, the Honourable Allan Winde has raised the Avian Influenza outbreak at Cabinet level highlighting the severe impact it is having on the agriculture industry.

High crime rates have also been highlighted as a key risk given the impact it will have on the Province as a safe environment wherein citizens flourish, business can invest and tourists can visit.

In relation to this, key risks impeding satisfactory learner outcomes include the increased gang activities, community protests, theft, vandalism, violence and learner intimidation at schools.

The Minister of Health, the Honourable Nomafrench Mbombo has prioritised the safety of her staff at healthcare facilities and particularly EMS, in certain hotspots such as Manenberg which remains a key risk.

Service pressures, coupled with the constrained fiscal environment, currency fluctuations and higher-than-CPI medical inflation, has decreased the real buying power of already constrained public health resources.

As a result, budget pressures continues to mount, impacting on service access and quality.

Dependencies on national government is increasingly a challenge as many of the risks facing the WCG falls outside the mandates of provincial departments including policing and major water and infrastructure delivery.

The weak economic conditions and deteriorating climatic conditions are affecting municipal sustainability, impacting on municipal ability to raise revenue as well as reducing unemployment and poverty.

These have resulted in a negative impact on the financial stability of the municipalities.

Madam Speaker, this Legislature should also note that Government is facing a big fiscal risk in that the government wage bill is unsustainable.

As a country we cannot afford the wage bill.

I have however, been mandated by the Western Cape Cabinet to represent this Government at the Executive Consultative Mandate Committee next week at the wage negotiations.

I have received a clear mandate from this Cabinet regarding the fiscal stability of government expenditure.

#### **A. 2017 WESTERN CAPE MEDIUM TERM BUDGET POLICY STATEMENT**

The 2017 WC Medium Term Budget Policy Statement (WC MTBPS), covering the 2018 MTEF period, provides the economic and policy context within which the upcoming Provincial Budget will be presented.

Against the context of the 2017 National MTBPS, the 2017 Western Cape MTBPS outlines its commitment to fiscal consolidation, collective delivery towards the Provincial Strategic Goals while taking into account and responding to key risks facing this Government and municipalities in the Province.

The 2017 Adjusted Estimates provides the immediate response to the medium term provincial budget policy priorities and to managing provincial risks, while providing the basis for the 2018 Medium Term Expenditure Framework (MTEF).

Budget policy priorities focuses on stimulating economic growth and providing opportunities for job creation, improving education outcomes, increasing wellness and safety, providing an inclusive and sustainable living environment and embedding the practice of good governance.

## **MEDIUM TERM PROVINCIAL BUDGET POLICY PRIORITIES**

The Western Cape Government has a number of areas, policies and strategies which align to the National Development Plan (NDP), the OneCape 2040, the Provincial Strategic Plan (PSP) and the Medium Term Strategic Framework.

## **PROVINCIAL STRATEGIC GOALS**

### **Create opportunities for growth and jobs**

Within the context of a constrained economic environment, the Western Cape Government aims to provide support to key strategic sectors, enhance skills development and provide an enabling environment to grow the economy in an inclusive manner.

### **Project Khulisa**

Project Khulisa identifies agri-processing, tourism and the oil and gas services sectors as the greatest potential for accelerated and sustained job creation.

Agri-processing initiatives will continue to focus on international market exposure for Western Cape produce, efforts to boost exports and creating an enabling environment for agri-processed products to develop rapidly.

The tourism sector which employs over 200 000 people is one of the Province's most important sectors.

To date, the Air Access project has made a significant impact in boosting arrivals in the Province, with ten new direct flights into Cape Town International Airport.

The Saldanha Bay Industrial Development Zone (IDZ) is an important initiative in the oil and gas services sector with the Saldanha Bay IDZ Licensing Company being the implementing vehicle of the IDZ.

## **Green Economy**

The Province will continue promoting and stimulating the green economy to increase investment into green industries and to improve the resource efficiency of businesses.

