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MEDIUM TERM BUDGET
POLICY STATEMENT
2012-2015

ADJUSTED ESTIMATES OF
PROVINCIAL EXPENDITURE
2011

Speech by Minister Alan Winde
Minister of Finance
Western Cape Government

Honourable Speaker
Premier and Cabinet colleagues
Leader of the Opposition
Members of the provincial parliament
Director-General, Heads of Department
Leaders of business
The media
Special Guests
Citizens of the Western Cape

Introduction

On September the 7th three years ago, the course of history changed forever. On that day, we woke to the news that two major American finance houses – Freddie Mac and Fannie May - were to be nationalised to ensure their stability. In the week that followed, Lehman Brothers filed for bankruptcy, Merrill Lynch was sold off, and the world's biggest economy plunged toward recession. Before long, the ripple effects were felt across the globe. Despite a return to growth in most economies in 2010, the financial climate remains stormy.

As a result, governments across the world have less to spend on programmes to grow the economy, businesses have seen a reduction in turnover and job losses, and families are struggling to make ends meet. Our economy has not escaped these consequences. We present the 2012-2015 Medium Term Budget

Policy Statement of the Western Cape Government within this context.

Speaker, out of crisis comes opportunity. In 2009, the Democratic Alliance assured the citizens of the Western Cape that if elected to government, it would build an open, opportunity society for all by actively encouraging growth and jobs. Achieving this goal remains our driving force, and we are doing everything in our power to create opportunities for businesses to grow, and for citizens to become employed and live better lives.

Last week, the National Planning Commission, which is headed by former Finance Minister Trevor Manuel and a team of 26 presidential appointees, released its Vision for 2030, which includes an assessment of the core challenges facing our citizens. They are:

- High unemployment
- A poor standard of education for black people
- Poorly located infrastructure that is under-maintained and insufficient
- Spatial patterns that exclude the poor from the fruits of development
- An economy that is overly and unsustainably resource intensive
- A widespread burden of disease and a failing public health system
- Public services that are of uneven and often poor quality

- Pervasive corruption, and
- A society that remains divided

We agree.

In 2010, the DA-led Government set out its plan to tackle these very challenges, and others, to improve the lives of all Western Cape residents. We have begun to implement them and have already achieved some successes.

Speaker, meaningful progress against the challenges we face is dependent on two critical factors: leadership and responsibility.

The importance of leadership has once again been stressed by the uncertain turn that the Eurozone has taken as a result of poor decision making. To fulfil its leadership role, the Western Cape Government will ensure that new staff members are appointed based on fitness for purpose, and that we train existing staff to meet the demands of their jobs.

18th century French philosopher, Jean Jacques Rousseau, once stated:

“As soon as any man says of the affairs of State ‘What does it matter to me?’, the State may be given up for lost.”

Tackling our social ills and creating better lives for us all is our joint responsibility. We will therefore construct solutions in partnership with national and local government, business, labour and civil society.

We believe that by working together, we can be better together.

Economic outlook for the next three years

Speaker, the health of the Western Cape economy, which relies on the trade of goods and services with other parts of the world, remains vulnerable to global conditions. Currently, these centre on fiscal difficulties in the Eurozone, which continues to be plagued by a debt crisis that is causing panic in bond markets across the world. Politicians are currently engaged in finding a workable plan to recapitalise European banks. However, the prospect of a swift solution seems remote, and it appears that Europe is facing a return to recession.

In the United States, housing market difficulties are continuing to dampen growth, and early last month for the first time ever, Standard and Poor downgraded the US credit rating.

In 2010, our major trading partners, the US and Eurozone, grew at 2.9 per cent and 1.8 per cent respectively. In 2011, these figures are expected to plummet further to 1.5 per cent and 1.6 per cent respectively.

In contrast, the world's emerging economies grew at 7.4 per cent in 2010. To date, policymakers have maintained growth and contained inflation, but as the world economy becomes more precarious, the risks for emerging economies increase.

Of the top 10 fastest growing countries in the world, seven are in Africa. Can we still call ourselves the economic powerhouse of the continent if we are not one of them?

National Treasury predicts that the economy of the country will grow by 3.4 per cent and 4.1 per cent in 2012 and 2013, respectively. The Bureau for Economic Research suggests more conservative estimates of 2.8 per cent and 3.6 per cent respectively.

Alarm bells were sounded earlier this month when Moody's, a major credit rating agency, downgraded its outlook on the country's debt rating from stable to negative. The agency cited high poverty, high unemployment and heightened political risks as its reasons for doing so. It suggested that weakened growth would make it harder to reduce unemployment, resulting in pressure on the government from society at large to abandon its accommodative fiscal policy stance.

