



**Western Cape
Government**

Provincial Treasury



Western Cape 2020 Medium Term
Budget Policy Statement

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**Medium Term
Budget Policy Statement
2020**

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Foreword

The 2020 Western Cape Medium Term Budget Policy Statement (MTBPS) is drafted at an unprecedented time. Structural economic weakness has been exacerbated by the impact of COVID-19, while national government has significantly reduced medium-term non-interest spending projections, including allocations to provinces.

This directly impacts on the Western Cape's fiscal framework and requires tough decisions, strict adherence to fiscal sustainability, and credible planning and budgeting practices to ensure we maintain efficient and effective service delivery for all who live in the Western Cape.

The 2020 MTBPS provides the fiscal resources to achieve the vision of "A safe Western Cape where everyone prospers", set out in the 2019-2024 Provincial Strategic Plan. With the Provincial Strategic Plan as its foundation, the Western Cape Recovery Plan will drive recovery over the short to medium-term under the three themes of jobs, safety and wellbeing.

My sincere appreciation to the Provincial Treasury team, my fellow Cabinet members and officials from other Western Cape Government departments for their commitment and participation in this process as well as our research partners for their invaluable contribution to the 2020 MTBPS.

A handwritten signature in black ink, appearing to read 'D Maynier', with a stylized flourish at the end.

Mr D Maynier
Minister of Finance and Economic Opportunities
26 November 2020

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Economic context and outlook

In summary

- The forecast for global economic growth is -4.4 per cent for 2020, this is more optimistic than earlier projections as economies recover from the widespread impact of COVID-19.
- The South African and Western Cape economies are forecast to contract by 7.8 per cent and 6.9 per cent respectively in 2020.
- Unemployment increased nationally and provincially to 30.8 per cent and 21.6 per cent respectively in the third quarter of 2020.
- The Western Cape is currently among three provincial COVID-19 epicentres in South Africa.
- Socio-economic challenges related to Health, Education and Crime remain prevalent in the Western Cape.

Introduction

The COVID-19 pandemic has had a dramatic impact on the world. To date more than one million lives have been lost and the toll continues to rise. In addition to the health impact, the pandemic also caused significant economic distress.

Although South Africa and the Western Cape have shifted away from a full lockdown toward a social distancing approach, two global risks to economic recovery remain. The first is the failure to adequately contain the virus into 2021, leading to renewed strict lockdowns. The second risk is a protracted job market slump, with travel, tourism and demand for non-essential goods remaining significantly diminished regardless of the virus's trend. These risks could be compounded if effective treatments and/or vaccines for the virus are not developed as quickly as anticipated and access to them is unequal.

■ Developments in the global economy

The IMF expects the recovery path to be long, uneven and uncertain

Recent data suggests that many economies are recovering. The International Monetary Fund's (IMF) October 2020 outlook revision, forecasts a less severe, though still deep recession for 2020, with a slightly more optimistic outlook than in June 2020. This comes on the back of slightly better than expected second quarter GDP mainly from advanced economies. However, the expected recovery path will be long, uneven and uncertain.

The prospects for some emerging market and developing economies have deteriorated since June 2020 in the face of rapidly rising infections. Their growth is projected to be lower than expected with a greater loss of output projected for 2020 and 2021 relative to pre-pandemic projections when compared to advanced economies. China, however, is recovering faster than expected with signs of an even stronger recovery in the third quarter of 2020. The uneven recovery paths do not bode well for global development and income levels.

Commodities-based economies and tourism-dependant countries face a particularly challenging road to recovery

In comparison to advanced economies, who have generally been able to deliver large direct spending on liquidity support (loans, equity and guarantees of up to 30 per cent of GDP in countries such as Germany and Italy), developing and emerging market economies were more constrained by elevated debt levels and high borrowing costs. The IMF expects growth to significantly moderate after the projected global rebound in activity in 2021. It is expected that both advanced and emerging market economies will suffer significant losses in terms of output relative to their pre-pandemic forecasts. Commodities-based economies and tourism-dependant countries face a particularly challenging road to recovery.

The IMF expects a global economic contraction of 4.4 per cent in 2020

The IMF predicts a less severe global contraction of 4.4 per cent for 2020 in October than it had forecast in June 2020. The more optimistic revision reflects better-than-expected GDP outcomes for advanced economies, as activity began improving sooner than expected and indications of a stronger recovery in the third quarter of 2020 emerged. Global growth for 2021 is projected at 5.2 per cent, slightly more modest than what was forecast in June 2020. The downward revision for 2021 can mainly be attributed to expectations of persistent social distancing and base effects from the more moderate downturn projected for 2020.

It is expected that global GDP will increase modestly by 0.6 per cent in 2021 compared to 2019 levels. The IMF also expects elevated unemployment rates for 2020 and 2021 across advanced as well as

emerging and developing economies. After the 2021 rebound, global economic growth is forecasted to gradually slow to 3.5 per cent over the medium term.

As many economies started reopening during May and June of 2020, the global economy started showing signs of recovery from the lowest point of growth experienced in April 2020. While the swift recovery in China provided a positive surprise, the general road to recovery to pre-pandemic levels of activity remains prone to setbacks.

The GDP growth experienced in the third quarter of 2020 points to relatively strong economic recovery in the world's largest economies. As the world's largest economy, the US bounced back with 33.1 per cent growth recorded in the third quarter of 2020, after two quarters of negative growth in the first (-5 per cent) and second (-31.5 per cent) quarters. The US economy is expected to only recover to pre-COVID-19 levels in the second half of 2022. As Europe's largest economy, Germany also recorded strong growth in the third quarter of 2020 (8.2 per cent) after negative growth in the first (-1.9 per cent) and second quarters (-9.8 per cent) of 2020. The IMF expects negative growth for the German economy of -6.0 per cent in 2020, whereas growth of 4.2 per cent is expected for 2021.

China recorded negative growth in the first quarter of 2020 (-10.0 per cent) but recovered with GDP growth rates of 11.7 and 2.7 per cent in the second and third quarters respectively. The Chinese economy is expected to be the only major economy with positive growth (1.9 per cent) in 2020, which will accelerate to 8.2 per cent in 2021. The divergent recovery of the Chinese economy was backed by a relatively early restart of economic activity and a strong uptick in external demand for medical equipment and for equipment to support the shift to remote working.

Table 1.1 Global economic performance and outlook, 2018 - 2021

	GDP Growth (per cent)		GDP Forecast (per cent)		Difference from June 2020 WEO updates (per cent)		Difference from April 2020 WEO (per cent)	
	2018	2019	2020	2021	2020	2021	2020	2021
World output	3.6	2.8	-4.4	5.4	0.8	-0.2	-1.1	-0.5
Advanced economies	2.2	1.7	-5.8	3.9	2.3	-0.9	0.3	-0.6
United States	2.9	2.2	-4.4	3.1	3.7	-1.4	1.6	-1.6
Emerging and developing economies	4.5	3.7	-3.3	6	-0.2	0.2	-2.1	-0.5
China	6.7	6.1	1.9	8.2	0.9	0	0.7	-1

Source: International Monetary Fund, 2020

Developments in the South African economy

The South African economy contracted by 51 per cent (quarter-on-quarter) in the second quarter of 2020

The South African economy experienced a 17.1 per cent year-on-year decline or 51.0 per cent (quarter-on-quarter, annualised) decline in GDP in the second quarter of 2020. The decline was the seventh out of the last ten quarters and fourth consecutive decline. The largest negative contributors to growth in GDP in the second quarter were the Manufacturing (-10.8 percentage points), Trade, catering and accommodation (-10.5 percentage points) and Transport, storage and communication (-6.6 percentage points) sectors.

The Agriculture, forestry and fishing sector was the only positive contributor to GDP growth (0.3 percentage points). The Sector expanded by 15.1 per cent after growing by 28.6 per cent in the first quarter of 2020. The Construction sector (-76.6 per cent) was the worst affected sector followed by the Manufacturing sector (-74.9 per cent) and Mining and quarrying sector (-73.1 per cent).

On the expenditure side of GDP, Household consumption expenditure (-30.8 percentage points), Exports (-25.0 percentage points) and Gross fixed capital formation (-11.5 percentage points) were the largest contributors to the second quarter decline. Household consumption expenditure declined by 49.8 per cent, Exports declined by 72.9 per cent, and Gross fixed capital formation contracted by 59.9 per cent. The second quarter decline was the largest quarterly contraction in Gross fixed capital formation on record. The second quarter GDP decline was mainly as a result of the COVID-19 lockdown measures adopted by the Country since 27 March 2020.

The South African headline inflation rate slowed to 3 per cent in September 2020 from 3.1 per cent in August 2020 and 3.2 per cent in July 2020. This marks the 42nd consecutive month that inflation has remained within the South African Reserve Bank's (SARB) inflation target range of 3 to 6 per cent. The last time the inflation rate was outside of the SARB's inflation target range was in March 2017 when it was recorded at 6.1 per cent. The annual inflation rate for rentals has been steadily declining since September 2017 when it was 5.7 per cent. This quarter's annual change (for both actual and imputed rents) is 1.4 per cent. This is the lowest reading since 2008 when Stats SA began its rental survey.

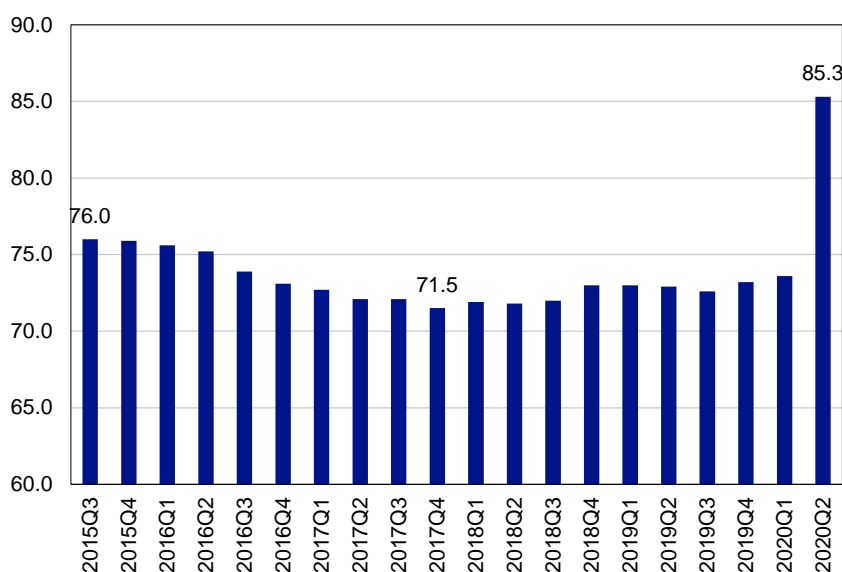
Headline inflation remained within the SARB's target range for the 42nd consecutive month

Growth in the total loans and advances extended by monetary institutions to the domestic private sector continued to moderate in the second quarter of 2020 amid the sharp contraction in domestic economic activity during the COVID-19 lockdown. The year-on-year growth in total loans and advances slowed to a low of 2.4 per cent in July, with the exception of a brief acceleration to 5.3 per cent in March, before the COVID-19 lockdown was implemented. The deceleration occurred despite substantial interest rate relief and a variety of measures to ease liquidity conditions.

Total loans and advances as a percentage of GDP increased from 68.1 per cent in the first quarter of 2020 to 83.4 per cent in the second quarter due to the marked decrease in nominal GDP.

Loans and advances as percentage of GDP increased between 1st and 2nd quarter 2020

Figure 1.1 Household debt to disposable income of households

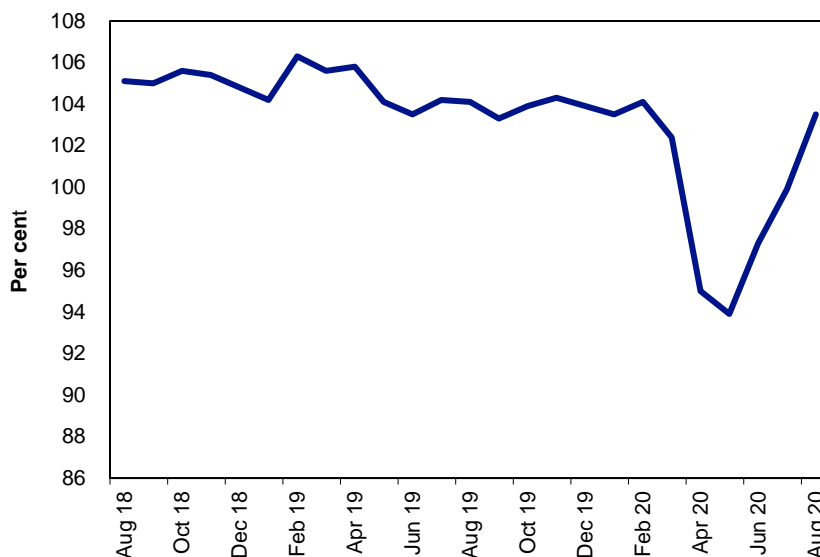


Source: SARB quarterly bulletin September 2020

Debt as a percentage of household disposable income amounted to 73.6 per cent in on the first quarter of 2020, but distress borrowing and a drop in household disposable income, caused this ratio to jump to 85.3 per cent in the second quarter (Figure 1.1). The ratio is nevertheless forecast to decline to around 73 per cent by the end of 2021.

The SARB’s composite leading business cycle indicator¹ rose for a third consecutive month in August 2020 as business activity resumed after the easing of lockdown regulations. The increase in the US dollar-denominated South African export commodity price index and increase in the RMB/BER Business Confidence Index are the largest contributors to the rise in the composite leading business cycle indicator. An upward trend for the indicator signals a business cycle recovery in 6 to 9 months.

Figure 1.2 Composite Leading Business Cycle Indicator



Source: South African Reserve Bank, 2020

¹ The Composite Leading Business Cycle indicator is designed to provide early signals of turning points in business cycles showing fluctuation of the economic activity around its long-term potential level. The indicator predicts changes in business cycles 6 to 9 months prior to the change in the business cycle. The indicator show short-term economic movements in qualitative rather than quantitative terms. Typical indicators used includes business confidence surveys, orders and inventory changes, and financial market indicators.

According to the RMB/BER's Consumer Confidence Survey ², consumer sentiment recovered somewhat during the third quarter of 2020 following a dramatic decline in the second quarter. This was triggered by the COVID-19 pandemic and concomitant lockdowns which entailed extensive work, travel and trading bans in the second quarter. After crashing from -9 index points in the first quarter to a 35 year low of -33 in the second quarter, the RMB/BER Consumer Confidence Index (CCI) edged up to -23 during the third quarter. The Indicator therefore signals slightly more optimism from consumers in the third than the second quarter of 2020.

Growth prospects for 2020 and 2021 remain suppressed. National Treasury expects the South African economy to only recover to 2019 levels in 2024 with a projected contraction of 7.8 per cent in real terms this year, a rebound to 3.3 per cent in 2021 and an average growth of 2.1 per cent over the medium term.

Growth prospects for the South African economy remain suppressed over the medium term

■ Economic developments in the Western Cape

The Western Cape's economic growth for 2018 was 0.8 per cent, 0.5 percentage points higher than the estimated growth rate of 0.3 per cent for 2019 and 1.1 percentage points lower than the average rate of 1.9 per cent recorded in the past decade.

Between 2010 and 2019 the Western Cape economy was subjected to the same constraints to growth as the national economy, and as a result, the average annual growth rate slowed from 4.1 per cent between 2000 and 2009 to 1.9 per cent between 2010 and 2019. These constraints include intermittent power outages, low savings rate, a weak education system, constraints on small and medium-sized enterprises, weak performance amongst state owned enterprises, and a deterioration in the ease of doing business.

Variances in the Western Cape's economic performance, relative to the rest of South Africa, are largely driven by dynamics of its relatively larger Private services, Agriculture, forestry and fishing and Tourism sectors, as well as its relative smaller Mining and quarrying sector.

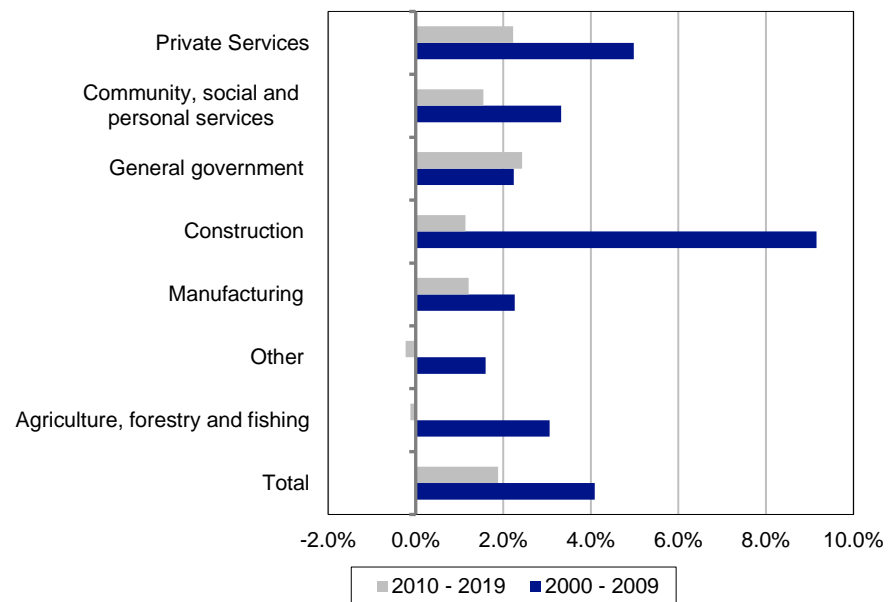
² Measures how optimistic or pessimistic consumers are regarding their expected financial situation. The Consumer Confidence Index (CCI) is based on the premise that if consumers are optimistic, they will spend more and stimulate the economy but if they are pessimistic then their spending patterns could lead to a recession.

One Provincial factor that contributed to a slowdown in growth was a series of droughts commencing in 2015 when the Agriculture, forestry and fishing sector’s annual average growth turned negative. In the first half of the decade (2010 and 2014), the sector grew on average by 2.3 per cent per year. In contrast, in the second half of the decade, the sector contracted on average by 2.5 per cent per year. This reduced provincial compound growth by approximately 0.1 percentage points between 2015 and 2019.

The Private services sector contributes 64.7 per cent to the provincial economy

The Private services sector plays a dominant role in the Western Cape economy with an estimated 64.7 per cent contribution to the total Provincial economy against a 51.6 per cent contribution to the rest of South Africa in 2019. Between 2010 and 2019, Private services contributed three quarters of provincial growth. The Private services sector’s declining average annual growth from 2.9 per cent between 2010 and 2014 to 1.6 per cent between 2015 and 2019 reduced the Western Cape’s total compounded annual growth by an estimated 1.9 percentage points. The Sector’s growth rate for 2018 was 1.5 per cent and is estimated to grow at 1.1 per cent in 2019.

Figure 1.3 Western Cape average annual GDP decade comparison by sector



Source: Quantec Research 2020

Between 2000 and 2009 the Construction sector recorded the highest average annual growth rate (9.2 per cent) of any sector in the Province. The Sector was boosted by a rapid decline in prime lending rates and supported by strong national economic performance over this period. However, in the following decade average annual growth increased marginally by 1.1 per cent. The Sector is yet to relive its glory days and a turnaround is not to be expected soon due to a frail underlying economy and weak investor confidence. The Sector declined by 1.7 per cent in 2018 and is expected to decline by 3.4 per cent in 2019 which will be the third consecutive decline.

Regional aspects of the Western Cape economy

The Cape Metro is the largest regional economy in the Western Cape, contributing 71.8 per cent to the Province's nominal GDP in 2018. The Cape Metro is followed by the Cape Winelands (11.4 per cent), Garden Route (7.6 per cent), West Coast (5.2 per cent), Overberg (3.5 per cent) and the Central Karoo (0.5 per cent).