Continuing initiatives over the 2018 MTEF include energy security, resource efficiency and leadership and coordination.

Through a partnership we have made progress with the establishment of a special economic zone (SEZ) in Atlantis.

A Mandate Committee consisting of Ministers Winde, Grant and myself as well as **the dti** and the CoCT met recently to map out the next phase of implementation of the SEZ.

Madam Speaker, I am pleased to report that significant progress has already happened in this regard.

A total investment of R680 million has already been attracted to the SEZ in Atlantis.

## **Skills for Growth**

Skills development is critical in addressing persistently high unemployment in the Province.

The Apprenticeship Game Changer focuses on work placements of semi-skilled and artisanal candidates by providing them with access to work experience and training opportunities.

In response to the large-scale unemployment amongst the rural youth the Agricultural Partnership for Youth Development will focus on the development of skills and education of the rural youth.

## **Transport Infrastructure**

The maintenance and delivery of transport infrastructure will continue over the 2018 MTEF and includes projects that aim to promote social and economic development and enables economic performance and a high economic multiplier effect.

The Western Cape Government has made significant investment towards an integrated and service-oriented system that increases access for communities to opportunities and services.

The Province will continue with the development of the GoGeorge Integrated Public Transport Network which will double the current service offering and connect Thembalethu and the neighbouring communities. The developments with Stellenbosch Municipality on the programme for sustainable transport initiatives will continue over the 2018 MTEF.

## **Improve education outcomes and opportunities for youth development**

Creating opportunities for children to remain in quality schools for as long as possible and to enhance opportunities for the youth, particularly constructive after-school activities that provide cultural, sporting and educational activities, remains a priority over the 2018 MTEF.

Key focus areas include implementing the Curriculum and School Management strategies, in particular the Mathematics and Language strategies.

Continued focus will be placed on piloting the Collaboration School model - a project where strong managerial and training resources from the private sector which aims to strengthen education outcomes in public schools that require additional support, through school operating partnerships.

## **eLearning**

The Western Cape Government has embraced the use of technology in schools by providing broadband connectivity at 1 278 schools by the end of the 2016/17 financial year. The cumulative total of 5 331 Smart Classrooms has been implemented between 2014 and 2017 across 391 schools.

## **Increasing the Quality of Education in Poorer Communities**

The Western Cape Government will continue to implement programmes to limit the effects of poverty on learning through access to “no-fee” schools and fee exemption at fee paying schools.

In 2016, 579 844 learners specifically benefited from access to no-fee schools (excluding fee exemption), 473 915 learners benefited from the nutrition programme and 58 556 learners gained access to transport.

## **Safety at Schools**

Madam Speaker, at almost every Cabinet meeting the Minister of Education, the Honourable Debbie Schäfer, raises the issue of the extent of crime in the Western Cape and how it continues to impact on the socio-economic realities of the most vulnerable.

Safety at schools has therefore become a priority area due to it being a key inhibiting factor in creating a safe environment for learning.

A number of successful school safety initiatives exist and may be expanded. These include, amongst others, the implementation of the school safety plan, the Safety Kiosks in high risk schools, the use of safety marshals and the Walking Bus programme.

As part of the After School Game Changer, the Western Cape Government will continue to prioritise school safety through the Neighbourhood Watch patrols and Resource Officers at high risk schools.

### **Early Childhood Development**

The Western Cape Government continues to focus on increasing the quality of Grade R learning at public ordinary schools and independent sites to ensure that those who enter Grade 1 are well prepared for school.

A focus area is providing new classrooms in areas of greatest need based on poverty indices, training 120 students as ECD Practitioner Assistants and strengthening the implementation of the Curriculum and Assessment Policy Statement in Grade R through the training of Grade R teachers and monitoring classroom practice.

ECD access (ages 0 to 4) will be expanded reaching 87 000 children annually by 2020.

### **Safer Communities**

The Community Safety Improvement Partnership encapsulates professional policing, safer communities and safer public spaces.