Reversing this scenario requires the outright rejection, from the highest political offices, of the calls for state intervention in the economy. Nationalisation, the redistribution of land and labour

union rigidity – so called “quick fixes” with devastating long term effects - are harming our ability to attract growth and job creating investment. Volatility within the ruling regime and its concomitant failure to maintain stable policies upon which businesses can depend is a further deterrent.

Speaker, I must mention here that yesterday’s passing of the Secrecy Bill will further damage our economic prospects. Newspaper houses around the world have sent a clear message to overseas residents that South Africa has voted to “shield the corrupt elite from press scrutiny”. Who would want to do business with us when we’ve branded ourselves as thieves and crooks?

The economy of the Western Cape, which has historically out-performed the national economy, is forecast to grow by 4.1 per cent in 2012 and 4.2 per cent in 2013. These figures are boosted by our strong services sector, which continues to attract international business, most recently Amazon and British Gas, to our shores.

In order to buffer our economy against recurrent shocks in our traditional markets, the Western Cape must diversify its export base by actively pursuing trade and investment relations with high growth emerging markets. This year, we have hosted trade missions to Argentina, Brazil, Angola, Mozambique, Nigeria, China, and Korea amongst others. Their interest in our goods and services exceeded our expectations, and several deals have been

brokered as a consequence of these visits. To date, Wesgro has enabled investment to the value of R691 million this financial year. These investments will create 713 jobs.

Labour market trends

Speaker, our accommodative fiscal stance and strong financial institutions have buffered us against the worst of the recession, and as stated earlier, our economy has continued to grow albeit at a slower pace.

Despite this, we have not achieved employment growth. South Africa's narrow unemployment rate stood at 25 per cent in quarter three of 2011, up from 23.5 per cent in the first quarter of 2008, before the recession hit us. The Western Cape's unemployment rate of 23.3 per cent in the third quarter of 2011 is marginally better, but still unacceptably high.

Speaker, youths aged between 15 and 34 currently account for over 70 per cent of all of Western Cape people without jobs. In tackling this challenge, the most sustainable intervention we can make is to provide them quality education and skills.

Over the past three years, we have succeeded in reducing the number of individuals with no formal education from 40 000 to 20 000. We have also increased the number of individuals with

degrees by over 10% each year. This will open opportunities for more citizens to find jobs in the dominant sectors of our economy. Our informal sector remains small, accounting for just 11.1 per cent of provincial employment. We are currently investigating ways to address this.

To unlock our real growth potential, and to create more jobs for the people of our Province, we will focus our spending on service delivery, including improving our education and healthcare systems, and developing infrastructure to stimulate the economy. We will also ensure that our spending is efficient, economical and effective by tightening up our financial controls and tracking our programmes against measurable outcomes. In the 2010/11 financial year, we spent more of our infrastructure budget than any other Province, and we aim to maintain this high standard of service delivery.

Medium term expenditure priorities

Over the medium term, we will focus on the following expenditure priorities to stimulate growth and jobs.

In consultation with the **Department of Transport and Public Works**, we have identified several large scale infrastructure projects that will be rolled out over the next three years to catalyse growth and address the Province's social needs.

In January 2012, the Khayelitsha Hospital will officially open its doors to patients from the surrounding areas. We are currently building a similar facility in Mitchell's Plain, and will be revitalising the George, Worcester and Paarl hospitals.

We will promote the environment for learning by replacing dilapidated schools and building new ones in areas that require them.

We will pave the way for economic activity by maintaining our most used roads, and we will connect our rural areas and our cities by upgrading our gravel roads. We have also set aside R300 million for transport projects that have tangible economic benefits.

We have allocated R400 million to the Regeneration Programme to stimulate inner city renewal around the Province. This programme seeks partners from the private sector to join us in the redevelopment of key economic precincts. Projects either underway or currently being considered include the Somerset precinct, the expansion of the CTICC, a new Government Office Accommodation Precinct, and others located in Worcester, George and Beaufort West.

Speaker, the Western Cape Government is pleased to announce that it currently awards 86 per cent of all its contracts to Historically Disadvantaged Companies, the most of any Province in South

Africa. We are aiming to improve this figure even further by hosting open workshops with contractors on how to tender for government business. Following the change in legislation on the 7th of December, we will also have greater power to procure goods and services locally.

We will continue to channel funds for these projects from the Expanded Public Works Programme, which created over 57 784 100-day work opportunities for the people of our Province in the last financial year.

We have also made R4.2 billion worth of applications to the R9 billion National Jobs Fund. Our applications, which are directed at addressing youth unemployment, will create 42 500 job opportunities if approved.