The Cape Metro contributes 71.8 per cent to the provincial economy

In 2018, the Cape Metro economy grew by 0.9 per cent, lower than its average growth rate of 1.6 per cent over the past decade due to lower underlying Provincial growth for the period. The Cape Metro made a substantial contribution (83.2 per cent) to Western Cape economic growth in 2018, surpassing its average contribution to growth (70 per cent) over the past decade.

The Cape Winelands made the second largest contribution to economic growth (9.6 per cent) in the Province in 2018, followed by Central Karoo (7.3 per cent) and Garden Route (6.3 per cent). The West Coast was the only district to record negative growth (-0.3 per cent) for 2018 based on a large decline in its Agriculture, forestry and fishing sector (-7.7 per cent) for the year.

Outlook for the Western Cape economy

The Western Cape economy is expected to contract by a significant 6.9 per cent in 2020, and rebound by 3.8 per cent in 2021 based on a resurgence in the global and national economy after COVID-19 lockdown measures ends.

Table 1.2 Western Cape economic outlook 2020 - 2021

Description	2018	2019e	Forecast		Forecast average (2019 - 2021)
			2020f	2021f	
Agriculture, forestry and fishing	-7.9	-7.0	14.7	-7.2	0.2
Mining and quarrying	-1.9	-3.2	-23.8	14.4	-4.2
Manufacturing	0.9	-0.7	-15.9	10.7	-2.0
Electricity, gas and water	0.9	-2.7	-8.6	-1.7	-4.3
Construction	-1.7	-3.4	-17.8	13.4	-2.6
Wholesale and retail trade, catering and accommodation	0.7	0.0	-18.5	14.0	-1.5
Transport, storage and communication	1.5	-0.4	-15.6	11.6	-1.5
Finance, insurance, real estate and business services	2.0	2.3	0.3	-1.0	0.5
General government	1.1	1.6	2.5	-3.1	0.4
Community, social and personal services	0.9	0.9	0.1	-1.6	-0.2
Regional Gross Domestic Product	0.8	0.3	-6.9	3.8	-0.9

Note: e denotes estimates and f denotes forecast

Source: Urban-Econ based on SARB, Statistics SA & BFAP, 2020

Although a broad-based contraction across all but four sectors is expected for 2020, most sectors are forecast to rebound in 2021. The strongest growth in 2021 is expected for the Mining and quarrying sector (14.4 per cent), followed by the Wholesale and retail trade, catering and accommodation sector (14.0 per cent), mainly because of the expected low base for these two sectors in 2020.

The main sectors of the Western Cape economy which are expected to grow between 2019 and 2021 include Agriculture, forestry and fishing, Finance, insurance, real estate and business services and General government. This means that the Western Cape economy will continue to be driven by a growing Tertiary sector.

The outlook for the Tourism sector in 2020 is particularly concerning in the Western Cape. As a direct result of the ban on international travel, the Western Cape was deprived of international tourists for most of the year. International tourists spend almost four times as much as domestic tourists. The Department of Economic Development and Tourism expects that the Tourism sector will contribute almost half of all employment losses in the Province with 75 477 or 43.1 per cent expected employment losses in 2020.

The tertiary sector is expected to continue being the main driver of growth over the medium term

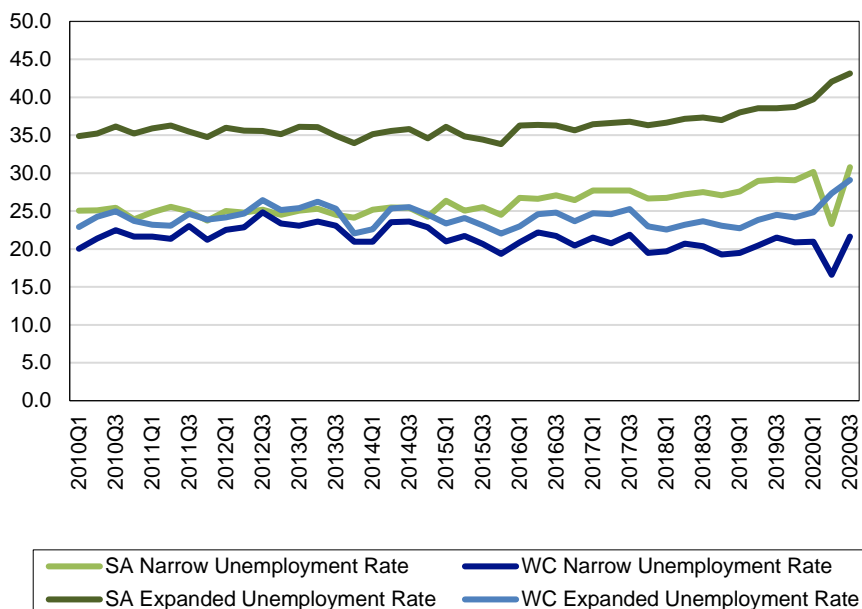
Labour market trends

Stats SA's third Quarterly Labour Force Survey (QLFS) demonstrates the severe effect the COVID-19 pandemic has had on the South African and Western Cape labour markets.

The gradual lifting of the COVID-19 lockdown measures in the third quarter of 2020 had a positive impact on employment in South Africa. National employment increased by 3.8 per cent or 543 000 from the previous quarter. However, National employment levels were still 10.3 per cent or 1.684 million lower compared to the same quarter in the previous year. The Finance, insurance, real estate and business services sector made the largest contribution (36.8 per cent) to the quarterly increase with 200 000 additional jobs or a 9 per cent increase from the previous quarter. Like all other sectors, this sector's employment level was lower compared to the same quarter in the previous year (53 000 or 2.3 per cent). The Utilities sector³ recorded the largest percentage decline in employment for the same quarter in the previous year (32.2 per cent) while the Trade sector⁴ had the largest absolute decline (400 000) over the same period.

Q3 national employment levels were 10.3 per cent lower compared to the same quarter in the previous year

Figure 1.4 Narrow and Expanded Unemployment rate, Western Cape and South Africa, 2010Q1 - 2020Q3



Source: Stats SA, 2020

³ Utilities sector refers to the Electricity, gas and water supply sector.

⁴ Trade sector refers to the Wholesale and retail, catering and accommodation sector.

Lockdown regulation relaxation in Q3 resulted in increased unemployment

Although employment levels increased on a national level in the third quarter of 2020, narrow unemployment⁵ also increased with 2.2 million from the previous quarter to an all-time high of 30.8 per cent, while expanded unemployment⁶ was 43.1 per cent. The large increase from the second quarter was due to the relaxation of national lockdown regulations, which encouraged people to actively seek employment⁷.

Education levels play a key part in the probability of being unemployed as 89.6 per cent of the unemployed had matric or less than matric as its highest qualification.

Table 1.3 Labour market aggregates, 2020

	2020Q2	2020Q3	Q-to-Q Change	
	Thousands	Thousands	Thousands	Per cent (p.q.)
Western Cape				
Working-age population	4 731	4 753	22	0.5%
Employment	2 179	2 216	37	1.7%
Narrow unemployment	434	612	178	41%
Narrow labour force	2 613	2 934	215	8.2%
Narrow unemployment rate	16.6%	21.6%	5 percentage points	
Expanded unemployment rate	27.3%	29.1%	1.8 percentage points	
South Africa				
	2020Q2	2020Q3	Q-to-Q Change	
Working-age population	38 874	39 167	146	0.4%
Employment	14 148	14 691	543	3.84%
Narrow unemployment	4 295	6 533	2 238	52.11%
Narrow labour force	18 443	21 224	2 781	15.08%
Narrow unemployment rate	23.3%	30.8%	7.5 percentage points	
Expanded unemployment rate	42.0%	43.1%	1.1 percentage points	

Source: Stats SA, 2020

⁵ Narrow unemployment is defined as persons aged 15-64 who were not employed in the reference week, and actively look for work or tried to start a business in the four weeks preceding the survey; and were available for work; or had not actively looked for work in the past four weeks, but had a job or business to start at a definite date in the future and where available.

⁶ Expanded unemployment is defined as those aged 15-64 years who fall under official unemployment (searched and available); and were available to work but are discouraged work-seekers and/or have other reasons for not searching.

⁷ The reason for the relative low unemployment in the second quarter 2020 can be explained in the definition of narrow unemployment. People that could not actively seek work during the lockdown were not counted as unemployed. Also, people that lost their jobs during the lockdown were included in the "not economically active" group, therefore did not form part of the labour market.

In the third quarter of 2020, employment in the Western Cape increased with 37 000 or 1.7 per cent but declined by 277 000 or 11.1 per cent compared to the same quarter in the previous year. In the same quarter, the Province recorded both the lowest narrow (21.6 per cent) and expanded (29.1 per cent) unemployment rates in South Africa. However, like South Africa, the Provincial unemployment rate reflected an increase from both the previous quarter (1.8 percentage points) and from the same quarter in the previous year (4.6 percentage points).

Unemployment increased with 2.2 million in the third quarter of 2020

Working from home has become an innovative response for many employees during the COVID-19 lockdown measures. In the third quarter of 2020, the number of employees that worked from home declined by 14.4 per cent to 214 000 employees. After Gauteng, the Western Cape had the largest portion of employees (13.7 per cent) that worked from home in South Africa. Nationally, working from home were predominantly professional employees (33.6 per cent) and managers (24.6 per cent).

Socio-economic developments

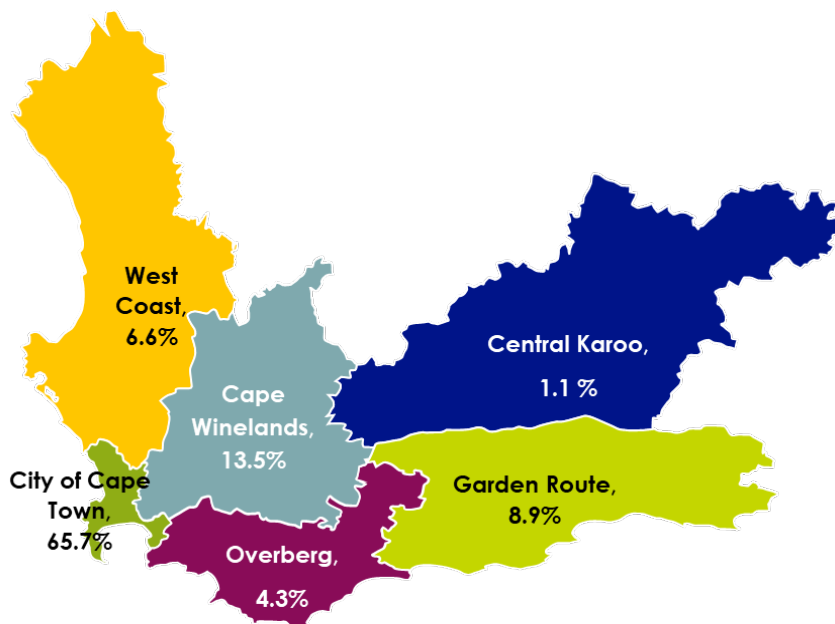
Socio-economic development in the Western Cape is a cornerstone to improved wellbeing of its citizens and has a positive reciprocal relationship with government. All spheres of government influence socio-economic development indicators and these indicators impacts on the demand for government services.

Population dynamics

The demographic characteristics of a geographical area largely determines the allocated budget from all spheres of government. Population size is therefore a key factor to future planning and required support in communities. There are an estimated 7.01 million people living in the Province in 2020. The Western Cape accounts for 11.7 per cent of the national population. The majority of the provincial population resides in the City of Cape Town (65.7 per cent), followed by Cape Winelands (13.5 per cent) and the Garden Route (8.9 per cent). The Central Karoo (1.1 per cent) remains the least populated district in the Province (see Figure 1.5).

WC population estimated at almost 7 million people in 2020

Figure 1.5 Western Cape population by district, 2020



Source: Stats SA, 2020

The Province has a relatively large population below the age of 15 years (24.4 per cent). The Western Cape’s Total Fertility Rate (TFR) is projected to decline from 2.14 children, recorded in the years between 2011 and 2016, to 2.01 children between 2016 and 2021. This projection is lower than the TFR of South Africa (2.33). The impact of COVID-19 on conception and subsequent fertility will only be reflected in the reported births of 2021.

In-migration is fast becoming the primary driver of WC population growth

In-migration is fast becoming the primary driver of population growth in the Western Cape. The inward migration to the Western Cape contributes to the working-age proportion of the Province’s population and declining dependency ratio. Projections indicate that Gauteng and the Western Cape will receive the highest number of in-migrants between 2016 and 2021. The Western Cape is expected to receive a gross inflow of 468 568 people between 2016 and 2021 - an increase from 458 892 between 2011 and 2016.

The provincial population is projected to grow at an average annual rate of 1.8 per cent to 7.465 million by 2024. The spatial distribution of the provincial population is not expected to change substantially over the next four years.

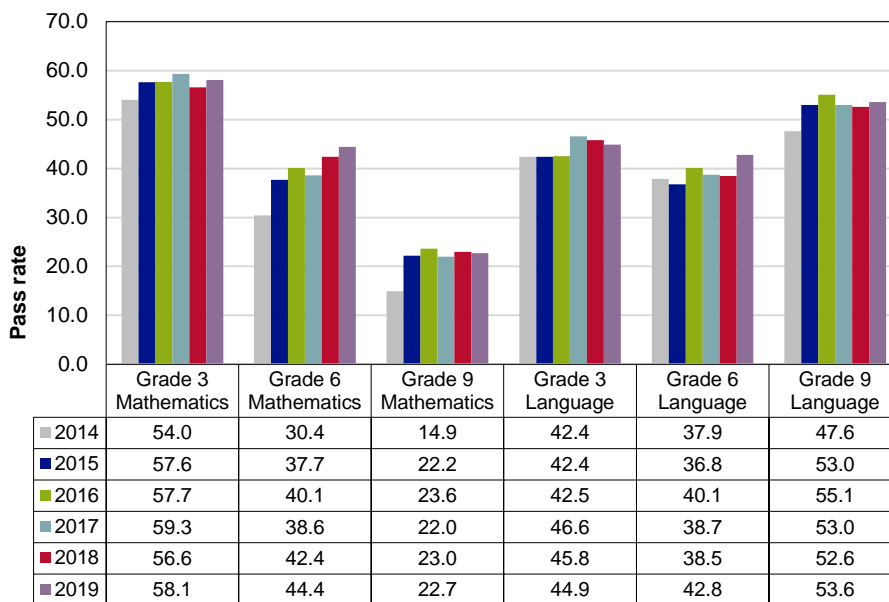
Education

The 2020 academic year was interrupted when schools closed in March 2020 due to the COVID-19 pandemic. Curriculum coverage had to be adjusted and, even with the gradual and phased re-opening of schools, the demands of, inter alia, social distancing have as yet an unknown impact on education outcomes.

The total number of learners enrolled in the Western Cape has increased from 1 064 271 in 2019 to 1 081 591 in 2020, with the greatest number of learners concentrated in the three Metro Education Districts. Systemic tests conducted to track learner performance in Mathematics and Language in Grades 3, 6 and 9 show that since 2014, there has been a general trend of improvement across the board. Grade 6 Mathematics outcomes have improved the most (14.0 percentage points) between 2014 and 2019. In 2019, the highest average pass rate (51.5 per cent) across all three cohorts was achieved by Grade 3. (See figure 1.6)

Number of learners enrolled increased to 1.082 million in 2020

Figure 1.6 Systemic test mathematics and language pass rates for Grades 3, 6 and 9 for public ordinary schools, Western Cape, 2014 - 2019



Source: Department of Basic Education, 2020

The National Senior Certificate (NSC) examinations results followed an upward trend between 2014 and 2016 but dropped in 2017 and 2018. However, the pass rate recovered in 2019 with an increase of 0.9 percentage points from the previous year to 82.3 per cent. In 2019 all education districts in the Western Cape, apart from the Metro East (includes i.e. Khayelitsha) education district, achieved bachelor's degree passes of 40 per cent or higher.

Health

The COVID-19 pandemic has affected and continues to affect the health and resources available to the provincial population. The pandemic highlighted the risks associated with lifestyle diseases, such as diabetes, which are rife in the Western Cape. The Western Cape population has an estimated average life expectancy of 68 years. The life expectancy for males in the Province was estimated at 65.7 years and for females at 71.0 years in 2020.

WC reported a total of 122 322 confirmed COVID-19 cases on 19 November 2020

COVID-19 statistics on 19 November 2020, indicates that 730 133 tests were conducted and 122 322 positive cases had been recorded within the Western Cape, with 112 920 total recoveries and 4 901 active cases. A total of 4 501 deaths had been registered. Reported COVID-19 cases increased dramatically from mid-May and showed signs of tapering off in September 2020. However, in October 2020 the Western Cape started seeing a steady increase in COVID-19 cases, with the risk of a possible second wave of COVID-19 infections. The Western Cape is among three of South Africa's provinces that have been deemed COVID-19 hotspots.

The latest available mortality data shows that diabetes mellitus was the leading cause of natural death in the Province in 2017. People with diabetes are at higher risk of death from COVID-19 than those with any other co-morbidity, and around half the deaths from COVID-19 in Western Cape public sector patients are chiefly attributable to diabetes. In 2017, HIV was the third leading underlying natural cause of death in the Western Cape (5.7 per cent). People with HIV are also at higher risk of death from COVID-19, although to a lesser extent than diabetes. Of the deaths from COVID-19 in the Western Cape, 12.0 per cent of public sector patients had HIV.

Crime

Crime remains a serious socio-economic challenge in the Western Cape. The COVID-19 pandemic with its associated lockdown measures had a significant positive impact on the crimes recorded between April and June 2020. South African Police Service (SAPS) crime statistics from the first quarter 2020/21 show declines for contact crimes (-38.4 per cent), sexual offences (-37.5 per cent) and property related crimes (-33.3 per cent) in comparison to the first quarter of the previous financial year.

In comparison to the first quarter of 2019/20, murder in the Western Cape has declined by 27.4 per cent in the first quarter of 2020/21 to 767 recorded cases. The number of murders declined in notable crime hotspots such as Khayelitsha (-29.3 per cent), Delft

(-49.3 per cent), Nyanga (-28.3 per cent) and Harare (-30 per cent). However, Philippi East recorded the most murders in the country (57 cases) in the first quarter of 2020/21, an increase of 96.6 per cent from 29 murders recorded in the first quarter of 2019/20.

Gender based violence is often associated with sexual assault and rape. The number of rapes recorded in the first quarter of 2020/21 declined by 36.1 per cent to 707 cases from the same quarter in the previous financial year. The number of rapes declined in Nyanga (-12.8 per cent), Harare (-13.2 per cent) and Mfuleni (-10.8 per cent). Delft recorded the most rapes (41 cases) in South Africa in the first quarter of 2020/21. Similarly, sexual assault in the Province declined by 42.2 per cent to 214 cases over the same period. Both crime categories recorded the lowest number of reported cases for the last five quarters.

Western Cape crime rates were lower in the first quarter of 2020

Drug related crime is detected as a result of police action. In the first quarter of 2020/21, drug-related crime declined by 58.1 per cent from the same quarter in the previous financial year to 6097 cases. In the first quarter of 2020/21, the Western Cape recorded the largest portion (35.8 per cent) of drug related crime in the country. In the same quarter, Gauteng and the Western Cape combined share to drug related crime in South Africa was significant at 63.7 per cent.

Western Cape recorded 35.8 per cent off all drug related crime in the country

Although the COVID-19 lockdown measures have contributed to a decline in crime in the first quarter of 2020/21, the subsequent increase in inequality and unemployment will negatively impact on expected crime statistics for the remainder of the year.