Safer public spaces as a Western Cape Government priority will be maintained through the support of accredited Neighbourhood Watches, a unique initiative in the Western Cape, with training and equipment.

As an important element in promoting safer communities, the Western Cape Government will continue to form partnerships with religious fraternities that aim to keep youth off the streets during school holidays.

A Provincial Joints Priorities Committee has been formed which will be responsible for developing an implementation plan for the National Anti-Gang Strategy (NAGS) in the Western Cape.

### **Drought Management, Water Security and Climate Change**

The roadmap to climate change support and industry resilience have been laid with the adoption of the Western Cape Climate Change Response Framework and Implementation Plan for the agriculture sector in 2016.

An intergovernmental Drought Task Team has been established to support drought relief projects which include water augmentation projects, repair and improvement of boreholes and water supply systems as well as assistance to agriculture.

### **Disaster Preparedness and Relief**

The strengthening and improvement of disaster preparedness and response plans have been prioritised. A Drought Register, identifying risk areas based on water availability and water use has been compiled.

A policy guideline, applicable for all new human settlement developments, which aims to reduce water and energy consumption, minimise waste generation, and reduce greenhouse gas emissions has been developed.

The guidelines will also promote the utilisation of alternative technology, increase the re-use and the recycling of resources, encourage rainwater harvesting by providing water tanks on all future units, and install boreholes and well points.

### **INFRASTRUCTURE**

Madam Speaker, infrastructure investment and infrastructure-led growth provides an effective mechanism to support socio-economic transformation and contributes to building economic resilience.

Historical infrastructure backlogs (for new infrastructure and maintenance) and the growing need to prioritise maintenance of the provincial asset base are to be considered when compiling departmental budgets.

Repairs and maintenance is critical to ensure longevity of infrastructure, specifically water-related infrastructure to minimise water losses in light of the current drought and water crisis.

### **Education**

Great strides have been made since the inception of Accelerated Schools Infrastructure Delivery Initiative (ASIDI) that has been implemented to replace a number of inappropriate school structures with newly built schools.

A focus area in responding to the impact of the drought and as such measures are being put in place to reduce and manage water consumption at education facilities.

### **Health**

Health's future investment, from a priority perspective will focus on expanding capacity through new facilities and maintaining existing facilities, co-location and multi-level facilities.

A number of hospitals and clinics within the health portfolio requires maintenance and thus will remain a priority.

Madam Speaker, two days ago I accompanied the Minister of Health, Dr Nomafrench Mbombo to the opening of a world class health infrastructure project in Prince Alfred Hamlet in the Witzenberg area.

The Department is also currently on site with another clinic under construction in Wolseley.

In responding to the impact of the drought investments will also be made into water augmentation projects at health facilities to ensure business continuity as far as possible.

## **TRANSPORT AND PUBLIC WORKS**

### **Alternative construction methods**

Madam Speaker, the Western Cape will be conducting further research around alternative construction technologies and techniques that are climate resilient and if prove feasible will be implemented over the MTEF and beyond.

The Western Cape Government owns and maintains more than R200 billion worth of immovable assets (land, buildings and roads) for which the Department of Transport and Public Works is the appointed custodian.

It is of the utmost importance that these assets are properly maintained in order to maximise the return on investment and to preserve these assets for the benefit of future generations.

### **Transport**

The Department of Transport and Public Works is responsible for a proclaimed road network within the Western Cape comprising of 6 820 km of paved roads, 9 828 km of unpaved roads, approximately 15 339 km of unpaved minor roads and nine weighbridges.

While new assets are required to support economic growth, considerable investment in maintaining the existing road infrastructure at standards that optimises the efficient and safe realisation of economic opportunities is central to the long-term sustainability of the Province.

The focus will thus remain on maintaining the road network at best possible level with the limited resources.

### **Human Settlements**

Key for the Western Cape Government is the development of sustainable integrated human settlements providing residents with access to social and economic opportunities close to where they live.