The **Department of Human Settlements** is faced with a housing backlog of over 400 000 units. We do not have the funds, or urban land, to provide homes for all the people that require them. We will therefore focus our efforts on up-scaling the provision of basic services and on providing serviced sites. We will also appoint dedicated teams to assist the department and municipalities to understand the needs of communities, and we will establish a Programme Management Office to ensure the smooth running of construction projects.

The **Department of Economic Development and Tourism** is committed to growing the economy and creating jobs by encouraging an environment conducive for business.

In the coming year, we will implement an Economic Development Partnership, comprised of all the Western Cape's economic role players. It will lead, coordinate and drive the Province's growth, development and inclusion agenda. Its core functions will be to develop market and economic intelligence, a vision and strategy for the region's economy, a single brand platform, a plan to enhance our business and investment climate and organise our economic system for optimum delivery.

Speaker, the efforts of our businesses and entrepreneurs are being scuppered by red tape. Earlier this year, we launched a dedicated Red Tape Unit to assist businesses to navigate government bureaucracy, and to identify transversal issues that are compromising our key growth sectors. To date, we have registered 140 cases, of which, several require high level interventions. The Red Tape Unit has written proposal papers, which will be tabled before cabinet, on how we can address various hindrances that our businesses face. They are currently conducting assessments of how red tape is affecting Environmental Impact Assessments, the wind turbine industry and the informal sector.

To address the Province's future skills needs, we have formed a skills development forum consisting of institutions of learning, labour, civil society and the private sector. Through this body, we hope to map out the jobs that will be required by our economy in the long term so that we may begin to develop and encourage studies in those directions.

Other key economic growth projects being investigated by this department include an Industrial Development Zone in Saldanha Bay, a telecommunications infrastructure project, a health hub in Ndabeni, the redevelopment of the Port of Cape Town and Hout Bay Harbour, and a design hub in the East City.

The **Department of Agriculture** is focused on five key goals: increasing production, research and technology, improved market access, rural development and revitalized extension services.

These programmes are designed to address the major challenges facing the agricultural sector, which include climate change, food insecurity, a lack of skills and its overall competitiveness.

In the past year, the agricultural industry has faced severe setbacks as a result of animal diseases. Between April and October this year, almost forty thousand ostriches in the Oudtshoorn area were culled due to an outbreak of Avian Flu, and an export ban was enforced throughout the region. It is

imperative that we mitigate the risks of future diseases by putting systems in place to prevent them.

On the back of an Agriculture trade and investment mission to Shandong in September, I am thrilled to announce that Leopard's Leap wines, in partnership with a Chinese company, have signed a deal to export 2.9 million bottles of wine over the next six months. This deal almost doubles South Africa's annual wine exports to China, and my sincere congratulations go to them.

To ensure that we grow sustainably, the **Department of Environmental Affairs and Development Planning** will focus on pollution and solid waste management, the protection of our biodiversity and fostering provincial, regional and local spatial planning.

We aim to launch an updated Provincial Spatial Plan in 2013 that will indicate areas for development, and guide investors as to where the best development opportunities are. We will also launch our plan to manage our water resources, which are becoming increasingly scarce.

The **Department of Social Development** and the **Department of Cultural Affairs and Sport** are tasked with reducing poverty and fostering social inclusion.

Our Province is riddled with social ills that severely harm our potential for growth and job creation. Amongst these are a culture of binge drinking, drug abuse, and extreme violence.

To give our children a better chance in life, we have introduced after-school care programmes at our Mass Opportunity and Development Centres. We have also expanded access to Early Childhood Development opportunities for those between the ages of 0 and 4, and because hungry children cannot be happy children, we have introduced feeding schemes at schools and nutrition centres in locations across our Province. The above programmes will be up-scaled in the medium term.

For our growing older population, we will expand access to community based care and support centres, and for our disabled population, we will increase universal access and strengthen Training and Capacity Building Programmes.

To foster a sense of community and pride, we will continue to promote school sport, and the use of our museums, heritage services and libraries, especially in rural areas.

The **Department of Community Safety** will do everything within its power, in partnership with the police and communities, to encourage a peaceful and safe Province. Over the medium term, our priority remains to reduce drug and alcohol related crime, interpersonal violence, and poor road traffic behaviour.

To encourage voluntary compliance to our road rules, we will continue to stage alcohol blitzes and road blocks in key locations around the Province. In conjunction with our Safely Home programme, we have managed to reduce the road fatality rate by 23 per cent in 2010/11. We are determined to see these figures reduced further in this financial year, and will call for the harshest possible action against road users that continue to ignore our pleas for responsible driver behaviour.