Conclusion

Globally, the economic outlook is improving due to slightly better second quarter GDP results in 2020, mainly from advanced economies. Both South Africa and the Western Cape experience structural economic challenges, with large GDP contractions expected for 2020. National and Provincial unemployed levels have increased markedly in the third quarter 2020 as a result of more people actively seeking employment opportunities. Generally, education outcomes have improved over the last five years, but the full impact of the disruptions to learning due to the COVID-19 lockdown measures is yet to be determined. Although COVID-19 cases in the Western Cape have shown signs of tapering off in September, cases have increased again since October 2020. Crime rates have declined in the first quarter 2020/21 mainly due to the COVID-19 lockdown measures implemented.

2

Western Cape Fiscal Framework and Response

In summary

- South Africa's economic and fiscal position has deteriorated significantly. As a result, large scale reductions in expenditure are required over the medium term to close the budget deficit and stabilise national debt. This has led to a structural reduction in the allocation to the Western Cape, mainly on compensation expenditure.
- Spending pressures have increased due to the COVID-19 response and the ongoing unsustainable state-owned enterprise crisis, thereby further weighing on the fiscal framework.
- Departments are required to adjust their spending priorities and programmes to account for revised baseline allocations.
- The Western Cape's Fiscal Strategy and approach responds to the severely constrained fiscal environment managing risks while also allocating resources to support the economy.

■ Introduction

The shock to national and provincial economic activity and output has translated into substantial tax revenue shortfalls, while spending pressures have increased due to the widespread implications of the COVID-19 pandemic. The worsening gap between national expenditure and tax revenue collection will have significant implications for the fiscus over the medium term. Large fiscal adjustments and an improving economic outlook are required to will narrow the budget deficit over the medium term. Given this context, the 2020 National Medium Term Budget Policy Statement (MTBPS) focuses on closing the national primary budget deficit with the objective of stabilising national debt.

This Chapter outlines the Western Cape Government's Fiscal Strategy and approach in response to the severely constrained economic and fiscal environment. Given the current context of a substantial reduction in available resources, the Western Cape Government's budget policy response reflects a strong commitment to a holistic recovery through supporting the resumption of economic activity and social services delivery, maintaining fiscal sustainability and carefully managing persistent public health and service delivery risks. Fiscal sustainability requires a repositioning of public expenditures, through improved, more efficient and streamlined service delivery models.

■ Medium term economic and fiscal risks

National economic and fiscal environment

Revised estimates project that the South African economy is expected to contract by 7.8 per cent in 2020, returning to growth of 3.3 per cent in 2021. Over the three-year forecast period beginning in 2021, economic growth is expected to average 2.1 per cent.

National revenue projections have been revised down in line with these revised growth projections. Gross tax revenue is expected to be 17.9 per cent below what was collected in 2019/20, and R312.8 billion below the 2020 Budget forecast. The tax-to-GDP ratio is expected to weaken significantly from 26.3 per cent to 22.9 per cent. A strong and sustained rebound in economic growth is required for the tax-to-GDP ratio to return to levels seen in 2019/20.

Spending pressures have increased due to the COVID-19 pandemic and the financial crisis in national state-owned enterprises. For example, significant additional funding was allocated to South African Airways (SAA) in this financial year, which will have implications for service delivery across the country and in the Western Cape Province.

The 2020 national MTBPS proposes to close the budget deficit and stabilise the national debt-to-GDP ratio within the next five years in order to bring the country back to a path of fiscal sustainability. The objective is to achieve a main budget primary surplus by 2025/26. This is expected to result in debt stabilising at 95.3 per cent of GDP in the same year. Large fiscal adjustments and an improving economic outlook are projected to narrow the budget deficit by 7.3 percentage points of GDP over the 2021 Medium Term Expenditure Framework (MTEF), and by an additional 1.8 percentage points in the subsequent two years.

Mounting national debt, revenue collection shortfalls and increasing spending pressures

In support of the debt stabilisation objective, non-interest spending projections have been reduced by R60 billion in 2021/22, R90 billion in 2022/23 and R150 billion in 2023/24 relative to the 2020 Budget estimates. Transfers to provinces and municipalities are directly impacted by these revised projections. Over the next three years, departments will have to adjust spending priorities and programmes to take into account the revised baseline allocations. Most of these revisions will be applied to the wage bill.

Departments have to adjust spending priorities and programmes over the 2021 MTEF

The proposed 2021 MTEF allocations assign 48.2 per cent of available non-interest expenditure to national departments, 42.2 per cent to provinces and 9.6 per cent to local government. In turn, the Western Cape receives 10.4 per cent of the allocation to provinces. Provinces receive a larger share of transfers than local government due to the nature of the functions they perform, and the limited revenue raising powers assigned to them.

Over this period, allocations to national government resources fall at an annual average rate of 3 per cent, provincial transfers rise by 0.9 per cent and local government transfers increase by 2.1 per cent.

Compensation of Employees long-term implications

At a national level, there is a shift away from Compensation of Employees (CoE). As a share of total spending, CoE is projected to decrease from 32.7 per cent to 31.3 per cent over the medium term, primarily due to a freeze in wage rates. In line with government's objective of reprioritising spending away from consumption towards investment, payments for capital assets will grow at a faster rate than inflation, at an annual average of 7.8 per cent, increasing from R88.9 billion in 2020/21 to R111.5 billion in 2023/24.

Spending reprioritised away from consumption to investment

The proposed national CoE reduction for Health and Education amounts to R196 billion between 2020/21 and 2023/24. To achieve the same effect without a wage freeze (i.e. If one were to assume no wage freeze over this period) the required equivalent headcount reduction would be about 179 627 professionals from frontline posts in the Education and Health departments, such as educators and clinicians. This highlights how important it is to achieve the wage freeze to protect jobs.

In the absence of a national strategy that provides certainty on wage freezes and guides the CoE reductions, provinces might have to source the savings from other non-CoE areas. This may have the unintended consequence of resulting in growth in the share of CoE of the total budget, which in turn would crowd out spending on goods and services necessary for service delivery. Unguided CoE

reductions would thus lead to the share of CoE spending in the Western Cape rising from 56.3 per cent to 65.4 per cent between 2020/21 and 2022/23.

Further reductions in conditional grant allocations to fund South African Airways

In the original 2020 National Budget, R6.5 billion was allocated to SAA to settle guaranteed debt and interest. In the Second National Adjustment Budget an additional R10.5 billion was allocated to SAA to implement its business rescue plan. This allocation was mainly funded through reductions to the baselines of national departments and their public entities, and provincial and local government conditional grants. This will reduce the scope and level of services initially intended to be delivered from these allocations.

2020/21 Conditional Grant reductions to the WC amount to R86.613 million

The total reduction to conditional grants to the Western Cape Government in the 2020 Second Adjustment Budget is reflected in Table 2.1 and amounts to R86.613 million. This mainly affects the Departments of Agriculture (farmer support programmes), Health (public health programmes), Human Settlements (housing delivery programmes) and Cultural Affairs and Sport (mass sports participation programmes).

Table 2.1 Details of changes to Conditional Grants

Description R'000	Adjustment Budget 2020/21				Revised forecast
	Current forecast (AB1)	Adjustments		Net Adjustments	
		Reductions	Additions		
Total Conditional Grant	13 130 677	(86 613)	183 924	97 311	13 227 988
Agriculture, Forestry and Fisheries	136 768	(1 594)	26 773	25 179	161 947
Comprehensive Agricultural Support Programmed Grant	90 343	(1 042)		(1 042)	89 301
Ilima/Letsema Projects Grant	41 380	(492)	1 773	1 281	42 661
Provincial Disaster Relief Grant			25 000	25 000	25 000
Land Care Programme Grant: Poverty Relief and Infrastructure Development	5 045	(60)		(60)	4 985
Basic Education	1 418 254	-	13 543	13 543	1 431 797
Education Infrastructure Grant	931 721	-		-	931 721
HIV and AIDS (Life Skills Education) Grant	15 076	-		-	15 076
Learners with Profound Intellectual Disabilities Grant	28 499	-	2 820	2 820	31 319
Math's, Science and Technology Grant	30 410	-	7 376	7 376	37 786
National School Nutrition Programmed Grant	412 548	-	3 347	3 347	415 895

Table 2.1 Details of changes to Conditional Grants (continued)

Description R'000	Adjustment Budget 2020/21				Revised forecast
	Current forecast (AB1)	Adjustments		Net Adjustments	
		Reductions	Additions		
Health	7 499 245	(61 246)	29 148	(32 098)	7 467 147
HIV, TB, Malaria and Community Outreach	2 472 984	(19 722)	29 148	9 426	2 482 410
Community Outreach Component	179 583	(1 477)		(1 477)	178 106
Presidential Employment Initiative (PEI): Community Outreach Services Component			29 148	29 148	29 148
HIV and AIDS Component	1 562 888	(12 854)		(12 854)	1 550 034
Malaria Elimination Component		-		-	-
TB Component	66 458	(547)		(547)	65 911
Covid-19 component	588 928	(4 844)		(4 844)	584 084
Disaster relief	53 292			-	53 292
Human Papillomavirus	21 835	-		-	21 835
Health Facility Revitalisation Grant	698 793	-		-	698 793
National Tertiary Services Grant	3 426 618	(30 010)		(30 010)	3 396 608
National Health Insurance Grant	19 480	-		-	19 480
Statutory Human Resources, Training and Development	881 370	(11 514)		(11 514)	869 856
Human Settlements	1 728 806	(23 320)	77	(23 243)	1 705 563
Human Settlements Development Grant	1 705 286	-		-	1 705 286
Title Deeds Restoration Grant	23 520	(23 320)		(23 320)	200
Provincial Emergency Housing Grant		-	77	77	77
Public Works	68 933	-	-	-	68 933
Expanded Public Works Programmed Integrated Grant for Provinces	25 983	-		-	25 983
Social Sector Expanded Public Works Programmed Incentive Grant for Provinces	42 950	-		-	42 950
Social Development					
Early Childhood Development	87 152		53 067	53 067	140 219
Sport, Arts and Culture	212 233	(453)	-	(453)	211 780
Community Library Services Grant	151 426	-		-	151 426
Mass Participation and Sport Development Grant	60 807	(453)		(453)	60 354
Transport	1 979 286	-	61 316	61 316	2 040 602
Provincial Roads Maintenance Grant	905 690		61 316	61 316	967 006
Public Transport Operations Grant	1 073 596	-		-	1 073 596

Western Cape Fiscal and Service Delivery Risks

Given the severely constrained fiscal context and related impact on the provincial fiscal framework, as well as the impact of COVID-19, specific risks to service delivery were identified as part of the integrated budget process. These risks were considered as part of preparing the 2020 Second Adjustments Budget and have actively informed the approach to the 2020 Western Cape MTBPS.

Key/Aggregate Risks

The Western Cape's economic outlook tracks that of South Africa. The adverse global and national economic climate has resulted in job losses, increased poverty, rising inequality, socio-economic challenges and social unrest. These trends are likely to continue over the medium term.

WC budgetary and service delivery risks include uncertainty over government wage negotiations and financial vulnerability of municipalities

The Western Cape Government's key budgetary and service delivery risks include:

- The resurgence of COVID-19, which will create additional pressure on an already overburdened health system;
- The deterioration in the fiscal environment, particularly the failure of national government to adequately stabilise debt over the next five years, which could push the country into a debt crisis;
- Downward revisions to provincial own revenue estimates due to the contraction in economic activity, which further reduces resources available for service delivery;
- Rapid population growth and urbanisation - creating significant pressure on frontline service delivery, particularly for education, health and social services while not yet delivering a "demographic dividend";
- Rising community vulnerability and food insecurity;
- High and rising levels of unemployment;
- High levels of violent crime and increasing physical vulnerability, particularly for women and children;
- The current dispute over the implementation of the 2018 wage agreement that may result in a possible liquidity challenge for the Western Cape Government if the outcome requires further expenditures that are not compensated for by national government;
- An uncertain outcome of public sector wage negotiations that will have a major impact on budget available for service delivery, particularly frontline services, with a likelihood of labour unrest if wage negotiations do not favour a particular position;
- Low levels of energy security, which undermines economic recovery;
- Environmental degradation and the impacts of climate change; and

- Governance instability, financial instability and vulnerability of municipalities, both as a result of economic conditions and the forthcoming local government elections.

Many of these risks are not new, have been previously communicated, and have now materialised. This will have fiscal and service delivery implications.

2021 MTEF: Provisional fiscal framework

The economic and fiscal context translates into a provincial fiscal framework which is severely constrained.

Overall fiscal framework

National and provincial spheres of government account for the largest share of governments' efforts at reducing expenditure growth. Over the 2021 MTEF, national government resources are expected to decline at an annual average of 3.0 per cent, while provincial resources are expected to increase by an annual average of 0.9 per cent. This sees national and provincial governments share of available funding shrink from an average of 48.6 per cent and 42.6 per cent respectively for the period 2017/18 to 2019/20 (2020/21 has not been included due to the distortion created in responding to the COVID-19 pandemic) to 48.2 per cent and 42.2 per cent respectively over the 2021 MTEF.

Shrinking national and provincial government share of available funding

Municipalities are responsible for collecting most of their revenue, and therefore face pressure on their fiscal capacity as a result of poor economic performance and growing levels of unemployment amongst others. To assist with this anticipated funding gap together with the rising costs of bulk water and electricity purchases, national transfers to local government increase by an annual average of 2.1 per cent. This sees local governments' anticipated share of available non-interest expenditure increase from an average of 8.7 per cent for the period (2017/18 to 2019/20) to 9.6 per cent over the 2021 MTEF.

Municipalities collect the majority of their own revenue

National transfers to the Province comprised of the Provincial Equitable Share (PES) and Conditional Grants encompass the bulk of revenue to meet provincial expenditure responsibilities, and account for 75.2 per cent and 19.6 per cent respectively of available funding over the 2021 MTEF. In terms of the constitutional assignment of tax collection, provinces have limited revenue-raising options available with provincial own revenue contributing less than 5.0 per cent of the available funding over the 2021 MTEF. Table 2.2 below provides the consolidated position of the Western Cape provincial fiscal framework.

Provinces have limited revenue raising capabilities

The limitations placed on available provincial funding following the reductions in national transfers as part of National Treasury's programme of a five-year fiscal consolidation phase to narrow the budget deficit and stabilise government debt, together with an anticipated slow improvement in revenue collection in the coming years, the Province is required to look at alternatives for increasing own revenue as well as exploring options to leverage provincial borrowing for infrastructure delivery.

Table 2.2 Western Cape Provincial Fiscal Framework

R'000	Adjusted Estimate 2020/21	Medium term estimate			Total 2021 MTEF
		2021/22	2022/23	2023/24	
Transfers from National	66 905 088	67 013 844	68 786 036	69 924 783	205 724 663
Equitable share	53 677 100	53 437 884	54 656 157	55 159 059	163 253 100
Conditional grants	13 212 595	13 575 960	14 129 879	14 765 724	42 471 563
Conditional grants rollover	15 393	-	-	-	-
Own receipts	2 422 807	2 624 526	2 636 541	2 755 185	8 016 252
Asset Financing Reserve	674 730	594 211	324 439	329 175	1 247 825
PRF Financing	1 711 288	1 071 910	797 025	810	1 869 745
Provincial Revenue Fund (Tax receipts)	410 812	37 233	39 020	40 776	117 029
Total	72 124 725	71 341 724	72 583 061	73 050 729	216 975 514
Percentages					
Transfers from National	92.76%	93.93%	94.77%	95.72%	94.81%
Equitable share	74.42%	74.90%	75.30%	75.51%	75.24%
Conditional grants	18.32%	19.03%	19.47%	20.21%	19.57%
Conditional grants rollover	0.02%	0.00%	0.00%	0.00%	0.00%
Own receipts	3.36%	3.68%	3.63%	3.77%	3.69%
Asset Financing Reserve	0.94%	0.83%	0.45%	0.45%	0.58%
PRF Financing	2.37%	1.50%	1.10%	0.00%	0.86%
Provincial Revenue Fund (Tax receipts)	0.57%	0.05%	0.05%	0.06%	0.05%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

Changes to the Provincial Equitable Share

The PES formula accounts for data updates made to the components of the formula and any policy changes made to the structure of the formula resulting from a provincial equitable share formula review. Table 2.3 summarises the data sources used to update the various components of the PES formula. The weighting allocated to each of the components is not indicative of how much a province should allocate to a specific area. Provinces, through their budget allocation procedures, determine allocations based on their own prioritisation process and specific circumstances, within the available fiscal envelope.

Table 2.3 Summary of PES data updates

Weight	Component	Data used
48%	Education	<ul style="list-style-type: none"> Mid-Year Population Estimates 2020 age cohorts (new data) 2020 LURITS School Enrolment (new data)
27%	Health	<ul style="list-style-type: none"> 2020 Mid-Year Population Estimates (new data) (Insured population (2018 GHS) (old data) Risk adjusted index Patient load data (DHIS 2018/19 - 2019/20) (new data)
16%	Basic	<ul style="list-style-type: none"> 2020 Mid-Year Population Estimates (new data)
3%	Poverty	<ul style="list-style-type: none"> 2020 Mid-Year Population Estimates (new data) Income and Expenditure Survey 2010/11
1%	Economic	<ul style="list-style-type: none"> GDPR 2018 (new data)
5%	Institutional	<ul style="list-style-type: none"> Not applicable - distributed equally amongst provinces (data not used)

Table 2.4 Revisions to the Provincial Equitable Share

WESTERN CAPE: REVISIONS TO THE PROVINCIAL EQUITABLE SHARE (PES): 2021 MTEF				
R Thousands	2021 Medium term expenditure framework			Total Revisions
	2021/22	2022/23	2023/24	
Provincial equitable share (PES) (as per final 2020 MTEF allocation letter)	59 276 313	63 194 019	66 037 750	188 508 082
Adjustment due to new data updates in the PES formula (phased-in from 2021/22 of 2020 MTEF)	403 951	425 136	842 820	1 671 907
Total: Technically adjusted provincial equitable share before Adjustments to Baselines	59 680 264	63 619 155	66 880 570	190 179 989
Total reductions	-6 242 380	-8 962 998	-11 721 510	(26 926 888)
Less: Compensation of employees wage freeze reductions (2020 MTEF) (relating to 2018 Agreement)	-3 812 959	-4 727 876	-4 960 071	(13 500 906)
Less: Compensation of employees fiscal consolidation reductions (2021 MTEF) (relating to new Agreement)	-1 759 641	-3 340 690	-5 127 925	(10 228 256)
Less: Non-Compensation of employees fiscal consolidation reduction (2021 MTEF)	-669 780	-894 432	-1 633 514	(3 197 726)
2021 MTEF PES Percentages (new data updates (phased-in))	10.4%	10.5%	10.5%	
Total: Preliminary Provincial Equitable Share for 2021 MTEF	53 437 884	54 656 157	55 159 059	163 253 100
Net reduction to baseline	(5 838 429)	(8 537 862)	(10 878 690)	(25 254 981)

For the 2021 MTEF, there are no changes made to the structure of the equitable share formula. There are, however, data updates that result in an additional R1.672 billion being allocated to the Province (Table 2.4). The data updates are as follows:

- The education component uses the school-age population 5 to 17 years – the Mid-Year Population Estimate (MYPE), and school enrolment data drawn from the 2020 Learner Unit Record Information and Tracking System (LURITS) data. When the change from the Census 2011 to the Mid-Year Population Estimates school-age population portion of the education component was made in 2019/20, the Budget Council endorsed that the transition be phased in over a period of three years from 2019/20 - 2021/22. From 2021/22, the MYPE data that is used to update this component, will no longer be subject to a phase-in as the change to MYPE data has been completed. In 2019/20, changes were made to the data used to update the age cohort portion of the education component. The data that is used to inform the school enrolment component was fully phased-in in 2020/21.
- The rest of the updates to the PES are informed by the data from the 2020 MYPE, District Health Information Services for patient load data (2018/19 – 2019/20), 2018 General Household Survey for the insured population and the 2018 GDPR for economic data. The Budget Council endorsed using the 2018 General Household Survey to update the health component for the population without medical aid as, at the time of determining the 2021 provincial equitable share formula, the publication of the 2019 General Household Survey was delayed due to COVID-19. The new shares across provinces will be phased in over three years.