The Department of Human Settlements has set three priority areas, on which to focus for the MTEF period:

- Directing more resources to the Upgrading of Informal Settlements and the provision of basic services;
- The development of various Catalytic Projects; and
- Implementing a Partnership Strategy to provide affordable housing opportunities.

Madam Speaker, I am pleased to announce that two new Human Settlement grants are proposed, namely the Title Deeds Restoration Grant and a new Emergency Funding Grant to release funding to municipalities for the provision of land, municipal engineering services and shelter.

### **B. 2017 ADJUSTED ESTIMATES OF PROVINCIAL EXPENDITURE**

Madam Speaker, the main aim of the 2017 Adjusted Estimates is:

- To achieve the objectives of the Western Cape fiscal strategy, i.e. fiscal sustainability, fiscal consolidation and fiscal discipline; and
- To deal with some of the key risks identified, such as drought, water risks, crime, threatening the Province.

## **FINANCIAL IMPLICATIONS**

In this Adjusted Estimates, departments surrendered R220.170 million projected under spending on CoE.

A further amount of R103.442 million has been surrendered by departments to the PRF for Drought and realignment of policy priorities in the 2017/18 financial year for reallocation over the 2018 MTEF.

As part of the fiscal consolidation and discipline, it was necessary to ensure that provincial service delivery is not compromised, due to in-year pressures.

Therefore, allocations totalling R88.720 million was made in the 2017/18 financial year for the following purposes:

- To Health to fund pressures in goods and services in various programmes R54.095 million.
- To Social Development to maintain the current base of ECD sites, R1.492 million and for the extension of services for substance abuse, R1 million, security services, R1 million and outsourced services (children in conflict with the law), R3.968 million.
- To Agriculture for municipal services, R3.765 million given the increase in the rate per kilolitre as a result of the implementation of level 5 water restriction tariffs.
- To Transport and Public Works for optimisation of infrastructure service delivery, R19.600 million.
- To Cultural Affairs and Sport for municipal account, R3.800 million, to deal with municipal debt and the increase in the per kilolitre rate as a result of the implementation of level 5 water restriction tariffs.

### **Drought, Water and Fire risk**

Madam Speaker as the MEC of Finance, I was mandated by Cabinet on 16 June 2017 as authorised, in terms of section 25 of the Public Finance Management Act to allocate R75 million in emergency funds to specific votes as an initial drawdown to deal with the implications of the disasters affecting the Province.

These allocations were appropriated on 17 August 2017 in the Western Cape Adjustments Appropriation (Emergency Funds) Act, 2017 (Act 2 of 2017).

Further to this the Provincial Government introduced initiatives to deal with the implications of the drought.

All of these initiatives are aimed at compiling a provincial response (short and long term) to address the drought.

**Drought, Water Crisis, Fire - Budget Allocations and Commitments** allocations totalling R165.331 million for the 2017/2018 and a further R157.031 million for the 2018/2019 financial years are now included in this adjusted budget.

These include:

- R55 million to the Department of Local Government in 2017/18 Adjusted Estimates on condition of a detailed and executable procurement and business plan demonstrating ability to spend.

To deal with the impact of the drought provision is also made in the 2018/19 financial year, but kept in reserve:

- R25 million to Education
- R14.600 million to Health in 2018/19
- R39.931 million to the Department of Local Government for water resource infrastructure in 2018/19
- R77.500 million to Education allocation in 2018/19

## **Crime**

The Department of Community Safety will make provision through reprioritisation within the Department's baseline for requirements regarding the upcoming festive period, economic crimes and safety issues within the inner City and dealing with the top 10 areas affected by crime in the Metro.

In the 2018/2019 financial year R1 million has been reserved for the vote for a safety summit and R1.5 million towards a crime strategy.

### **The following additional amounts are taken up in the 2017 Adjusted Estimates:**

Funding has been allocated for the Recruitment and training of Graduate Interns within the Department of the Premier, R100 000; within the Department of Cultural Affairs and Sport, R500 000 and Education for the After School programme, R500 000.