The above policy priorities were defined after a rigorous examination of each Department's programmes against our agenda to promote growth and jobs.

Speaker, to prepare our people to take up the opportunities that we are creating, we will once again spend the largest portion of our budget on improving our education and health care systems.

In the short time since we have taken power, the **Department of Education** has reversed six consecutive years of decline in our National Senior Certificate pass rate, and increased the number of learners who passed matric by 1122. Also, for the first time in many years, they reduced the number of underperforming schools in the Province, and improved literacy and numeracy outcomes, especially at the grade 3 level. In 2011 and beyond, the Department aims to maintain this positive trajectory.

One of the ways in which we will achieve this, is by strengthening accountability in our education system. From next year, we will introduce a pilot on performance contracts for principals and deputy principals. Should these staff members need additional management training, we will ensure that they are assisted.

To address the Education Department's infrastructure and maintenance backlog, we are currently finalising plans to start building an additional 12 schools next year. We will replace a further 12 that have been built with inappropriate materials.

This government has made the unprecedented commitment to ensure that over the next three years, every child from Grades 1 to 12 will have a textbook in every subject that he or she is taking. Therefore, in the 2012/13 financial year, we will continue to prioritise the provision of textbooks in our schools. Next year, for the first time, Grade 1 learners will receive a maths textbook.

These positive outcomes are being achieved despite the addition of around 25 000 learners from other locations to Western Cape schools each year, which has stretched the Education budget considerably.

The **Department of Health** is leading the fight against this government's most pressing challenge – the burden of disease affecting all our citizens.

Currently, 78 per cent of the Western Cape population is uninsured, and we have one of the world's highest HIV/AIDS and Tuberculosis rates. This places a huge burden on our public health care facilities.

In 2010/11, our primary health care facilities handled 16.2 million patient visits. We supplied over 96 000 HIV positive people with Anti-Retroviral Treatment, and visited 147 641 TB patients at home to ensure that they were taking their medicines. The latter initiative resulted in us achieving an 80.5 per cent TB cure rate in 2010/11 – the highest in the country.

In the coming year, we will further improve these outcomes of our public health system, and we will place special focus on the healthcare of our children.

The healthcare needs of our children begin before birth. We will improve the wellbeing of mothers-to-be through an antenatal care regimes focused on the early identification of complications, and through initiatives designed to reduce maternal mortality. We will also immunise over 100 000 children under the age of 1 year. We believe that our children have a far greater chance of becoming productive, healthy and happy adults, if they are given the best possible start in life.

The **Department of the Premier, Provincial Treasury** and the **Department of Local Government** are individually and collectively

responsible for keeping our departments and municipalities on track. They are tasked with ensuring our financial and operational efficiency over the medium-term, and for implementing systems that make us more citizen-friendly.

We will continue to eradicate corruption by strengthening our supply chain management and procurement systems.

For the second year in a row, the Western Cape Government has achieved the best audit report card of any Province in South Africa. However, four departments moved from a clean audit to an unqualified audit with findings. While this result does not indicate any serious shortcomings, this government, in conjunction with National Treasury, is implementing an improvement plan.

Finally, we must ensure that the 77 000 staff members of the provincial government feel valued, have a sense of pride for their jobs, and go above and beyond to serve our citizens. We have embarked on a turn-around strategy that is used by businesses across the world to create inspirational workforces. This process forms part of our strategy to become the best run regional government in the world.

The policy priorities outlined above will be debated in the house by each minister and his department, and will be carried through into the budget discussions over the medium term.

The resource envelope and financing issues

Speaker, we have a limited budget with which to achieve these goals.

Over the medium term, 95 per cent of our budget will be financed through national transfers, and the remainder will be financed through own receipts.

National transfers to all Provinces are set to increase by R20.2 billion over the 2012 MTEF, which is far less than the R40.1 billion estimate announced last year. Of this, R13.4 billion will be channelled through the equitable share to cover higher than expected wage settlements, the expansion of grade R to more primary schools and the improvement of our early childhood programmes. From next year, this amount will also cater for Forensic Pathology Services, as this conditional grant is being phased out. The Western Cape share of this increase is estimated at R1.267 billion over the MTEF.

An additional R6.9 billion over the MTEF will be channelled to all Provinces through conditional grants. The bulk of these funds are earmarked for national health insurance pilot projects, the Comprehensive HIV and Aids grants and the Human Settlements Development grant. The Western Cape's share of this additional revenue is R177 million.