Reductions to the Provincial Equitable Share

WC PES reductions over the 2021 MTEF amount to R25.255 billion

Relative to the 2020 Budget, the PES will be reduced by R5.8 billion in 2021/22, R8.5 billion in 2022/23 and R10.9 billion in 2023/24. These reductions to planned spending levels over the medium term have been made to account for CoE reductions announced in the 2020 MTEF and additional reductions in order to support fiscal consolidation. These reductions have been implemented in terms of the PES formula.

Compensation reductions related to the 2020 MTEF amount to R13.5 billion over the 2021 MTEF. This is in addition to the reduction of R2.396 billion that has been made through the 2020/21 Adjustments Budget process and has carry through effects over the 2021 MTEF.

Additional reductions for the 2021 MTEF have two components, namely an additional reduction to CoE of R10.2 billion over the 2021 MTEF and a reduction on non-CoE items for fiscal sustainability of R3.2 billion over the 2021 MTEF.

The extent of reductions to CoE emphasise the need to identify alternative service delivery models and mechanisms. The Fiscal Transition Support Facility, which is discussed in detail later in the chapter, has been established to specifically support departments to develop and introduce these shifts in a timebound and measurable manner, through recognising that the achievement of long-term savings requires short term investments.

Provincial conditional grants

Table 2.5 provides an overview of the indicative conditional grant baselines for the Western Cape provincial departments. It is worth noting that these baseline allocations for the 2021 MTEF are for planning and policy discussions only.

National departments must still, after consultation with relevant stakeholders, finalise their respective conditional grant allocations per province. In terms of Section 27(2)(e) of the 2020 Division of Revenue Act, national departments responsible for administering conditional grants must submit the allocations for each grant per province to the National Treasury by 30 November 2020. Allocations for conditional grants to the Western Cape will be communicated once this process has been finalised.

Table 2.5 Conditional grant baseline allocations for the 2021 MTEF

R'000	2021/22	2022/23	2023/24	Total 2021 MTEF
Education	1 599 859	1 674 243	1 749 584	5 023 686
HIV and AIDS (Life Skills Education) Grant	20 758	21 164	22 116	64 038
National School Nutrition Programme Grant	428 739	450 176	470 434	1 349 349
Learners with Profound Intellectual Disabilities Grant	30 176	31 175	32 578	93 929
Infrastructure Grant	1 082 712	1 133 077	1 184 065	3 399 854
Maths, Science and Technology	37 474	38 651	40 390	116 515
Health	7 304 890	7 634 780	7 978 345	22 918 015
National Tertiary Services Grant	3 560 969	3 704 846	3 871 564	11 137 379
National Health Insurance (HP Contracting) Grant	20 239	20 985	21 929	63 153
Statutory Human Resources and Health Professionals Training and Development Grant	912 513	946 284	988 867	2 847 664
HIV, TB, Malaria and Community Outreach Grant	2 120 970	2 232 870	2 333 349	6 687 189
Health Facility Revitalisation Grant	690 199	729 795	762 636	2 182 630
Social Development	91 285	101 631	106 204	299 120
Early Childhood Development Grant	91 285	101 631	106 204	299 120
Human Settlements	2 034 862	2 115 812	2 211 024	6 361 698
Human Settlements Development Grant	1 577 433	1 631 174	1 704 577	4 913 184
Informal Settlements Upgrading Partnership Grant for Provinces	457 429	484 638	506 447	1 448 514
Transport and Public Works	2 079 940	2 120 283	2 215 696	6 415 919
Provincial Roads Maintenance Grant	947 296	992 470	1 037 131	2 976 897
Public Transport Operations Grant	1 132 644	1 127 813	1 178 565	3 439 022
Agriculture	180 747	186 640	195 039	562 426
Ilima/Letsema Projects Grant	56 440	58 111	60 726	175 277
Comprehensive Agriculture Support Programme Grant	118 856	122 797	128 323	369 976
Land Care Programme Grant: Poverty Relief and Infrastructure Development	5 451	5 732	5 990	17 173
Cultural Affairs and Sport	284 377	296 490	309 832	890 699
Mass Participation and Sport Development Grant	85 711	87 517	91 455	264 683
Community Library Services Grant	198 666	208 973	218 377	626 016
Total	13 575 960	14 129 879	14 765 724	42 471 563

Changes to national conditional grants proposed over the 2021 MTEF

Changes to the structures of conditional grants proposed

Changes have been proposed to the structures of conditional grants for the 2021 MTEF, however allocations to provinces still need to be informed by the National Treasury.

The *Title deeds restoration grant* is scheduled to end in 2020/21. Mechanisms, processes, and capacities were established within each province through this grant which assisted in eradicating the backlog in providing title deeds to subsidised houses delivered before 2014. Funding allocated to this grant will be shifted back into the Human Settlements Development Grant (HSDG) from 2021/22 which will fund the eradication of any residual title deeds backlogs which may have remained in any particular province. Once all backlogs have been cleared, the Province may then reallocate the remaining funding to other projects within the HSDG.

After an allocation in the 2019 Budget, a component within the *HSDG* and the *Urban settlements development grant* were allocated a minimum amount to upgrade informal settlements to be done in partnership with communities. A new *Informal settlement upgrading partnership grant* will be introduced from 2021/22 for provinces and metros. The grant will be structured to integrate lessons learnt which includes the requirements for informal settlement upgrading strategies and the planning of individual upgrading projects within communities.

Provincial own receipts

Provincial own receipts, which comprises less than 5.0 per cent of revenue raised in the Province, is an important source of revenue for provincial departments. It provides additional funding which helps provincial departments to achieve on their mandates. Other sources of revenue for provincial departments are provincial equitable share and conditional grants.

Own revenues are collected by provincial departments and deposited in the provincial revenue fund where the departments are subsequently allowed to access it for expenditure in line with the departmental mandate. The largest sources of own revenue collected by the Province include Motor Vehicle Licence (MVL) fees and Hospital Patient Fees (HPF), which are 73.8 per cent and 12.4 per cent respectively of own revenue in the 2020/21 Adjusted Budget. Other notable sources of own revenue include liquor licence fees, and fees collected for agricultural services rendered. Gambling taxes are a significant component of revenue collected in the Province but are no longer added to the own revenue total.

Motor Vehicle Licence fees and Hospital Patient fees are the largest sources of WC own revenue

Table 2.6 below provides an own revenue collection breakdown by department between the 2020/21 Adjusted Budget to 2023/24.

Table 2.6 Western Cape own receipts by department, 2020/21 - 2023/24

Departments	2020/21 Adjusted Budget	2021/22	2022/23	2023/24
		Medium Term Estimate		
R'000	1 602	1 602	1 712	1 789
Provincial Parliament	821	75	78	82
Provincial Treasury	73	76	80	84
Community Safety	292	302	328	343
Education	24 710	25 171	25 693	26 849
Health	396 817	509 884	509 884	532 829
Social Development	1 192	1 192	1 258	1 315
Human Settlements	66 845	70 521	73 906	77 232
Environmental Affairs and Development Planning	2 742	2 783	2 917	3 048
Transport and Public Works	1 896 870	1 976 870	1 982 887	2 072 117
Agriculture	28 543	33 147	34 738	36 301
Economic Development and Tourism	1 373	371	388	405
Cultural Affairs and Sport	818	2 423	2 558	2 673
Local Government	109	109	114	119
Total	2 422 807	2 624 526	2 636 541	2 755 185

Provincial own revenue is projected to grow at an annual average growth rate of 4.4 per cent from R2.423 billion in the 2020/21 Adjusted Budget to R2.755 billion in 2023/24. This represents an increase of R332.378 million over the period, of which MVL contributes R156.558 million and HPF R113.099 million.

Motor Vehicle Licence fees

Motor Vehicle Licence fees grow on average by 2.8 per cent over the 2021 MTEF

MVL fees are projected to increase by an annual average growth rate of 2.8 per cent from R1.787 billion in the 2020/21 Adjusted Budget to R1.944 billion in 2023/24. The MVL fee revenue budget was reduced by R80 million in the 2020/21 Adjusted Budget as a result of the under recovery due to the COVID-19 lockdown period where motorists were not able to pay their fees. It's projected that 2020/21 MVL fee revenues collected will be lower than in previous financial years due to the weak economy resulting from the COVID-19 pandemic.

Hospital patient fees

HPFs are projected to increase at an annual average growth rate of 11.2 per cent from R301.270 million in the 2020/21 Adjusted Budget to R414.369 million in 2023/24. This large increase is primarily due to the downward revision of the HPF budget of R113.099 million in 2020/21 due to the impact of COVID-19, the delay in finalising the Uniform Patient Fee Schedule review and the delay/uncertainty regarding the Road Accident Funds payments. Specifically, lower

HPFs are as a result of issues such as a decrease in the submission of medical scheme claims due to the postponement of elective surgery to limit exposure to the COVID-19 pandemic and a decline in revenues collected by the debt collectors of the Department. The expected decline in HPF revenue will be offset by an increase in uniform patient fee schedule tariffs of 4.9 per cent in July 2020.

The HPF budget is projected to remain at R413.369 million over the 2021 MTEF.

Liquor licence fees

Since 2019/20, liquor licence fees have been classified as 'Provincial Revenue Fund: Tax Receipts' where liquor licence fees collected by the Western Cape Liquor Authority (WCLA) are transferred into the Provincial Revenue Fund (PRF) through the Department of Community Safety. The Department of Community Safety is merely a conduit for the fees collected.

The Department of Community Safety and the WCLA are developing a differentiated tariff structure for liquor licence fees where tariffs will be based on variables such as volumes traded and trader types. The differentiated tariff structure is envisaged to be more equitable for licence payers and will enable the WCLA to become self-sustaining thereby no longer needing to be funded by the fiscus.

A differentiated tariff structure being developed for liquor licence fees

Casino and horseracing taxes

Casino and horseracing taxes, collectively referred to as gambling taxes, have since 2019/20 no longer been classified as own revenue but is collected by the Western Cape Gambling and Racing Board and transferred into the PRF through the Department of Provincial Treasury, which acts as a conduit for the funds transferred. For budgeting purposes, gambling taxes are no longer being reported as part of the appropriated revenue envelope over the 2021 MTEF due to the uncertainty created by the COVID-19 pandemic.

Provincial Reserves

The Western Cape Government has built up reserves through fiscal prudence over time in order to remain resilient to fiscal shocks, such as what is now being experienced. Given the current fiscal context, related expenditure pressures and the PES reductions, drawdowns on provincial reserves were required to protect the fiscal sustainability of departments, specifically those with immutable frontline service delivery commitments. These drawdowns amount to R1.089 billion in 2021/22, R2.868 billion in 2022/23 and R3.762 billion in 2023/24. As part of implementing the Western Cape Government

Reserves utilised to protect the fiscal sustainability of frontline service delivery departments

Fiscal Strategy, particular emphasis will be placed on replenishing reserves over the 2021 MTEF. The current status of provincial reserves demonstrates the benefits of good financial governance, which has ensured that the Western Cape Government is able to respond to immediate pressures and remain prepared for potential further shocks over the medium term.

■ Western Cape Government Fiscal Strategy

Key fiscal policy decisions are guided by the WCG Fiscal Strategy

Within the context of the Western Cape Provincial Fiscal Framework outlined above, the continued implementation of the Western Cape Government Fiscal Strategy and related fiscal and budget policy principles guide the key fiscal policy decisions required to keep the Province on a sustainable fiscal path over the medium term.

Fiscal Strategy

The four fiscal and budget policy principles that support the Western Cape Government Fiscal Strategy are:

- **Fiscal consolidation**, focuses on the reduction of government expenditure or the rate by which government expenditure increases, in a responsible manner, whilst simultaneously increasing provincial own revenues. Reducing expenditure, while achieving the same or more outputs is central to much needed efficiencies and requires finding the appropriate mix between expenditure items such as Compensation of Employees (CoE), Goods and Services (G&S), Transfer Payments and the Infrastructure investment and renewal;
- **Fiscal sustainability**, prioritises the continuous and stable delivery of services in key provincial government programmes despite possible budget reductions arising from a weak economic and fiscal environment;
- **Fiscal discipline**, requires departments and entities to remain within aggregate budget limits and avoid unauthorised, irregular, fruitless and wasteful expenditure; and
- **Allocative efficiency**, aims to achieve a balanced allocation of resources that reflects the priorities of government and programme effectiveness based on evidence, with a greater focus on reprioritisation and trade-offs.

The Strategy is enabled through the following fiscal and budget policy elements:

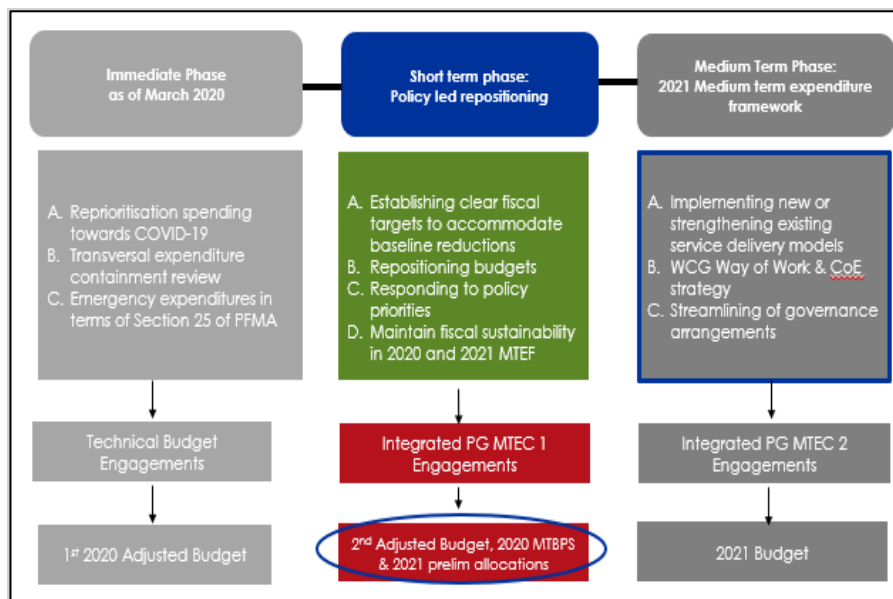
- A balanced budget, refers to a budgeting approach that maintains a sustainable balance between revenue and expenditure;
- Expenditure management, which is the effective management of spending to establish the optimal mix compensation, goods and services, and investment spending, while strengthening the management of transfer payments; and
- Revenue management through optimising provincial own revenue collection and the careful management of transfers received from national government.

2020 Budget Approach

As a basis for the 2021 MTEF, the Western Cape Government has adopted a three-phased approach to the 2020 Budget process (Figure 2.1).

WCG has taken a three phased integrated approach to budgeting for current year adjustments as well as the medium term

Figure 2.1 Western Cape Government 2020 Budget Approach



The **Immediate Phase** provided the immediate fiscal response to COVID-19 and focussed on the reallocation of savings and the deployment of available reserves to finance immediate disaster response needs. The 2020 1st Adjusted Budget reprioritised R3.056 billion in expenditures towards the immediate public health response in the Western Cape and expanded total expenditure estimates to R72.732 billion by drawing down available provincial reserves.

The **Short-term Phase** is policy led and aims to provide initial support to disaster recovery priorities and respond to sharply revised and uncertain resource allocations, while protecting resources required

for significant residual COVID-19 expenditure pressures. The outcome of this phase forms the basis for the 2020 Second Adjusted Budget and the 2020 Western Cape MTBPS.

The 2020 Second Adjusted Budget builds on the original 2020 Main Budget as well as the 2020 1st Adjusted Budget that was tabled in July 2020. The objectives of the 2020 Second Adjusted Budget are to:

- Enable reprioritisation and additional funding to support the immediate financing requirements of the Western Cape Recovery Plan;
- Achieve fiscal sustainability in-year, while setting a base for fiscal consolidation over the 2021 MTEF, in the context of significant changes in national allocations; and
- Enable the Western Cape Government to continue to respond to COVID-19.

2020 Second Adjusted Budget amounts to R71.494 billion

The 2020 Second Adjusted Budget makes provision for a net reduction for the 2020/21 financial year amounting to R1.239 billion, which is largely due to the significant reduction in compensation costs. This is summarised in Table 2.7.

Table 2.7 Western Cape 2020 Second Adjusted Budget

R'000		2020/21		
		First Adjusted Budget	Total adjustments	Second Adjusted Budget
		1	2	1+2=3
1	Department of the Premier	1 694 844	(73 675)	1 621 169
2	Provincial Parliament	166 600	(14 672)	151 928
3	Provincial Treasury	345 295	(38 493)	306 802
4	Community Safety	776 089	8 369	784 458
5	Education	24 898 356	16 506	24 914 862
6	Health	27 857 030	(759 531)	27 097 499
7	Social Development	2 681 073	14 366	2 695 439
8	Human Settlements	2 186 486	19 501	2 205 987
9	Environmental Affairs and Development Planning	611 926	(21 594)	590 332
10	Transport and Public Works	8 945 769	(354 581)	8 591 188
11	Agriculture	888 419	40 384	928 803
12	Economic Development and Tourism	547 540	(4 950)	542 590
13	Cultural Affairs and Sport	786 592	(21 161)	765 431
14	Local Government	346 445	(49 185)	297 260
Total		72 732 464	(1 238 716)	71 493 748
Direct Charge		45 357	6 391	51 748
Total		72 777 821	-1 232 325	71 545 496

Policy-based Funding Facility: to support the immediate financing requirements of the Western Cape Recovery Plan, R1.283 billion was allocated in the 2020 Second Adjusted Budget. R1.009 billion is financed through national transfers, mostly conditional grants and R273.500 million from provincial financing. Given the limited funding available, and rising medium term expenditure pressures, only once-off funding proposals were considered for additional funding, with other initiatives to be funded through reprioritisation. Departmental funding proposals were evaluated based on:

- Readiness to implement, ability to spend and available capacity to implement;
- Alignment with the Western Cape Recovery Plan, including the extent to which interventions have a credible Theory of Change; and
- The extent to which proposals were evidence-based and could demonstrate non-financial performance, achievements or progress to date on existing or related interventions.

Notwithstanding the constrained fiscal context, the allocations from the Policy-based Funding Facility demonstrates the Western Cape Government's commitment to creating jobs, developing safe communities, and strengthening social wellbeing in the Western Cape. These allocations are reflected in Table 2.8 and are accounted for in the 2020 Second Adjusted Budget. Key allocations from the Policy-based funding include:

- R814.291 million allocated to the Western Cape Education Department for the purpose of employing educational assistants at schools and to save School Governing Body posts at fee paying schools and government-subsidised independent schools where employees have been furloughed or had salaries reduced;
- The Provincial Road Maintenance Grant receives R61.316 million for job creation through road maintenance projects;
- R145.740 million allocated to the Western Cape Education Department to support small businesses by accelerating infrastructure maintenance, in particular that of school facilities which have been identified as being in a serious state of disrepair; and
- R12 million allocated to the Department of Economic Development and Tourism to support small businesses who were negatively impacted by the COVID-19 pandemic.