Nineteen priority schools that are vulnerable to crime and violence in high risk gangsterism areas in the Western Cape that includes the 5 schools in the Lavender Hill area have been identified.

The Department of Community Safety aims to introduce an integrated safe zone and school safety strategy to alleviate the high levels of violence in Lavender Hill through deployment of Law Enforcement Auxiliary Services and School Safety Resource officers at the five high priority schools in the area.

Amounts of R3 million in 2017/18, R3 million in 2018/19, R3.2 million in 2019/20 and R3.2 million in 2020/21 are allocated.

An amount of R2 million has been allocated in 2017/18 for Neighbourhood Farms: Community Market Garden Development.

The opportunity identified by the Neighbourhood Farms will unlock the potential for local food production which will bring positive benefits to the social, built, natural and economic environment in communities and will promote local food security, healthy eating and safe food provision.

Funding is provided for the Injini EdTech incubator which aims to enable entrepreneurs in Africa to access early stage funding and support, thereby assisting new innovations to enter the education system.

Allocations of R1 million in 2017/18 and R2 million in 2018/19 have been made available to fund the Cape Innovation and Technology Initiative (CiTi) Injini EdTech Incubator Project.

An amount of R5 million is provided in 2017/18 to the Department of Cultural Affairs and Sport and for the promotion and development of classical music and opera within the Province.

R1 million is allocated to the HSBC Rugby World Sevens which will take place in Cape Town from 9 - 10 December 2017 at Cape Town International Stadium to assist in covering the costs of medical expenses, security and other ancillary costs associated with hosting this prestigious event. The Minister of Cultural Affairs and Sport, the Honourable Anroux Marais will provide further detail during her Department's Adjustments Budget Vote.

R250 000 is provided to the Department of Local Government for Financial Assistance: Electricity Supply Interruptions by Eskom for the Swartland Municipality.

The gazetting of allocations to municipalities **totals R2.4 billion** for the 2017/18 financial year. The accompanying Provincial Gazette provide mainly for the following key initiatives:

- Vote 4: Community Safety an amount of R3.3 million for the appointment, training equipping and operationalisation of school resource officers as well as for volunteers to serve in the City of Cape Town Law Enforcement Auxiliary Service;
- Vote 10: Transport and Public Works an amount of R10.3 million for financial assistance to municipalities for maintenance and construction of transport infrastructure, public transport non-motorised infrastructure and the George Integrated Public Network;
- Vote 12: Economic Development and Tourism an amount of R1.5 million for Cango Caves Infrastructure; and
- Vote 14: Local Government an amount of R1.2 million for Community Development Workers, Disaster Management, Municipal Electrical Master Plan, Ground Water Level Monitoring, Local Government Graduate Internship, Municipal Drought Capacity, Municipal Service Delivery and Capacity Building and Municipal Infrastructure Support.

Madam Speaker, in summary the Adjusted Budget makes provision for additional net spending amounting to R284.735 million bringing the budget from R59.431 billion to R59.716 billion.

## **CONCLUSION**

Madam Speaker allow me to conclude by extending my heartfelt gratitude to the Premier of the Western Cape, Premier Helen Zille for her leadership and the Cabinet for their support and guidance. I am indeed honoured to be part of a winning team.

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My thanks and deep appreciation also goes to the Head Official of Treasury, Mr Zakariya Hoosain and his senior managers. A special word of thanks to the Head of Fiscal Services, Mr Harry Malila and the Provincial Treasury Budget Office Team.

Honourable Speaker, it is now my pleasure to table the 2017 Western Cape Medium Term Budget Policy Statement, the 2017 Western Cape Adjusted Estimates of Provincial Expenditure, the Western Cape Adjustments Appropriation Bill, 2017; Western Cape Gazette of Allocations to Municipalities and this speech for deliberation and consideration by the House.

I thank you

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Western Cape Government  
23 November 2017