The Province's own revenue, which accounts for less than 5 per cent of our budget, is projected to increase minimally from R1.859 billion in the 2011/12 adjusted budget, to R1.910 billion in the 2012/13 budget. The primary sources of this revenue are motor vehicle licence fees, casino taxes and health patient fees.

Speaker, these figures confirm that we have to do more with less, and next March, we will present a bare-bones budget from which all unnecessary spending has been cut.

In light of the Eurozone debt crisis, and the impact that this may have on our economy, we have also taken the policy decision to create a buffer for use in times of severe hardship. This year, we have managed to make efficiency savings of R387.433 million to this end, which will be allocated in the main budget next year.

Adjusted estimates

Speaker, this year we are making the smallest adjustment to our main budget that has been made since 1994. This not only means that we are spending our budget against the programmes for which it was originally intended, but also that there is no new money for which we need to account.

The total adjustment to the 2011 main budget of R211.9 million has been allocated as follows:

- R7.554 million is allocated as a technical adjustment to the Further Education and Training (FET) college national conditional grant to cover the wage settlement cost of 2011. As an austerity measure, no funds have been allocated to provincial departments with regard to the 2011 wage agreement. Any needs that do exist have been covered from current allocations.
- R100.694 million is allocated for the rollover of unspent national conditional grants.
- R28.256 million is added as a result of rollovers arising from commitments related to unspent balances in 2010/11 and R432 000 is added as a result of revenue retention from 2010/11.
- R20 million has been allocated to Education for the acceleration of infrastructure projects. This is partially funded by shifts from other Votes.
- R5.247 million has been added for the expansion of the Social Sector Expanded Public Works Programme Incentive grant for Provinces, including R2.395 million for Education and R2.852 million for Health. Also, R6.131 million has been added to the Transport & Public Works budget for the Expanded Public Works Programme Incentive grant for Provinces for the Infrastructure Sector. After the aforementioned increases, the

EPWP allocation in 2011/12 amounts to R50.7 million, of which national funding accounts for R39 million and the Provincial Equitable Share (PES) accounts for R11 million.

- In accordance with the PFMA, R17.078 million has been allocated in emergency funds to the Department of Agriculture as a result of the avian flu outbreak. If the additional funds were not immediately made available and the required process of culling was stopped, the European ostrich export market would have remained closed for South African exports, further damaging this industry and the overall economy.
- R31.770 million has been allocated for library services to B3 municipalities to supplement municipal investment and to sustain the future professional delivery of library services. This was announced in the 2011 Main Budget.
- R7.444 million is added to departments that already collected additional 2011/12 own receipts and requested it to be utilised for their own specific expenditure purposes.

Conclusion

Speaker, the Western Cape Government is committed to improving the lives of all its residents. I am extremely angry that there are people that continue to cause harm to others through

their negligent and selfish behaviour. Just last week, 19 families lost loved ones when two taxis slammed into a stationary truck while speeding on a notoriously dangerous stretch of road.

The citizens of this Province must begin to take collective responsibility for eradicating socially destructive behaviour.

In response to the programmes that we are putting in place to improve our education system, parents must play an active role in supporting their children's development. Learners must become passionate about achieving the best outcomes possible.

In response to the improvements we are making in healthcare delivery, citizens must prevent unnatural diseases by avoiding reckless and irresponsible behaviour, and by taking the medicines that are prescribed to them in accordance with doctors' orders.

In response to our initiatives to increase road safety, drivers must have respect for other road users, including pedestrians, and always obey the rules of the road.

Citizens must have a sense of pride for the infrastructure that we spend taxpayers' money on, and safeguard it so that it is able to serve us for a longer period of time.

Addressing the challenges that we face will require a concerted and co-ordinated effort from all players in our society, including

national, provincial and local government, the private sector, labour and civil society. If each and every citizen heeds our call for collective action in improving our lives, we can be better together.

I would like to thank Premier Helen Zille and my colleagues in the Provincial Cabinet, as well as heads of departments and their staff, for their assistance in drafting this Medium Term Budget Policy Statement and the 2011/12 Adjusted Estimates.

I wish to thank Dr JC Stegmann and his dedicated team in the Provincial Treasury for their very hard work. Under his leadership, the departments of the Western Cape Government continue to be more efficient and financially sound than anywhere else in the country, an achievement of which we can all be very proud.

Speaker, it is with pleasure that I table the 2011 Adjustments Appropriation Bill, the Adjusted Estimates of Provincial Expenditure 2011, the Provincial Gazette for the Adjustments to Local Government Allocations, the Province's 2012 - 2015 Medium Term Budget Policy Statement and my Speech for discussion and consideration by this House.

I thank you.

Mr A Winde

Minister of Finance, Economic Development and Tourism