Table 2.8 Policy-based funding allocations

Detail R'000	2020/21	2020/21		
	Total	Jobs	Safety	Wellbeing
Total National financing	1 009 103	875 607		133 496
Vote 5: Education assistants in schools	814 291	814 291		
Vote 6: Nursing, Community Service posts & training	29 148			29 148
Vote 7: ECD	53 067			53 067
Vote 7: Food Relief	51 281			51 281
Vote 10: Roads Maintenance Grant	61 316	61 316		
Total Provincial financing	273 500	183 940	80 560	9 000
Vote 4:Area-based Teams	2 000		2 000	
Vote 4:Peace Officers resourcing	2 000		2 000	
Vote 4: Safety Ambassadors	20 000		20 000	
Vote 5: Accelerated Infrastructure Maintenance (Schools facilities)	145 740	145 740		
Vote 5: Accelerated fencing of schools	36 560		36 560	
Vote 6: Data centre	5 000		5 000	
Vote 6: Staff wellness	5 000			5 000
Vote 6: Hospital and Emergency Centre Trading Information System	15 000		15 000	
Vote 11: Public Employment: Food security	6 600	6 600		
Vote11: Public Employment: Transformation farmer protection	8 500	8 500		
Vote 11: Public Employment: Upgrading of irrigation infrastructure to 153 smallholder plots at the Ebenhaezer irrigation area	9 600	9 600		
Vote 12: Support to Small Business	12 000	12 000		
Vote 13: Public employment: After school	1 500	1 500		
Vote 13: Youth in service	4 000			4 000
Overall financing	1 282 603	1 059 547	80 560	142 496

The *Medium term Phase* will focus on restoring long run fiscal sustainability for the Western Cape Government and include a broader review of institutional arrangements for public service delivery and governance. It will form the basis for the 2021 Main Budget.

Enabling a path of fiscal transition and service delivery transition

The uncertainty, downside risks and projected revisions to the Western Cape Fiscal Framework, which have been significantly exacerbated by the impact of COVID-19, require the Province to take difficult choices to ensure fiscal sustainability over the medium term. This requires an appropriate balance to be struck between measures to:

- Invest in frontline service delivery given rising service load pressures;
- Fund policy priorities that support economic recovery, including enhanced infrastructure investment; and

- Contain expenditure growth, particularly in compensation costs through wage freezes and active headcount management.

This requires the Province to embark on a path of fiscal and service delivery transition, particularly to strengthen service delivery models that deliver long-term savings and achieve improved outcomes over time.

Fiscal Transition Support Facility: the facility was created to assist departments to manage immutable spending pressures and undertake proactive restructuring measures that will be required to sustainably reduce expenditures to new baselines at the scale required over the 2021 MTEF and beyond. It is premised on understanding that short-term investments can achieve long-term savings and improved outcomes over time. This facility provides departments with the unique opportunity to obtain funding to reform and strengthen service delivery systems, through initiatives such as digitization of services, deepening partnerships in service delivery, or implementing personnel management systems that enhance productivity.

Proactive measures are required to sustainably reduce expenditures

The Fiscal Transition Support Facility is projected to drawdown a total of R1.711 billion of the Provincial Reserves over the 2021 MTEF (R427 million in 2021/22, R628 million in 2022/23 and R656 million in 2023/24). This represents a significant commitment to a path of fiscal sustainability and service delivery transition. Allocations from the facility will be finalised in the 2021 MTEF.

■ Medium Term Fiscal Policy Response

To support the Western Cape to unlock value from good governance and drive effective service delivery, the fiscal policy response includes key transversal commitments required to drive effective delivery and craft a pathway towards a sustainable fiscal path, while managing key service delivery and budgetary risks.

Infrastructure investment and development

To achieve the Province's three interlinked recovery objectives of Jobs, Safety and Wellbeing, there will need to be an expansion of various types of infrastructure. Large catalytic infrastructure interventions – particularly in energy, water and transport – can deliver significant job gains and lay the foundations for long term growth in economic productivity. Improving socioeconomic outcomes will require new social infrastructure, particularly as the Province reorients itself for a post pandemic world.

Investment in infrastructure is key to achieve Province's three interlinked objectives of Jobs, Safety and Wellbeing

Infrastructure development is critical to delivering growth, reducing poverty and creating jobs. It is a powerful counter-cyclical instrument for use by the public sector to withstand downturns. As South Africa emerges from a recession, infrastructure can propel the Western Cape both through short-run stimulus to construction; and through a long-run improvement in the Province's growth potential.

The need for large, complex and catalytic expenditure is set against expected significant reductions in transfers from national government. Without finding new ways of financing infrastructure, it is likely that infrastructure spending will erode.

Strengthening infrastructure governance and delivery

Building the Province's infrastructure delivery capacity in order to invest heavily in infrastructure

The Premier announced in his special address in the Western Cape Provincial Legislature on 22 October 2020 that the Province will invest heavily in infrastructure in order to achieve the Jobs priority. The Premier further announced that "we will launch the technical process to form a dedicated infrastructure agency that can transact and hold assets, as well as borrow money, as a 3D entity under the Public Finance Management Act".

President Ramaphosa in his remarks at the Infrastructure South Africa Project Preparation Roundtable and Marketplace discussion on 3 November 2020 stated that "project preparation is a costly exercise, but absolutely necessary". It was further indicated that according to the Global Infrastructure Hub, infrastructure project preparation costs in developing countries can range from 5.0 to 10.0 per cent of the total project investment.

At a national level, Infrastructure South Africa (ISA) was established as the single-entry point for all infrastructure projects. ISA has been tasked to drive the implementation of the Infrastructure Investment Plan.

At a provincial level consideration is now being given to establish a bespoke Project Preparation Facility (PPF) to assist departments with the project preparation cost of certain categories of infrastructure projects. The PPF will be supported by dedicated capacity that will ensure that infrastructure development is not merely undertaken in a transactional manner, but will affect the identification, consideration, evaluation, approval and implementation of infrastructure projects. This initiative will assist to create a credible integrated pipeline of infrastructure projects for the Province, which is aligned to investments by other spheres of government.

In the medium term, a strategic, overarching, integrated provincial infrastructure development plan will be developed. In the long-term, the infrastructure development plan will assist to rejuvenate the economy, reduce the cost of doing business and address infrastructure backlogs in both the social and economic sectors.

Infrastructure financing options

The Western Cape Government currently finances investments in infrastructure through a combination of general revenue allocations in each financial year, conditional grants and the deployment of accumulated savings. These traditional methods of financing of infrastructure will not address the infrastructure requirements of the Province as well as achieve the Western Cape Government's three priority objectives of Jobs, Safety and Wellbeing. With reduced budgets and limited sources to augment the fiscus, alternative forms of financing infrastructure have become crucial for sustainable infrastructure investment and delivery. Alternative approaches to infrastructure financing have several additional advantages, including:

- Using financial leverage to expand the scale of investment in the short term, based on longer term positive revenue impacts;
- Improving intergenerational equity, as assets are paid for over their useful lives and by the users of those assets at a specific point in time;
- Ensuring continued good governance, through stronger investor oversight; and
- Providing an opportunity to partner with private sector capacity and expertise in service delivery design and implementation.

Over the medium term, the Western Cape Government will explore various options to fund infrastructure. These include:

- **Public Private Partnerships (PPPs):** The Western Cape has been actively involved in PPPs in the past, but the take-up of PPPs was limited. PPPs are beneficial as governments can crowd-in private sector funding and expertise. The Western Cape Government will continue to explore PPPs over the medium term as PPPs remain an alternative funding option for infrastructure investment and delivery.
- **Budget Facility for Infrastructure:** The Budget Facility for Infrastructure (BFI) is an alternative funding option from national government for very large infrastructure projects over R3 billion for a single project or R6 billion for a programme of projects.

WCG actively exploring alternative financing options for infrastructure

Alternative financing options for infrastructure include PPPs, the Budget Facility for Infrastructure, the Infrastructure Fund and bonds

- **Infrastructure Fund (Blended Finance Fund):** The Blended Finance Fund, which forms part of the Infrastructure Fund announced by the President in 2018, is a fund combining capital from the public and private sectors. This fund is suitable for, amongst others, PPPs, which mobilises private sector efficiencies, skills and resources. Preference is given to projects with high leveraging of private or non-government investment and does not require government guarantees. National government committed R18 billion over the medium term to the Blended Finance Fund. The Western Cape Government will actively explore options to access funding from the Infrastructure Fund.
- **Bonds and Loans:** National Government has the option to issue various bonds to finance the budget deficit during a fiscal year, which does not include dedicated infrastructure bonds. Provincial governments are restricted in terms of borrowing through the Borrowing Powers of Provincial Governments Act, Act 48 of 1996; and can only borrow subject to national government approval. These types of borrowing can either be the issuance of a provincial bond and/or borrowing for specific projects. Bonds such as green bonds can be an attractive option for borrowing for infrastructure projects to be constructed in a sustainable and environmentally conscious manner. Green bonds "are any type of bond instrument where the proceeds will be exclusively applied to finance or re-finance in part or in full new and/or existing eligible Green Projects". Project loans can be an appropriate instrument for smaller investment projects that will provide a discrete revenue stream.

The Western Cape Government will actively explore various infrastructure financing options to fund its infrastructure requirements. This assessment will include both the appropriate set of financing instruments required and the institutional vehicles and capabilities needed to effectively utilise them.

Policy direction for more strategic use of municipal finances as a lever for growth and development

Municipalities in the Western Cape have a combined budget of R66.9 billion in operating expenditure and a further R12.9 billion in capital expenditure in 2020/21. This is a larger consolidated budget than the provincial government and includes more discretion for municipalities to spend on infrastructure and services that impact growth and development over the medium term, while provincial investments in health and education affect potential growth over the long-term.

Municipalities also have the potential to leverage their revenues through borrowing to increase investment. This investment can play a key role in supporting the Western Cape Recovery Plan. However, the economic impact of COVID-19 has also placed pressure on municipal revenues as demand for some services has fallen, growth in property prices is likely to slow and some consumers will struggle to pay their municipal bills. Municipalities therefore must balance their potential for increased investment with the still uncertain impact of the pandemic on their revenues. As this impact becomes clearer, many municipalities in the Province will still have scope to substantially increase their borrowing for investment in growth-enhancing infrastructure without placing their future financial stability at risk. The Western Cape Government is committed to supporting municipalities to do this through programmes like the Sustainable Infrastructure Development and Financial Facility that is being established by the Department of Local Government. This will consolidate a pipeline of bankable municipal projects at creditworthy municipalities in the Western Cape and enable project preparation of these projects.

WCG will encourage municipalities to leverage their revenues to increase investment through borrowing

The strong track record of sound financial management in most Western Cape municipalities makes it possible for them to access borrowing and to attract other forms of investment. This is a way in which municipalities can leverage their good governance to provide greater benefits for their residents.

Strong track record of sound financial management in most WC municipalities is attractive for lenders

Public sector investment can achieve its maximum impact when different arms of the state coordinate to efficiently deliver an integrated package of services to the public. The Joint District and Metro Approach (JDMA) has been adopted in the Western Cape as a vehicle through which to improve coordination in the delivery of provincial and municipal public services. This approach will allow all spheres of government to achieve more from the limited resources available by reducing duplications and ensuring that investments are targeted where they are most needed. The JDMA is further discussed in Chapter 3: Budget Policy Priorities.

Securing energy resilience for Western Cape municipalities

Unreliable electricity supply, coupled with rapidly rising tariffs, from mostly environmentally unsustainable energy sources, remains a major constraint to economic growth. The National Minister of Mineral Resources and Energy has now gazetted regulations allowing municipalities to procure electricity directly from suppliers. This opens the option for municipalities to improve electricity resilience by no longer relying on Eskom for their entire electricity bulk supply.

The changing nature of the electricity supply business poses many opportunities for municipalities, as well as many challenges. Most municipalities in the Province have already adopted feed-in tariffs for small-scale embedded generation but will need to change how they run their networks and their tariffing structures further to account for the changing business model in which municipalities own a reticulation network that multiple parties – including Eskom, Independent Power Producers (IPPs), businesses, households and even municipalities themselves will be able to use to supply electricity to consumers. To assist municipalities to make the required changes i.e. to produce their own electricity, to procure electricity supply from new producers, and to enable trading of electricity across their grids, the Province has established a Municipal Energy Resilience project that is being managed by the Department of Economic Development and Tourism. This project aims to provide support and capacity building to implement renewable energy (thus also environmentally sustainable) projects in municipalities across the Province and to enable municipalities, businesses and households to generate, procure and sell their own power.

Since 2015, the City of Cape Town has attempted to gain approval from the National Energy Regulator of South Africa and the Department of Mineral Resources and Energy for the procurement of renewable energy from IPPs. The recently amended new generation regulations provide a new channel for the City of Cape Town procurement from IPPs, as well as other own generation projects. The MER project is being run in collaboration and is aligned with the initiatives of the City of Cape Town.

Source: Western Cape Department of Economic Development and Tourism

Vulnerable municipalities

Municipalities in the Western Cape have over time demonstrated high levels of sound financial management and financial sustainability. From 2016/17 to 2018/19, more than 90 per cent of municipalities have achieved and maintained unqualified audit reports with findings/ with no findings. However, since 2017/18 there has been a reduction in municipalities achieving unqualified audits with no findings, which is commonly referred to as clean audit reports.

Prudent financial governance yields positive outcomes for municipal financial sustainability

Sound financial governance is generally regarded as a prerequisite for financial sustainability. The Western Cape municipalities' display of prudent financial governance has yielded positive outcomes for their financial sustainability. Ratings Afrika, a ratings agency specializing in ratings and similar opinions gauging the soundness of governance in private companies and government institutions, released its annual Municipal Financial Sustainability Index (MFSI) for the 100 largest local municipalities in South Africa for the 2018/19 fiscal year on 7 August 2020. The MFSI is a scoring model that evaluates six components, namely operating performance, liquidity management, debt governance, budget practices, affordability and infrastructure development of a municipality, and scores these components out of 100.

The Western Cape municipalities, on average scored 59, the highest score for any province. The Western Cape is the only province with an average of more than 50 and the only province that has improved over the past five years, from an average of 56 in 2015 to 59 in 2019.

Despite the exemplary track record of financial sustainability, the onset of COVID-19 and the subsequent national lockdowns have placed municipalities' financial sustainability under immense strain. The Provincial Treasury has observed that 7 of the 30 Western Cape municipalities have displayed signs of financial distress and vulnerability. Of these 7 municipalities, 3 have not adopted funded budgets before the start of the 2020/21 financial year; while all of 7 municipalities are experiencing liquidity and cashflow challenges.

COVID-19 and the subsequent national lockdowns placed municipalities' financial sustainability under strain

Measures applied in response to these challenges include:

- Assisted one of the three municipalities to adopt a funded budget by 30 September 2020 in line with National Treasury directives;
- Collaboration with the remaining two municipalities to develop plans to achieve funded budgets over the medium term;
- Financial health assessments were conducted for two municipalities;
- Collaboration with National Treasury on the review of the Financial Recovery Plan for Kannaland Municipality, which is currently in financial distress and the subject of a mandatory intervention in terms of section 139(5) of the Constitution and Chapter 13 of the Municipal Finance Management Act; and
- Monitoring all vulnerable municipalities through the monthly financial reporting processes.

Public Participation

The Western Cape Government wants to further expand meaningful public engagement with how public funds are allocated and spent in the provincial budget. The Western Cape MTBPS is a key part of this engagement as it sets out the key fiscal choices that the Province proposes to make in the next budget and offers the Provincial Parliament and the public an opportunity to engage on these proposals before the provincial budget is tabled in March 2021.

WCG to improve the level of public engagement regarding allocation of public funds

To enable meaningful engagement, the public needs a sense of how realistic it is that changes could be made to different aspects of the budget. For example, over half of the provincial budget is spent on salaries and wages, which are difficult to change in the short-term as government employment is highly regulated. However, the provincial budget includes other items like subsidies to individual schools where governing bodies have greater discretion over how funds are used each year. The Provincial Treasury will work with departments to make more financial information available on aspects of public spending where public engagement is most likely to be able to guide improved spending of public funds.

Public Entity Review

PT has started a process of reviewing provincial public entities to enhance efficiency

The Western Cape Provincial Treasury has initiated a review of the provincial public entities to enhance the efficacy of entity governance and maximise value from their operations. This exercise involves the following:

- Evaluating the legislative framework pertaining to public entities as well as mandates, corporate form and business models;
- Reviewing the effectiveness of governance measures, strategic relevance, decision-making, execution, oversight, and monitoring by the Executive Authority, parent department and Board and making related recommendations for improvement;
- Analysing current business models, legal and regulatory frameworks, human resource challenges, risks, strengths, opportunities, threats, operating capacity and profitability margins; and
- Identifying conflicts or discontinuities between existing provincial legislation regulating the public entity and the Public Finance Management Act and other applicable National Legislation, including areas that may require amendment in the relevant provincial legislation.

Supply Chain Management

The Western Cape Government's Supply Chain Management (SCM) strategy played a critical role in the Province's procurement response to COVID-19. The system, capabilities and controls already in place, provided for the necessary flexibility, agility and partnerships that were required to facilitate quick, decisive and legally compliant procurement decisions. In addition to the technical support and enablement that was central to the disaster response, the Western Cape Government also provided national leadership in expanding transparency on disaster-related

procurement. The monthly Procurement Disclosure Report (PDR) was the first of its kind for South Africa and has now been adopted by other provinces and spheres of government. The PDR has been progressively expanded from reporting on Personal Protective Equipment (PPE) to all COVID-19 procurement across provincial departments and public entities.

The impact that the pandemic has had on the economy and the fiscus requires that a post disaster recovery strategy utilises public procurement as a lever for change. Purchasing and procurement by the Province must support not only the preservation and creation of private sector jobs, but also enable progress on provincial priorities in respect of safety and wellbeing.

Leveraging of technology is fundamental to building a robust, re-imagined and responsive post-pandemic supply chain, that is cost effective, efficient, equitable and transparent.

*Leveraging technology
for a responsive supply
chain*

The Provincial Treasury is now at the stage of rolling out an automated procurement planning tool to departments to enable more efficient procurement planning as well as streamlining efficiencies in reporting. The automated procurement planning toolkit is intended to:

- Streamline and standardise the procurement planning process within the Province to ensure uniformity;
- Influence the budget process by linking procurement requirements to the budget process for draft, final and adjustments budgets;
- Digitise the annual procurement plan, quarterly progress report and contract register as well as the ability to extract exception reports and monitor progress on the execution of the procurement plan;
- Utilise procurement performance information depicted in the toolkit for improved and/or informed management decision-making;
- Streamline and allow transparency and consultation on procurement planning with Programme, Sub-Programme and Element Managers throughout the value chain i.e. demand and acquisitions management within departments;
- Link procurement information to expenditure information;
- Enable procurement efficiencies by providing information on purchasing needs, spend patterns and commodities purchased;

- Enable commodity categorisation and development of sourcing strategies; and
- Improve data integrity and alignment to ICT systems used by departments when procuring.

SCM initiatives include specific sourcing strategies; procurement planning, localisation of procurement, supplier development, e-procurement and supplier database management

Key to the Western Cape Government's procurement focus has been in making sustainable procurement choices that account for the full value of a service or product over its whole lifecycle, including costing of social and environmental risk and opportunities. Initiatives that were driven through this approach in the past include: specific commodity sourcing strategies that improved efficiencies within the provincial procurement environment; procurement planning improvements; the localisation of procurement to stimulate regional economic development; supplier development initiatives; green procurement; promoting the use of small business in procurement activities; e-procurement and Supplier Database Management.

The urgent need to drive economic growth and job creation in a fiscally constrained environment require prioritisation of areas that are most likely to achieve rapid high-impact results, without adding significantly to the administrative burden and/or costs. This approach requires the successful and rapid implementation of key objectives through concentrating resources to specific targets.

ePS will be expanded over the medium term

The Western Cape Government's e-Procurement Solution (ePS) is a major asset that will be expanded over the medium term. This is in line with government's overall strategy to achieve continued improvement in value for money, enhance competitiveness of suppliers, and provide business communities with a convenient and effective medium, through which companies and individuals alike, can identify and exploit business opportunities. The expansion of e-Procurement will assist in driving procurement efficiencies and embedding good governance. Alongside this, the Western Cape Government will expand public disclosure of procurement activities, both to encourage citizen engagement and strengthen trust over the stewardship of public resources, and to enhance competition in the supply chain. This will be complemented by a continued focus on supporting and building procurement capacity and capability across departments.

Additionally, the significant strides made in expanding transparency in public procurement will be sustained. As disaster-related procurement activities wind down, the PDR will move to being published on a quarterly basis, with its scope progressively expanded to include all procurement activities in departments and public entities. The expansion of the PDR is a further path-breaking

reform for South Africa that will strengthen both citizen oversight and trust in government and enhance competition in provincial supply chains. It demonstrates the opportunities that are created once the bedrock of good financial governance has been built. Tabulations of monthly COVID-19 procurement data will continue to be provided in association with the National Treasury.

Further detail on the SCM Strategy and initiatives will be articulated in the 2021 Overview of Provincial Revenue and Expenditure.

Compensation of Employees Strategy

A Compensation of Employees (CoE) Strategy is being developed that seeks to limit CoE as an expenditure item, both in the short-term in response to the budget reductions and in the medium term to effectively manage a sustainable wage bill. The CoE Strategy will stand on three pillars, namely: cost containment measures; harnessing the power of organisational culture; and the optimal utilisation of people.

CoE Strategy being developed, seeks to limit CoE as an expenditure item

Cost containment measures are required to enable the Western Cape Government to navigate through the recovery phase of the COVID-19 pandemic. However, the Western Cape Government will need to ensure that they are able to effectively engage the existing staff capacity, improve productivity within the existing workforce and explore the key drivers of their overall productivity measures.

The Western Cape Government will ensure excellent performance by maintaining a tight link between leadership, a purpose-driven culture and value creation. Leadership and culture will be especially important in a post-COVID-19 world given the dramatic increase in digital and virtual working environments.

No strategy can be implemented without the support of the employees and any strategic change must consider how best to support employees to ensure that they are engaged, understand the strategy and what it means for them. It is vital to retain those employees with the right skills and competencies to drive the growth and success of the Province.

The CoE Strategy forms part of the broader New Way of Work, which is further discussed in Chapter 3: Budget Policy Priorities.

Inclusion on Artificial Intelligence and Machine Learning

In a time where we are facing seemingly insurmountable fiscal pressures, we must look at what are the resources at our disposal and how best we can maximise value from that which we own. In the age of information, the Fourth Industrial Revolution, we have at our disposal an explosion of data, which, if we are intelligent in the

Artificial Intelligence will provide the tools to look at transactions holistically and dynamically

way we think about problems, we can use this to great advantage. If we don't use data intelligently, to build knowledge and ultimately arrive at wisdom, we will suffer from massive blind-spots for the institutions that we serve.

We cannot look at this volume of data with outdated tools; we must look at not just what is available, but also to build a resilient Provincial Treasury, what are the tools that will assist in solving some of our future problems. This is where we must turn to Artificial Intelligence and Machine Learning. These are tools that will allow us not just to look at transactions individually but allow us to look at transactions holistically and dynamically, with the ability to learn from the past and build better predictive capabilities. It will allow us to forego sample testing and look at entire populations. This will allow us to get a strong foothold into the advantages offered by the information age. It is on this premise that our investment in technology and technology services is essential to make inroads in the innovation space and marginally shift the culture in how we get things done.

Going forward, Provincial Treasury will be the candidate department to have multiple years of information interrogated that will allow a full examination of data with improved detection capabilities and provide the highest level of assurance. The loading and extraction of data will provide credible information allowing management with the tools for effective decision making. The richness of the historical information will be able to improve scenario planning.

Opportunities for own revenue enhancement

Provincial departments are empowered by Section 228 of the South African Constitution, through the Western Cape Provincial Legislature, to impose taxes, levies, and duties other than income tax, value added tax, general sales tax, rates on property or customs duties; and flat rate surcharges on any tax, levy or duty that is imposed by national legislation other than on corporate income tax, value-added tax, and rates or property or customs duties.

According to the Provincial Tax Regulation Process Act of 2001 (subsection 1), the Province may not exercise its power in terms of Section 228 of the Constitution to impose a provincial tax which may materially and unreasonably prejudice national economic policies, economic activities across provincial boundaries, the national mobility of goods, services, capital or labour.

Provinces first need to ensure that they follow the processes as set out in the abovementioned act and consider the principles of co-operative government as set out in Chapter 3 of the Constitution.

The Western Cape performs relatively well when compared to other provinces. Some of the recent own revenue initiatives which generated additional own revenues are inflationary increases in MVL fee tariffs, inflationary and above increases in liquor licence fees, and an increase in gambling taxes.

Enhancing own revenue collections is an ongoing process employed by provincial departments and is done through the following actions:

WCG continuously exploring own revenue enhancement

- Annual reviewing of tariff structures;
- Regular engagement with national authorities to increase tariffs, where applicable;
- The development of better revenue forecasting models;
- Improving debt management and collections of outstanding debtors e.g. relating to staff, bursaries, motor vehicle licence fees, etc;
- Accessing funding from the Skills, Education, and Training Authorities;
- Exploring co-funding delivery initiatives with stakeholders; and
- Exploring donor funding possibilities.

Fiscal Futures

A combination of factors has ensured that since the global financial crisis of 2007-2009, South Africa's economic growth has been lacklustre, and on a long run decline. This period coincides with a major deterioration of fiscal variables. The advent of COVID-19 has thus precipitated the structural economic crisis that the country already was in, with calamitous fiscal implications.

Fiscal scenarios to be developed to assess the sustainability of public policies

In response to the deteriorating fiscal position of South Africa and consequently the Province, the Provincial Treasury is in the process of developing a research project in readiness for the 2021 MTEF Budget, which is envisaged to be the first of a path defining budgets for the country. Short to medium term (2021- 2024) and long term (2029) fiscal scenarios or Fiscal Futures will be developed to enable decision makers to understand the implications of the sustainability of public policies.

Based on a set of political, socio-economic, and fiscal variables, the Fiscal Futures are expected to provide several optimistic scenarios, a baseline, business-as-usual scenario, as well as less optimistic scenarios. A key outcome of the development of the scenarios is the determination of the implications of each scenario. In developing its future budgets, and in preparation for the scenarios, the Province must adapt to the changing fiscal environment and infuse these future perspectives into strategic planning.

Conclusion

The national economic and fiscal environment has significantly deteriorated with little room to strengthen tax revenue collection, while national debt has reached unsustainable levels. The Western Cape Government Fiscal Strategy and three phased approach to budgeting for the current financial year as well as over the medium term supports recovery from the socio-economic vulnerabilities highlighted by COVID-19 as well as protects priority service delivery objectives over the medium term.

A large part of the approach to formulating the 2021 Budget will be informed by a province wide review of how we do business in a way that optimises efficiency. Elements of the review include reducing CoE, using technology and partnerships with the private sector and non-government sector to unlock efficiencies, leveraging technology to improve supply chain management, investing in infrastructure that develops the long run growth potential of provincial services using alternative financing models. The review will also reconsider how best to position the Province's public entities to optimise efficacy as well as options to unlock private investment in municipalities, using the Province's track record of sound financial management as a key tool.

3

Budget policy priorities

In summary

- The impact of the COVID-19 pandemic has had a deep and overwhelmingly adverse impact on the socio-economic wellbeing of citizens in the Western Cape.
- The robust and immediate response of the Western Cape Government, alongside government's track record of fiscal prudence, provides a solid foundation for economic recovery and growth.
- The Western Cape Government remains committed to the 2019-2024 Provincial Strategic Plan's vision of a safe Western Cape where everyone prospers, implemented through its five Vision Inspired Priorities.
- With the 2019-2024 Provincial Strategic Plan as its foundation, the Western Cape Recovery Plan prioritises and elevates those problem areas, within the context of recovery, that require an urgent whole of society approach.
- The Western Cape Recovery Plan's themes are responding to the socio-economic implications of the COVID-19 pandemic - Jobs, Safety, and Wellbeing, with the New Way of Work, which focuses on streamlining and modernising government capabilities, as an enabler of effective service delivery.
- The objectives of the 2020 Second Adjusted Budget and 2021 Preliminary Budget are to enable the Western Cape Government to implement the Western Cape Recovery Plan while achieving fiscal sustainability in-year and over the 2021 Medium Term Expenditure Framework.
- The medium term budget policy priorities are formulated within the context of a preliminary fiscal framework of R71.342 billion in 2021/22; R72.583 billion in 2022/23; and R73.051 billion in 2023/24.

Introduction

The Western Cape is not only battling the health threat posed by the COVID-19 pandemic, but also the deteriorating socio-economic landscape which has been exacerbated by implementing measures to contain the spread of COVID-19. In line with national economic developments, the provincial economic outlook has significantly deteriorated. This has translated into substantial provincial government revenue reductions over the medium term, with significant implications for the provincial fiscus.

Within this context, the Western Cape Government continues to explore new and innovative programmes and projects over the

medium term to respond to the COVID-19 pandemic, while giving effect to its Jobs, Safety and Wellbeing priority themes. The Western Cape Recovery Plan is premised on the New Way of Work as an enabler- which is a re-imagination of how work is structured in line with the contemporary workforce trends, which include flexible working arrangements to manage costs. This approach simultaneously has the potential to increase employee morale and productivity, reduce tardiness and absenteeism, reduce employee turnover and enhance the image of the Western Cape Government as an employee friendly place of work.

■ Global, national and provincial policy context

WCG priorities framed within the context of SDGs and AU Agenda 2063

The priorities of the Western Cape Government are framed in the context of various long-term visions and strategies. The global strategic context is largely set within the objectives of the 2030 Agenda for Sustainable Development and its 17 **Sustainable Development Goals** (SDGs).

The **African Union (AU) Agenda 2063** Goals, which are aligned to the SDGs, mention seven aspirations for the continent: an integrated Africa, a prosperous Africa, a democratic Africa, a peaceful Africa, with a strong cultural identity, people driven and an international dynamic force.

The **National Development Plan (NDP) 2030**, which is aligned to the AU Agenda 2063 Goals and the SDGs, provides the country's detailed policy framework for eliminating poverty and reducing inequality by 2030. The **Medium Term Strategic Framework 2019 - 2024** further guides the implementation and monitoring of the NDP.

PSP aligned to NDP strategic outcomes

The **2019 - 2024 Provincial Strategic Plan (PSP)** provides the strategic framework for the medium term budget policy priorities, which is aligned to the NDP strategic outcomes. The PSP's vision is expressed through five strategic "Vision Inspired Priorities" or VIPs, namely (1) Safe and Cohesive Communities, (2) Growth and Jobs, (3) Empowering People, (4) Mobility and Spatial Transformation, and (5) Innovation and Culture.

In dealing with the longer-term impact of COVID-19, there has been a global rethink about how we can reset, reboot and rebuild our society and economy for a more fair, sustainable and resilient future. The World Economic Forum has called this the "Great Reset" - a commitment to jointly and urgently build the foundations of our economic and social system for a more fair, sustainable and resilient future but with a long-term perspective and forward-orientated

economic solutions. This approach has informed the recovery priorities for the Western Cape.

To mitigate the devastating consequences of COVID-19 on the economy, the **South African Economic Reconstruction and Recovery Plan** has identified the following priority interventions:

SA Economic Reconstruction and Recovery Plan identifies priorities

- Aggressive infrastructure investment;
- Employment-orientated strategic localisation, reindustrialisation and export promotion;
- Energy security;
- Support for tourism recovery and growth;
- Gender equality and economic inclusion of women and youth;
- Green economy interventions;
- Mass public employment interventions;
- Strengthening food security; and
- Macro-economic interventions.

The Plan contains three phases of implementation; (i) Engage and Preserve, (ii) Recovery and Reform, and (iii) Reconstruct and Transform.

Many of the challenges outlined in the problem statements in the PSP have worsened while the Province's fiscal resources have declined. Therefore, the Western Cape Government is prioritising and elevating PSP interventions that will best address the dual health and socio-economic challenges that have been exacerbated by COVID-19 in the Western Cape over the 2021 Medium Term Expenditure Framework.

WC Recovery Plan prioritises and elevates PSP interventions

The fallout of COVID-19 has subsequently affected the external and internal service delivery environment within which the Western Cape Government delivers basic services to its citizens. The Western Cape Government's Fiscal Strategy and approach as outlined in Chapter 2 provides the framework within which the provincial government planning processes align with the resource planning and budgeting process. This approach further supports the execution and implementation of the Western Cape Recovery Plan.

Medium term budget policy priorities

The medium term budget policy priorities support the Western Cape to unlock value from good governance and drive effective service delivery. These budget policy priorities are determined within the context of a preliminary fiscal framework of R71.342 billion in 2021/22; R72.583 billion in 2022/23; and R73.051 billion in 2023/24. The fiscal framework prioritises key frontline service delivery areas, which include health, education and social development. The Western Cape Government also places emphasis on protecting infrastructure budgets with a particular focus on the maintenance and repair of existing public infrastructure as well as interventions that drive economic recovery and good governance in the Province.

The Western Cape Government remains committed to the PSP vision of “A safe Western Cape where everyone prospers”, implemented through its five Vision-inspired Priorities (VIPs). With the PSP as its foundation, the Western Cape Recovery Plan prioritises and elevates problem areas that require an urgent whole of society approach, which includes: (i) Jobs, (ii) Safety, and (iii) Wellbeing, and with the New Way of Work which focuses on streamlining and modernising government capabilities, as an enabler (further explained later in the chapter) informing the delivery approach for all the other themes.

Furthermore, the Western Cape Recovery Plan places the dignity of every individual, household, and community at the centre of everything we do as government (see Figure 3.1).

Figure 3.1 Themes of the Western Cape Recovery Plan

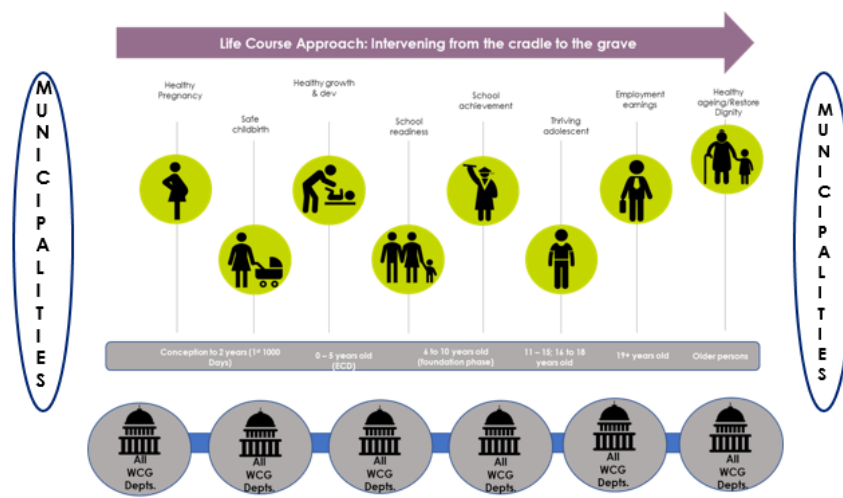


Source: Western Cape Department of the Premier

Further acknowledging the interdependence of the three recovery themes, the Western Cape Recovery Plan uses the life course to identify the phases in each person's life, from birth to death, which informs the entry points for intervention. In line with the rationale of the PSP, it is critical to intervene at the earliest and most critical stages of someone's life right through to 25 years old to maximise the positive cumulative effect throughout the person's life and across generations (see Figure 3.2).

Life course approach acknowledges interdependencies of the themes of the WC Recovery Plan

Figure 3.2 Life course approach of the Western Cape Recovery Plan



Note: Adapted from the WHO Nurturing Care Framework

Source: Western Cape Department of the Premier

Theme 1: Jobs

The economic implications of COVID-19 are widespread, impacting demand and supply across global, national and provincial levels. The lockdown has resulted in lower investment and business confidence, loss of jobs, limited trade, and business vulnerabilities related to the dependence on international markets. Furthermore, COVID-19 has exacerbated key systemic challenges that affected growth and development, namely an already weak economic performance, increased and high unemployment, as well as the impact of climate change and resource pressures on the economy.

The Western Cape Recovery Plan's Jobs theme builds on VIP 2: Growth and Jobs. It seeks to make the Province an investment destination of choice to enable economic growth, which leads to increased job opportunities. In addition, the Western Cape Recovery Plan has elevated support to SMMEs, the informal sector and to the ease of doing business programme.

Elevated support to SMMEs and informal sector

Bounce Back and Bounce Up Strategy to sustain and create jobs now

Through its “Bounce Back” and “Bounce Up” Strategy, the Western Cape Government will provide immediate support to sustain and create jobs and, in the medium term, help the economy bounce up and address some of the fundamental challenges to economic growth and job creation. Unlocking investment in the provincial economy will require scaled up work opportunities and skills, boosting investment and exports, strengthening economic resilience, boosting infrastructure, supporting SMMEs and the Informal Sector, as well as accelerating Ease of Doing Business.

Scale up work opportunities and skills

Increase work readiness and skills development

By scaling up work opportunities and skills, the Western Cape Government will address the declining job opportunities, especially for young people, in the private sector and will support workforce challenges linked to a lack of work readiness and inappropriately skilled and inexperienced workers. This will be achieved by increasing access to technical and soft skills development across sectors through internships, digital skills development, improving the skills ecosystem, and expanding public works programmes.

The Department of Community Safety’s Safety Ambassador Programme focussing training and placing youth in high risk communities to support community cohesion and safety, also lays the basis for upskilling of youth and builds experience for access to the job market.

In addressing the employment challenges within the private sector, the Department of Agriculture will continue to implement skills interventions pertaining to the agricultural sector which include, youth placement programmes, graduate and Premier’s Advancement of Youth interns, bursaries and the Agriculture Partnership for Rural Youth Development. Within the commodity approach, extension services will also continue, to support successful land reform programmes whereas food security will be advanced through household, community and schools food gardens. Furthermore, with the Wine Tourism Workers Support Stipend, a total of 1 333 jobs in the wine industry will be maintained.

Youth in Human Settlements programme encourages and promotes participation of youth in the built environment

The Department of Human Settlements will continue to address the employment challenges in the built environment. The Department will implement the Youth in Human Settlements programme which is a job creation and training initiative that encourages and promotes the participation of youth between the ages of 18 and 35 to actively participate in the built environment. In partnership with the National Home Builders Registration Council, the Department provides accredited theory training and uses its project construction sites as

a conduit for practical experiential learning and competency assessments.

The COVID-19 lockdown highlighted the need for digital skills; while access to skilled staff with relevant digital skills remains the most significant binding constraint for technology companies. The gulf between the supply and demand of suitably skilled and experienced staff remains a throttle on business. Programmes to stimulate the interest of school learners towards Information and Communications Technology (ICT) as a career, accelerate training for post-school youth, and placement programmes will be progressed in partnership with the private sector and the Western Cape Government. This needs to be done at scale and requires innovation in the approach to provide a resilient and available workforce that is skilled in digital concepts and appropriately equipped for the demands.

Digital skills remain the most significant binding constraint for technology companies

Citizens of the Western Cape will be supported through an expanded digital skills programme which will be in collaboration with multiple provincial government departments. Programmes such as, I-CAN LEARN will be made available in more libraries, at Youth Cafés and Cape Access Centres; and at various third-party private sector sites. The digital skills curriculum has been expanded to include a wider range of subject matter allowing citizens to be equipped with the skills to succeed in the 21st century world of work, thereby positively impacting their wellbeing.

Boost investment and exports

The Western Cape Government aims to position the Province as the most competitive region in South Africa and on the continent as well as a leading investment location. By supporting and facilitating economic infrastructure, retaining and increasing private investment opportunities and expanding exports in the post COVID-19 environment, the Western Cape Government will address the current low levels of investment and will diversify exports.

Retaining and increasing investment opportunities and expanding exports post-COVID-19

Investments will be promoted by improving international investment promotions and supporting export development programmes as well as improving Ease of Doing Business to remove administrative and legislative blockages. Furthermore, investments will be promoted by lobbying national government to remove investor-unfriendly policies, improving investment facilitation to streamline the investor journey, optimising resourcing within the investment ecosystem, and improving job and investment retention.

Foreign investments in the Western Cape's agricultural sector will be promoted with the provision of market intelligence by the Department of Agriculture and Wesgro's Agribusiness Investment unit.

Furthermore, the Western Cape Government will promote investment through the development of a sound investment and business-retention and expansion strategy; lobbying national government and other relevant stakeholders to develop policies and incentives that are relevant and responsive to the private sector's needs and flexible enough to accommodate such needs. In addition, the Western Cape Government will strengthen the investment recruitment missions' effort through data quality improvement by using reliable investment flow analysis tools and platforms.

Targeted export areas include BPO, tourism, agriculture and agri-processing

Export growth will be promoted by deepening trade in key destination markets especially in the rest of Africa, improving productivity in key tradable sectors through all the instruments at government's disposal, seeking out new markets with local firms through trade promotion. Furthermore, the Western Cape Government will stimulate the growth of key sectors such as Business Process Outsourcing, tourism, agriculture and agri-processing, assisting firms in moving up the product and services complexity continuum, funding sector development support interventions, and supporting export development programmes.

Promoting agricultural export growth include support to the South African Table Grape Industry

Further interventions to promote agricultural export growth include support to the South African Table Grape Industry (SATI) to open up markets in China, as well as continued support to Wine and Agricultural Ethical and Trade Association (WIETA) and Sustainability Initiative of South Africa (SIZA) that will ensure local farmers adhere to acceptable international ethical standards. The Department of Transport and Public Works, in collaboration with the Department of Agriculture, will identify the critical access routes and logistical networks required to support the expansion of agricultural production and exports.

Strengthen economic resilience

Promoting energy and water resilience and security

The Western Cape Government has placed considerable emphasis on sustainability since the release of the Green is Smart strategy. The work done in the Green Economy space has placed the Province in a strong position to play a leading role in driving sustainable and resilient recovery post COVID-19.

The Western Cape Government will promote energy and water resilience and security as key contributors to sustainable production,

which in turn will support job creation and growth and investment. This will be achieved by diversifying the regional energy mix and reducing energy intensity, supporting Green Economy initiatives, developing ecological infrastructure that addresses climate control, supporting municipalities, agricultural enterprises, and other businesses through technical, regulatory, and financial knowledge development, sharing and partnerships.

In addition, focus will be placed on minimising waste streams and focusing on alternative waste treatment and supporting the management and rehabilitation of natural resources such as alien vegetation clearing. The Department of Environmental Affairs and Development Planning will also facilitate the development of a planning support tool for municipalities, which will assist municipalities to improve waste management services in informal areas. The tool utilises a co-design and whole of society approach that endeavours to achieve more positive outcomes when planning and implementing waste management services in informal areas. The project aims to reduce the amount of mismanaged waste (including illegal dumping) in the environment and contributes towards improving the health and restoring the dignity of citizens residing in informal areas. Reduced pollution of the environment and waterways and catchment areas in particular, will also reduce the impact of plastic waste on aquatic life.

Assist municipalities to improve waste management services in informal areas

The Department of Environmental Affairs and Development Planning's waste entrepreneurs support initiative has been expanded to include the development of a Waste Services Procurement Guide for municipalities to capacitate them on how to procure waste services in a manner that supports Local Economic Development and the growth and development of small and micro waste entrepreneurs. Furthermore, the Department will facilitate support for SMME's and waste pickers in the recycling sector during this very challenging COVID-19 pandemic period with a view of empowering entrepreneurs to transition into the more formalised operations and the formal economy.

The Western Cape Government has prioritised the Municipal Energy Resilience project. The project will provide project development support and capacity building to implement renewable energy projects in municipalities across the Province, for municipalities, businesses and households. The project aims to generate, procure and sell own power, including but not limited to, municipalities transacting directly with Independent Power Producers (IPPs).

Support municipalities to transact directly with IPPs

As further evidence of the Western Cape Government's commitment to a greener economy, the Department of Agriculture

will continue with its shift toward cleaner and more efficient solar generated energy at its headquarters in Elsenburg, with the installation of new solar batteries in 2020 and 2021.

Ecosystem goods and services, such as clean, potable water, disaster risk reduction, pollution, etc., are the foundation of the Western Cape economy. To achieve inclusive economic growth and to meet the national imperative for the delivery of basic services in a sustainable manner, it is essential that the maintenance and the functionality of the ecological infrastructure underpins development. The Western Cape Government will continue to support the protection of the Province's natural resources, and to improve the resilience of human communities, natural habitats and the economy as a whole.

Protecting and restoring ecological infrastructure

In response to current and future impacts of climate change, CapeNature implements local-level mitigation and strategic adaptation measures. These include disaster risk reduction and response plans, and protecting and restoring ecological infrastructure such as wetlands, riparian corridors and coastal corridors. CapeNature follows an integrated approach to catchment management, which includes biodiversity, freshwater, ecological fire and invasive alien management through a "catchment-to-coast" approach.

Many of these interventions (e.g. eco-tourism, invasive alien clearing, and promotion of biodiversity and climate change awareness) are aimed at advancing a biodiversity-based economy that contributes to inclusive and sustainable livelihoods and development opportunities in line with the Provincial Biodiversity Economy Strategy.

Moreover, the Department of Local Government will continue with on-going support to municipalities through the implementation of the Drought Recovery Action Plan to ensure water security in towns across the Province that still experience the effects of drought, particularly the towns located in the Greater Karoo. The Department has developed a disaster response system to more adequately respond to disasters, which include fires and floods.

Boost infrastructure

The provision and maintenance of infrastructure such as roads, rail, ports, water supply, and housing are key enablers to boost business confidence, stimulate investment, increase economic activity and create jobs. The Western Cape Government will boost infrastructure in the COVID-19 recovery phase to increase economic productivity and competitiveness, increase business confidence through a

Infrastructure as a lever to stimulate investment, boost business confidence and accelerate growth

pipeline of infrastructure projects, and faster rollout and implementation of these projects by addressing procurement inefficiencies.

The Western Cape Government will continue to prioritise infrastructure investment as both a short-term employment driver as well as a long-term catalyst for economic growth and social development. Infrastructure development and maintenance of key public infrastructure including schools, hospitals and roads remain a focus area for the Province. Going forward, the Western Cape Government will prioritise the maintenance and repair of existing infrastructure such as preventative maintenance at 50 education facilities whose infrastructure has been identified as being in a serious state of disrepair and accelerating the fencing of schools in high risk neighbourhoods.

Infrastructure investment a short-term employment driver as well as a long-term springboard for growth

Maintaining the existing road infrastructure across the Province at the prescribed standards required is central to the long-term economic and social sustainability of the Western Cape. Going forward, the Department of Transport and Public Works will continue on a number of important access routes, which include the widening of the N7, the construction of new roads to leverage developments around the Saldanha Bay Industrial Development Zone (SBIDZ), and the rehabilitation of the TR28/2 between Hermanus and Stanford, amongst other.

Maintaining existing road infrastructure remains a priority

Other public transport initiatives set to continue include the expansion of the Go George services, efforts to fix rail and restore the Central Line, and the provision of affordable and low carbon transport through a bicycle distribution programme and pedestrian routes. The full implementation of the Integrated Transport Hub and related data systems will improve public transport management and safety across the Western Cape.

The Provincial Treasury will continue to support efficient infrastructure investment, in particular improved portfolio management and project preparation as well as infrastructure financing.

Furthermore, the development of the SBIDZ will continue as a key driver of investment into the maritime sector with the first elements of the customised infrastructure of the oil and gas and marine engineering hub in place in Saldanha Bay. The SBIDZ plays a catalytic role to unlock the industrialisation potential of the West Coast, and Saldanha in particular. The SBIDZ has harnessed the legislative instruments to attract the targeted industrial activities. The ultimate aim is to stimulate economic growth and sustainable job creation through the much-needed re-industrialisation of the local economy.

SBIDZ a key driver of investment into the maritime sector

The Atlantis Special Economic Zone (ASEZ) is primarily centred around attracting manufacturing and service companies in the green technology environment to the Zone and has been designated for the manufacturing of green technologies and related services. The Western Cape Government will continue to support the ASEZ, to drive energy investment and innovation support, to attract energy sector investments and innovation into the Western Cape, especially into the zone.

Moreover, the maintenance and expansion of water infrastructure is a key priority in unlocking the full employment potential of agriculture in the Province. The Western Cape Government will continue to support the Lower Olifants River Water Association to clear and maintain canals in the dry Matzikama region. Ecological infrastructure will also be maintained through the continuation of alien vegetation clearing as well as river protection works in the Keurbomen, Jan du Toit and Upper Hex rivers.

*Promoting
neighbourhood
development and spatial
justice*

To support social infrastructure and promote neighbourhood development and spatial justice in the Province, the Regional Special Economic Projects (RSEP) programme will continue over the 2021 MTEF. This project is a multi-dimensional initiative aimed at providing integrated, dignified, and safe facilities and pedestrian routes benefitting disadvantaged communities and individuals, including women and children. There are currently 12 beneficiary municipalities in the programme and 15 participating towns.

Support SMMEs and the Informal Sector

The Western Cape Government acknowledges that SMMEs and the informal sector have been fragile and relatively stagnant over the past few years, yet the informal and township economy is a key driver of job creation, in particular for those close to the poverty line. In addition, these two sectors have been hit particularly hard by COVID-19 due to regulations put in place to reduce infections.

*SMMEs play critical role in
absorbing labour,
penetrating new markets
and expanding
economies*

SMMEs play a critical role in absorbing labour, penetrating new markets and generally expanding economies in creative and innovative ways. The ability of SMMEs to recover from the effects of the economic lockdown will be slower than anticipated and therefore more severely affected.

In response, the Western Cape Government aims to address the existing and post COVID-19 challenges particularly through creating and increasing opportunities to SMMEs and enhancing the Western Cape SMME Support ecosystem. Due consideration will be given to the varied needs for market access within the public and private sector, between businesses at various stages of their life cycle and

businesses located in the formal sector or the informal sector with the goal of enhancing the Ease of Doing Business and promoting exports of tradeable goods.

In further supporting SMMEs, emerging contractors in the built environment sector will continue to be supported by the Department of Transport and Public Works through its Contractor Development Programme, to become successful participants in the construction. Furthermore, the Department of Agriculture will provide special support to black owned wine farms and black owned brands to ensure that transformation gains are not lost.

Accelerate Ease of Doing Business

Ease of Doing Business will address the challenges hampering private sector operations and growth. The Western Cape Government's initiatives to create a more conducive business environment will be accelerated to save time and resources and boost businesses' bottom-line, enabling them to invest, grow the economy and increase opportunities for jobs.

A more conducive business environment to save time and resources and boost businesses' bottom-line

Because much of the red tape and obstacles to Ease of Doing Business reside within the municipal sphere of government, the Western Cape Government will work closely with municipalities to accelerate the programme.

Accelerating Ease of Doing Business will be achieved through providing support to municipalities in reducing red tape and addressing business constraints, especially those affecting SMMEs and the informal sector, improving the efficiency of the port, improving the efficiency of government procedures and administrative systems, initiating or advocating for legislative reform, and providing innovative business support.

Theme 2: Safety

The Western Cape Recovery Plan's Safety theme builds on VIP 1: Safe and Cohesive Communities. It acknowledges that safety requires a whole of society and life-course approach that combines law enforcement and violence prevention by addressing risk factors for violence through a public health approach.

Safety requires a whole-of-society and life-course approach that combines law enforcement and violence prevention

While violent crime in the Western Cape decreased at the height of the COVID-19 lockdown, it is unlikely that it will remain at these relatively low levels. What is more probable is that poverty and inequality will increase due to the socio-economic consequences of COVID-19, which can lead to an increase in murder and youth violence.

In response to increasing safety concerns in the Province, the Western Cape Government in partnership with the City of Cape Town, will continue to support an increase in boots on the ground through the continued support towards the Law Enforcement Advancement Programme (LEAP) to stabilise crime in hotspot areas in the Metro. Additional LEAP officers will be deployed to hotspot crime areas in the Western Cape based on evidence and data.

To give effect to the Western Cape Safety Plan, 16 Area Based Teams will be established within the priority stations to halve the number of murders through data-led evidence-based law enforcement and violence prevention interventions. Interventions will be based on the local context due to the unique crime and socio-economic profiles within each police precinct. The project intends to draw learnings and best-practices which would be replicated to other areas to ensure a safer Western Cape to all its citizens.

Unlock opportunities for young people in the field of safety and security

The Peace Officer Training Project will unlock opportunities for young people in the field of safety and security. The provision of accredited peace officer training will enable municipalities to strengthen their capacity to increase safety within their municipal areas in the Western Cape. The peace officers will also be trained to act as traffic wardens at busy intersections and pedestrian crossings like schools. Over the 2021 MTEF, 120 vulnerable youth will be trained as peace officers.

The Western Cape Government will continue its support towards capacity to prevent poaching, and transportation of narcotics and explosives on provincial highways by its support toward K-9 units operating in various municipalities.

Safety Ambassadors Programme will create several work and skills development opportunities

Furthermore, the Western Cape Government will support the Safety Ambassadors Programme (SAP), which is an integrated intervention located within the Department of Community Safety and which aims to create a number of work and skills development opportunities for young people, women and persons with disabilities while simultaneously assisting communities in the Western Cape to deal with a myriad of socio-economic challenges post COVID-19. It is anticipated that the effective implementation of the SAP will be critical to all the themes of the Western Cape Recovery Plan.

The Department of Agriculture had commissioned a rural safety baseline study, which will provide evidence as to the perception of safety in rural areas and thus provide support through the Rural Safety Desk.

Building on lessons learned from its COVID-19 pandemic response, the Western Cape Government will facilitate the co-creation and co-ownership of holistic, context-specific, data-led and evidence-informed approaches to safety in hotspots of violence, as highlighted under the enabler, "A New Way of Work".

Data-led approach

In order to strengthen its ability to track the size and trends of crime and violence and assess the impact of safety-related interventions, the Western Cape Government will establish an integrated safety data surveillance strategy, adapted from the Cardiff Model for violence prevention.

By integrating data from multiple sources into a data warehouse, the safety data surveillance strategy will identify hotspots of violence for integrated action, analyse the data to identify localised safety threats in order to action interventions accordingly, and track the impact of interventions.

Evidence-informed approach

In order to strengthen its interventions aimed at reducing violence, the Western Cape Government will adopt an evidence-informed approach to increasing safety.

Informed by international and local evidence of what works in reducing violence, the Western Cape Government will, through its area-based teams, map and identify possible entry points for evidence-informed interventions to reduce violence. An example of the use of evidence to increase safety is the targeted deployment of LEAP officers to hotspot crime areas in the Metro based on evidence and data.

To reduce alcohol-related harms, the Western Cape Government will propose major amendments to the Western Cape Liquor Act, including the possibility of imposing a minimum unit price on alcohol - an approach which evidence suggests can be effective in preventing binge drinking. Other interventions include stricter times for the sale of alcohol, even after the expiry of the State of the Disaster regulations and facilitating the registration of unlicensed liquor outlets. In addition, the Western Cape Government will explore incentives for liquor outlets who do follow the rules.

The Western Cape Government will regularly assess the successes and failures of its interventions in order to further build the evidence of what works in reducing violence in the Western Cape. This model will be regularly assessed for impact and refined, based on lessons learned.

Evidence-informed interventions that build on local and international knowledge of what works in reducing violence

Evidence-informed approach to reducing alcohol-related harms

■ Theme 3: Wellbeing

Wellbeing focuses on protecting fundamental human rights, the progressive realisation of socio-economic rights, and creating a sense of belonging

COVID-19 has had a major negative impact on society's wellbeing. The promotion of wellbeing involves the protection of fundamental human rights, the progressive realisation of socio-economic rights, and the creation of a sense of belonging.

The Western Cape Recovery Plan's Wellbeing theme builds on VIP 3: Empowering People; it elevates certain priorities in the VIP and adds interventions to ensure human dignity to respond to COVID-19 interventions. It envisages that, through a life-course approach, residents will be empowered to seize the opportunities available to them.

The pandemic has resulted in an unprecedented food access crisis and increased homelessness, a decrease in access to non-COVID-19 healthcare services (including maternal healthcare), the Early Childhood Development (ECD) sector has not been able to operate normally (affecting women in particular), learning losses have disproportionately affected disadvantaged learners due to the digital divide, and youth have had even fewer educational and economic opportunities than pre-pandemic.

All these challenges will have a long-term negative impact on society, with increased risks of non-communicable diseases, decreased educational potential, decreased prospects of skilled employment, and increased risky and violent behaviours. All these challenges confirm the need for a life-course approach to increase well-being.

Innovative healthcare

Renewed commitment to the ideals of Healthcare 2030

The Department of Health has renewed its commitment to the ideals of Healthcare 2030, for the next 5 years. This reaffirms the need to place people at the heart of the health system. The Department will further ground its actions, particularly for the service capability area, in the Community Oriented Primary Care (COPC) approach. Both this approach and whole of society approach necessitate the re-defining of key health actor relationships, consequently the Universal Health Care (UHC) 20/25 has become a living strategy, evolving as the department adapts, learns, and builds trusting collaborative relationships.

COVID-19 has showed that being human centred, network centric, agile and tech savvy is key to bring about rapid change, while building forward towards UHC. In this regard, current emerging priorities are service re-design; strategic purchasing; becoming a learning organisation and fast-tracking digital transformation to

evolve into a systemically high-quality, high performance health system that is resilient, can learn and is ultimately for people of this Province.

The Department of Health further intends to significantly invest in the development of its district health services, in particular the re-design of the Primary Health Care (PHC) and general specialist components of the care continuum. This is critical if the provincial health care system is to shift from being cure focused to wellness focus. A wellness focused health system manages people with long-term conditions, like HIV/AIDS, Tuberculosis and non-communicable diseases, which will ensure people live longer and healthier lives. Women's health and child health services remain priorities for the Department of Health over the 2021 MTEF. The technical efficiencies and accessibility of district health services ensures a seamless experience for users and is critical for a high-performance health system.

Re-design of PHC and general specialist components of the care continuum

The Department of Health has also further optimised and enhanced service delivery within the dispensing of chronic medication to vulnerable citizens, via direct delivery of chronic medication to high-risk patients at their homes. It is envisaged that this mechanism of service delivery will continue over the MTEF, as long-term benefits will be experienced such as, relieving current pressures at PHC facilities, reduction in waiting times, and reducing the movement of high-risk patients in the Province.

Delivery of chronic medication directly to patients' homes

The Western Cape Government will also address the worsening poverty and social dysfunction caused by COVID-19 by investing in services that protect and promote human rights and dignity. This work will focus on engagement with residents and encouraging a sense of belonging. The assumption is that residents who feel respected and dignified are less likely to engage in crime and violence. Furthermore, dignity and well-being provide much needed work opportunities to youth and community jobs for the unemployed.

Strong Foundations

The Western Cape Government will ensure that our youngest residents have strong foundations. It will do so through two main pillars. Firstly, it will ensure that children are physically, emotionally and mentally nurtured in the 1st 1 000 days of life (that is, through child and maternal support, attachment and care, and infant stimulation). Secondly, it will ensure that children are able to access quality ECD and schooling to improve their cognitive and physical development and provide significant long-term returns on our investment on the economy and social outcomes more broadly.

Strong foundations through improving the 1st 1000 days of life and supporting ECD

The Western Cape Government will achieve this through:

- Supporting ECD programmes by helping ECD centres to re-open after COVID-19 related closures and providing financial support for PPE and sanitation facilities. An ECD registration drive will aim to increase registration, and specialised learner support for school-readiness will resume;
- Continuation of the specialised learner support programme at ECD centres which makes provision for occupational therapy, speech therapy and related specialised support to ensure school readiness through the Department of Social Development. This is especially important as many children enter ECD with developmental milestone challenges;
- Exploring options for funding and delivering the expansion of ECDs using partnerships as the driver. This exercise will be led by the Department of the Premier;
- Expanding book sharing initiatives with libraries to encourage reading at an early age; and
- Providing 1st 1000 days interventions, which will provide a parent/ caregiver support package, increase immunisations of under 1-year old children, reduce stunting, and provide risk assessment and referral, support and response to vulnerable clients (antenatal and postnatal). The Side by Side under 5-year campaign will be implemented and a new Road to Health Booklet will be rolled out.

Registration and re-registration of ECD centres

Prioritising education and improving education outcomes is key in positioning the Western Cape on a path of long-term recovery. As such the Western Cape Education Department will continue to prioritise improved learner outcomes through efforts to contain the learner: teacher ratios at levels conducive to effective learning and teaching; focusing on the ability of learners to read with meaning particularly in the foundation phase; providing sufficient learner teacher support material and a basket of supplementary support services such as feeding and learner transport to qualifying schools in poorer communities.

The Western Cape Education Department will continue to use the systemic assessment results as an indicator to track and improve learner performance so as to identify interventions where necessary. The Western Cape Government recognises the need to give learners a wide variety of skills options in order for them to meaningfully participate in the economy upon exiting school; and as such the implementation and expansion of technical, agricultural

and vocational schools remains a priority for the Western Cape Education Department.

As part of education's broader contribution to wellbeing, a school-based needs assessment will inform a pilot study using cognitive behavioural therapy to reduce learner-on-learner violence in schools. The Growth Mindset programme, which aims to transform the mindset of learners from a fixed mindset, which believes that one is born with certain abilities that cannot be changed, to a growth mindset, where the belief is that effort and hard work can grow one's abilities will be rolled out in schools. Additionally, online psycho-social support will be provided to learners, and a school-based children protection social worker system will be implemented.

Growth Mindset programme will be rolled out in schools, online psycho-social support will be provided

Socio-emotional and Physical Wellbeing

The Western Cape Government will promote physical and emotional health, exercise and psycho-social support across all ages in order to ensure that residents have the physical and mental capabilities to lead productive lives. It will do so through two main pillars: supporting after school programmes and youth and supporting socio-emotional learning and reading.

Wellbeing through supporting after-school programmes and socio-emotional learning and reading

The Western Cape Government will achieve this through continued support to After School programmes, including a basic package of support services to assist at-risk youth and young people not in education, employment, or training (NEETS).

Through the Department of Social Development, the Western Cape Government will provide Gender Based Violence prevention and mitigation programmes including the creation of safe spaces in the form of shelters for abused women, victims of human trafficking and childcare and protection services. The Department will also provide essential services to families at risk - family reunification and preservation services; essential prevention and early intervention programmes; therapeutic programmes, mediation services, foster care and adoption services. Additional interventions include the integrated Isibindi programme that will further strengthen support to the existing network of child protection measures and thereby improve service impact.

Meeting Basic Needs, Protecting Human Rights

The Western Cape Government will ensure that residents have access to their basic rights to shelter, nutrition, education and healthcare. The objective is to ensure that residents are connected with opportunities to ensure a fulfilling and dignified life, where they

Ensuring access to basic needs and fulfilling fundamental rights

feel that they matter and can contribute financially, emotionally and mentally to their society and family.

School feeding schemes, and feeding at afterschool programmes, rolling out food gardens, and developing a comprehensive food security surveillance system will be used to ensure food security in communities. The Western Cape Government will also catch up on routine healthcare services such as vaccinations, chronic care, TB screening, and HIV treatment, and ensure access to Thusong outreach programmes in rural areas.

The Department of Human Settlements will further target 14 Provincial Housing Development Areas to ensure integrated human settlements development, a mix of housing programmes and land use, which will result in a spatial transformation of human settlements in the Province. Furthermore, the implementation of provincial projects is expected to create 1 056 jobs within the sector. The Department will continue to implement the Informal Settlement Support Programme to simplify informal settlement upgrading which will assist municipalities and other stakeholders across the Province. Furthermore, the Department will prioritise the upgrading of informal settlements to at least 60 settlements by 2024.

Building Social Cohesion and Service

The Western Cape Government will build a culture of citizenship, service and community with a focus on youth, volunteerism, safety and jobs. The objective is to build trust within communities and between communities and government.

The envisioned social cohesion objectives will be achieved through the further expansion of the Youth in service programme, including YeBo @home and YeBo data which are modified versions of the YearBeyond (YeBo) programme which give unemployed youth access to meaningful work experience while complying with social distancing requirements to suit the current COVID-19 environment. The Department of Cultural Affairs and Sport will also get youth involved in the library cadets and museum safety officers' projects which exposes unemployed youth to work opportunities in cultural institutions and IT. It will also provide training and support to Neighbourhood Watches (NWH).

Building social cohesion and service through youth in service programmes and NHW support

Our preparedness for COVID-19

"Saving Lives" has been the top priority of the Western Cape Government from the outset of the COVID-19 pandemic. Following the declaration of a national State of Disaster on 15 March 2020, the

Western Cape experienced an early onset of community transmission of infections relative to the rest of South Africa.

As at 19 November 2020, 730 133 tests have been conducted and 122 322 positive cases had been recorded within the Western Cape, with 112 920 total recoveries and 4 901 active cases. A total of 4 501 deaths had been registered.

The provincial response has been science-based and evidence-led, drawing on increasingly advanced modelling and evidence on the public health, economic and social welfare implications of the pandemic.

Provincial response to COVID-19 has been science-based and evidence-led

There was considerable focus on preparing the health services platform for the projected increase in infections, while supporting social distancing measures to reduce the transmission of the disease and providing relief to households left most vulnerable by lockdown measures.

This has required a whole of society approach and has been refined into a provincial hotspot strategy, whereby all provincial departments, the relevant municipality, businesses, and community structures work together in COVID-19 “hot spots” which are areas where COVID-19 transmission is above a given threshold.

The Western Cape Government used an evidence-based, data-led approach in dealing with the unprecedented health crisis to craft focused response strategies. These approaches have since been adopted as permanent features of the Western Cape Government’s policy making framework.

Health system preparedness

The Department of Health took numerous measures to prepare for the peak of infections during the “first wave” of the pandemic. Healthcare facilities were geared towards managing increased COVID-19 caseloads through the readying of facilities, establishment of temporary structures for triage and testing, increased capacity in existing public facilities, and the postponement of non-essential medical procedures.

Health care facilities geared towards managing COVID-19 and non-COVID-19 caseloads

In addition, “off-site” field hospitals were developed. These included 862 beds at the “Hospital of Hope” at the Cape Town International Convention Centre and 338 beds at Brackengate. Partnerships with the private sector led to chronic medication being delivered to the homes of stable patients.

Addressing major risks associated with health care workers within the Province

Although infections have declined within the Province, the risk of a resurgence in infections remains a concern for the Western Cape Government. The Brackengate field hospital currently plays a pivotal role in facilitating the management of COVID-19 and indirectly creates the potential at acute hospitals to re-introduce a full package of healthcare services. This facility is a critical component of the response to a possible resurgence of the pandemic.

In addressing the major risks to the Province's health system, such as staff anxiety, infections, and absenteeism, provision was made to recruit additional staff for field hospitals and to substitute staff that were absent. Over the 2021 MTEF, the Western Cape Government has prioritised Staff Mental Health Occupational Health and Safety to address the major risks associated with health care workers within the Province. This has surfaced the need to strengthen staff safety in a much more robust and holistic manner including physical, mental and emotional dimensions.

The Western Cape Quarantine and Isolation (Q&I) Strategy is managed in an integrated manner between the Department of Transport and Public Works and the Department of Health, which led to the establishment of 41 Q&I facilities across the Province.

Red Dot and Blue Dot services remain key to the COVID-19 response

Through the Red Dot transport service developed by the Department of Transport and Public Works, patients are transported to and from Q&I facilities; while the Red Dot Light provides transport for essential healthcare workers to health facilities when required. The support services provided by the Department to the overall COVID-19 Health Response, specifically the provision of Q&I facilities, Red Dot and Red Dot Light, will remain relevant for the duration of the suppression and containment phases of the COVID-19 pandemic.

Building on the success of the Red Dot transport service, the Department of Transport and Public Works will be launching the Blue Dot transport service aimed at improving and integrating minibus taxis into the wider transport system. The Blue Dot service intends to address the commuter life journey and change the mobility ecosystem in the Province.

Relief and support

The Western Cape Government provided humanitarian relief to those most in need. This included food relief and food parcels, support for home food gardens, emergency relief support to farmers, support to the arts, culture and heritage sector, and to the sport and recreation sector. As food production was categorised as

an essential service, the full set of the Western Cape Government's support services to the agricultural sector continued throughout the lockdown period.

In addition, the Western Cape Government provided support for the economic recovery of the Western Cape. This included support to the tourism industry, film industry, and SMMEs, provision of internships for experiential learning, the establishment of a COVID-19 business support pipeline and conducting virtual export missions.

In order to ensure the support of learners during the hard lockdown and the safe reopening of schools, the Western Cape Education Department provided meals to learners during school closures, access to lessons and teaching via online platforms, psycho-social support, and Personal Protective Equipment (PPE) to all institutions once schools reopened.

Currently all public schools in the Western Cape have reopened, using a variety of attendance scheduling combinations that prioritise the safety of learners and teachers while continuing with the prescribed syllabuses. The feeding programme is fully operational at all participating schools and will continue over the 2021 MTEF.

Feeding schemes at schools fully operational

The Western Cape Education Department has developed protocol to manage suspected and/or confirmed cases of COVID-19 in schools in a way that encourages minimal disruption to teaching and learning, and the provision of PPE and sufficient cleaning materials for schools which will continue over the medium term.

During the "hard" lockdown, the Department of Cultural Affairs and Sport supported at-home learning, through its Treasure Box packages for learners. The Treasure Box packages included access to grade-specific curated online extra-curricular resources to facilitate whole child development and stimulation while attendance of schools was suspended. Understanding the limitations of internet access for children from poorer communities, the Treasure Box activities are also made available in printable activity packs.

Provincial hotspot strategy

The intention of the provincial Hotspot strategy has been to reduce community transmission of COVID-19 through community behaviour change interventions. A key component of the Hotspot strategy has been an effective and impactful communication campaign to drive behaviour change and limit the spread of COVID-19, focused on at-risk population groups and hotspot areas. The Hotspot strategy

Reduced transmission of COVID-19 through community behaviour change interventions

is continuously being reviewed to incorporate lessons learned from this rapidly changing environment. The Western Cape Government's response to date, and embedded track record of good governance, provides a solid platform for recovery going forward.

COVID-19 response capability

An additional R5 million allocated to the Public Health Data Centre to boost COVID-19 response strategy

The 2020 2nd Adjustments Estimates allocated an additional R5 million towards Public Health Data Centre to preserve and strengthen evidence-based COVID-19 response capacity in the current financial year. This builds on the significant additional resources appropriated in the 2020 1st Adjustment Estimates to enable the immediate COVID-19 response. These resources remain on the budgets of the Departments of Health and Transport and Public Works. In Health, R227 million remains earmarked for COVID-19 of the R1 billion allocation made in the 1st Adjusted Budget, while R200 million is earmarked within Transport and Public Works. A further R864 million remains of the 2019 Provincial Equitable Share Reserve, which if needed, can provide for a further response to a COVID-19 resurgence. It should be noted that these reserves also provide a contingency for other potential fiscal shocks.

Our enabler: A New Way of Work

The New Way of Work will inform how the WCG delivers the Western Cape recovery plan

The COVID-19 pandemic and the economic recession have provided impetus for a review of how the Western Cape Government delivers services to society in a way that improves coordination and impact and reduces the costs, time and effort of residents and institutions when accessing government services. This "New Way of Work" further places the citizen at the centre of the service delivery model. It is based on four pillars, namely, (i) the importance of partnerships, (ii) the need for further digitisation, (iii) the need to shift culture and build new capabilities, and (iv) the need for data and evidence. The New Way of Work will inform how the Western Cape Government delivers the Western Cape Recovery Plan.

Partnerships: an area-based approach to delivery

Before COVID-19, the Western Cape Government had been building a strong intergovernmental system of collaboration, namely the Joint District and Metro Approach (JDMA). This approach brings together the three spheres of government at the metro, district, and local levels. During the pandemic, the JDMA was used as an entry point to establish COVID-19 hotspot teams. This saw an

unprecedented level of co-planning and co-implementation between the Western Cape Government and municipalities. These relationships quickly expanded to include active collaboration between all levels of government, the private sector and civil society, and were essential to the Western Cape's effective response to COVID-19 pandemic.

The Western Cape Government continues to embed this collaboration through an area-based approach to service delivery of Jobs, Safety and Wellbeing interventions. The Provincial Treasury will particularly support vulnerable municipalities by integrating information databases to convert information into intelligence with regards to the dynamics in municipalities.

In addition, the Western Cape Government is exploring how to capitalise and build on the relationships and collaborations that have been developed with citizens, civil society and businesses around the provision of humanitarian relief in response to COVID-19. These partnerships will be critical in finding solutions to other societal problems around crime and safety, water and sanitation, land and human settlements, poverty and job creation, township economy and the informal sector.

Area-based teams will be established in hotspots for intervention under the Western Cape Recovery Plan and will bring together relevant government and non-government stakeholders for better coordination in implementation.

Data and evidence

The value of data- and evidence-led decision-making has become clear in the management of the epidemic. It has assisted the Western Cape Government to respond quickly and effectively to rapidly changing situations on the ground, whether this related to COVID-19 transmission or emerging humanitarian needs. The Western Cape Government will consequently elevate the collection and analysis of data and the development of an evidence base for making decisions and evaluating impact. This will require enhanced capabilities and integrated data-sharing between departments.

Digitisation

The COVID-19 pandemic has highlighted the importance of delivering services via digital platforms and being able to continue our operations using digital technologies. The Western Cape Government will ensure that some of its services can be accessed remotely by citizens with no or limited face-to-face interactions and

Area-based approaches to service delivery in the WC Recovery Plan

Data and evidence will inform the delivery of the WC Recovery Plan

Digitising government services for improved efficiency

that the efficiency of service delivery processes and value chains is enhanced before these services are automated.

As digital communications became a new way of doing business to ensure that critical functions continue, some municipalities experienced challenges due to insufficient capacity of networks to handle the increased digital engagements. Municipalities are required to rapidly transform their systems and technology and find innovative digital mobile online solutions to continue their service delivery obligations during and beyond COVID-19.

Going forward, the Western Cape Government will support municipalities to improve their ICT and data management. Innovative ways will be explored to exploit opportunities for technological advances to improve service delivery, including the use of technology for the advancement of public participation.

A shifting culture and new capabilities

*Adaptability, innovation,
collaboration, data
intelligence*

The COVID-19 period has underscored the New Norm culture programme which aims to shift the culture to become more adaptive, stimulate innovation, harness data intelligence, and stimulate cross-group collaboration, continuous learning and a caring approach towards our employees and citizens. The New Norm culture programme is at the heart of the new way the Western Cape Government works and it will direct our planning ethos.

The Western Cape Government will also critically review the capability required to achieve its current and revised strategic priorities and operational priorities, with its staff being its core implementing capacity.

Conclusion

The Western Cape Government is cognisant of the complex service delivery environment in which it currently operates due to the COVID-19 pandemic. The medium-term budget policy priorities are a reflection the Western Cape Government's assurance to ensuring the dignity of every citizen of the Province through the continued delivery of quality services and the pragmatic response to the COVID-19 socio-economic crisis articulated in the Western Cape Recovery Plan. In the 2020 Second Adjusted Budget, fiscal resources are optimally directed towards the three Western Cape Recovery Plan themes: Jobs, Safety and Wellbeing, with the New Way of Work as an enabler which underscores the future of service delivery.

Glossary

RMB/BER's Consumer Confidence Survey	Measures how optimistic or pessimistic consumers are regarding their expected financial situation. The Consumer Confidence Index (CCI) is based on the premise that if consumers are optimistic, they will spend more and stimulate the economy but if they are pessimistic then their spending patterns could lead to a recession.
Budget Facility for Infrastructure	A reform to the budget process that establishes specialised structures, procedures and criteria for committing fiscal resources to public infrastructure spending.
Conditional grants	Allocations of money from one sphere of government to another, conditional on certain services being delivered or on compliance with specified requirements.
Composite Business cycle indicator	Designed to provide early signals of turning points in business cycles showing fluctuation of the economic activity around its long-term potential level. The indicator predicts changes in business cycles 6 to 9 months prior to the change in the business cycle. The indicator show short-term economic movements in qualitative rather than quantitative terms. Typical indicators used includes business confidence surveys, orders and inventory changes, and financial market indicators.
Division of revenue	The allocation of funds between the spheres of government as required by the Constitution.
Expanded unemployment	Expanded unemployment is defined as those aged 15-64 years who fall under official unemployment (sought and available); and were available to work but are discouraged work-seekers and/or have other reasons for not searching.
Fiscal policy	Policy on taxation, spending and borrowing by government.
Financial year	The 12 months according to which companies and organisations budget and account. Government's financial year runs from 1 April to 31 March.
Framework/envelope	A framework for integrating fiscal policy and budgeting over the medium term by linking a system of aggregate fiscal forecasting to a disciplined process of maintaining detailed medium term budget estimates by ministries reflecting existing government policies.
Gross domestic product (GDP)	The total market value of all goods and services produced within the borders of a nation during the specified period.

Indirect grant	A grant allowing a national department to perform a function on behalf of a province or municipality. No funds are transferred, but the end-product of the grant, such as infrastructure built, is generally transferred to provincial or municipal ownership.
Inflation	An increase in the general level of prices.
Infrastructure Fund	A fund housed in the Development Bank of Southern Africa that will provide government support to co-finance projects that blend public and private resources.
Narrow unemployment	Persons aged 15-64 who were not employed in the reference week, and actively look for work or tried to start a business in the four weeks preceding the survey; and were available for work; or had not actively looked for work in the past four weeks, but had a job or business to start at a definite date in the future and where available.
Non-interest expenditure	Total expenditure by government less debt-service costs.
Medium term Expenditure Framework	The three-year spending plans of national and provincial governments published at the time of the Budget.
National Development Plan	A national strategy to eliminate poverty and reduce inequality.
Provincial Equitable Share	The allocation of nationally raised revenue to provincial government as required by the Constitution.
Provincial own receipts	Refers to taxes/fees and/or user charges, which a provincial department receives.
Public entities	Companies, agencies, funds and accounts that are fully or partly owned by government or public authorities and regulated by law.
South African Economic Reconstruction and Recovery Plan	A national strategy that sets out a reconstruction and recovery plan for the South African economy that is aimed at stimulating equitable and inclusive growth.
Sustainable Development Goals	A United Nations global plan to end poverty, protect the planet and ensure that all people enjoy peace and prosperity by 2030.
Tax-to-GDP ratio	For public finance comparison purposes, a country's tax burden, or tax-to-GDP ratio, is calculated by expressing the total tax payments for a particular fiscal year as a fraction or percentage of the GDP for that year.
Western Cape Recovery Plan	A provincial strategy that set out a recovery plan for jobs, safety and wellbeing.

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